

April 4, 2018
Company Update

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Remark Holdings (MARK US)

Share price	USD 5.98
Market cap (mln)	USD 163
Av volume (mln)	1.5
JCap Target Price	USD 2.63
Difference	-63%

Remark Holdings (MARK US)
last share price in USD (left, blue) and
volume in mln shares (right, pink)



Source: Bloomberg April 3, 2018

Remark Holdings (MARK US)

Artificial, All Right But we can't find the "intelligence"

▶ What planet is MARK living on?

We could not find substance behind most of the claims on the recent conference call.

▶ What exactly is the AI?

MARK says it has an "AI Box" that is being installed in restaurants and will go into construction sites and campuses all over China. But it's not face recognition, it's not online, and it doesn't require installation. And we can't find any restaurant that knows about it. What is it?

▶ Disappearing contracts

MARK's Shenhua "deal" has disappeared from the website, and the company is waffling about its claimed deal with 7-Eleven. Does it actually have anything?

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When you start your call by talking about how big China is, it usually means you don't have anything to say about your company.

Remark Holdings came out on April 2 with a 10-K for 2017 and, unable to wait, did an earnings call on March 29. As far as we can determine, the contents were almost wholly fictional. The stock declined 20%, probably just because MARK missed its revenue target and dramatically increased losses, far beyond the projected amount. Highlights:

- ▶ **Dilution:** Shareholders learned that the \$10 mln invested by CP Group gleaned 3.83 mln shares, coming in at \$3.60 per share. When the shares and warrants were sold, on December 20, Remark's stock was trading at \$8.86. The company did not issue an 8-K. Between the end of 2016 and the end of Q1 2018, shareholders have been diluted by more than 9 mln shares, or over 40%.
- ▶ **Financial results were poor.** The company missed its Q4 revenue target by about 5% and was lamentably off its targeted net income. For the year, Remark undershot its revenue target by a little more than 1%, but its earnings were 2.7 times worse than projected. Remark reported losses of -\$65 mln, while the company had projected -\$24.4 mln in losses.
- ▶ **Randomly raised hopes:** The company raised 2018 projected revenue from \$30 to \$50 mln and suggested that 2019 revenue would be \$150 mln but quickly backed off that number when questioned.
- ▶ **95% impaired?** The company reported a \$14.6 mln impairment of China Branding Group Limited, including Fanstang, purchased in September of 2016. Given that the total consideration was \$15.4 mln, this is a remarkable write-down one year later.

Just about every statement of fact made on the earnings call is either highly dubious or provably wrong.

1. **World Internet Conference:** Kai-Shing Tao said that he had been a keynote speaker with Jack Ma at the World Internet Conference in Wuzhen in 2017. "Other keynote speakers included Jack Ma, the Chairman of Alibaba Group; and Pony Ma, the Chairman of Tencent Holdings," Kai-Shing Tao said. "Remark Holdings was one of three U.S. publicly listed companies invited to speak alongside both the CEO of Apple and Google."

But Tao's name appears nowhere on the conference agenda, even as a sponsor. [A news report](#) on the conference mentions that Tao was there and spoke in a "one-on-one hot topics session." The conference

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organizers refused to tell us on the phone whether he spoke, but a friend said there was no Kai-Shing Tao or Kankan speaker. The friend also asked one of China's premier scientists and business leaders in artificial intelligence, and he had never heard of Kankan. Perhaps Tao just wasn't important enough to list in the program.

2. **Credit Scoring:** MARK mysteriously raised the commission they purportedly receive from assisting banks with making loans, from 2% of total loan value to 5%. Based on this increase, the company was "very optimistic in far surpassing our \$30 mln guidance for 2018." But there is no bank in China that gives a 5% commission to any data provider when issuing a loan, yet MARK is very clear that its customers are "big banks." We have interviewed a dozen lending officers at banks named in Remark's releases, and all said they had not heard of Kankan and did not pay commissions to providers of data.

Although a 5% commission is not impossible from a small non-bank lender as the payment to the originator of a loan (not the provider of credit data), we have interviewed several private lenders and none has heard of Remark or Kankan and none pays an external provider for credit records.

3. **Facial recognition:** The company reported that it is expecting to sell 10,000 facial recognition systems in 2018 at \$250-600 each. But facial recognition systems are available for free. Kankan Chengdu does have a facial recognition tool that is available for download at ¥10 or \$1.58.
4. **Where are the patents?** Management reported that it has filed 22 patents, is filing 17, and has 15 in the pipeline. The company is expecting over 100 filed in 2018. But Google Patents shows no filings under the organization name Kankan (<https://patents.google.com/?assignee=Kankan&status=APPLICATION&page=9> , <https://patents.google.com/?inventor=Kankan&status=APPLICATION>) or Remark (<https://patents.google.com/?assignee=Remark&status=APPLICATION&page=1> , <https://patents.google.com/?inventor=Remark&status=APPLICATION&oq=inventor:Remark+status:APPLICATION>). It would be helpful for the company to provide more information: is Tao talking about Chinese patents exclusively? If so, what is the name of the assignee?
5. **Shanghai restaurant AI:** Remark claims it is installing an unspecified type of artificial intelligence in restaurants in Shanghai and already has 2,000 customers. The system is offline, the company says, and

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does not require installation. It comes in the form of an “AI Box” the size of an iPhone and will yield between \$9,000-\$25,000 per restaurant in initial fees plus monthly service fees.

We could not find any news or public announcements about the program. We spoke with two large hotel chains in Shanghai, who have not heard of Kankan or the AI program. We asked the head of a company that sells IT systems to restaurants in Shanghai. He also had not heard of this program.

6. **War room?** The next Kankan product was described as a “war room” product offering “real-time big data analysis, voice recognition, and 3D holographic display.” Since we have no idea what this is, we cannot comment. Apparently, MARK management doesn’t know either.
7. **Vegas:** In the U.S. business, the company claimed that Vegas.com is doing phenomenally well and has had the 20 highest days of ticket sales in its history since November 24, 2017.

But city statistics show that visits to Las Vegas have been down YoY in each of December, January, and February. Other metrics, such as hotel occupancy, room rates, and gaming revenue are generally slightly down.

Alexa statistics show that Vegas.com is ranked roughly No. 5,211 in the United States. Its traffic dropped significantly in November through January. Although there is no statistic on event tickets sold in Las Vegas each month, Vegas.com does not seem to have a prominent place in the ticket sales. Google refers more than half of the Vegas.com traffic, according to Alexa. But in a Google search of “event ticket sales las vegas,” Vegas.com does not appear among the first 50 organic results. The user has to churn through right pages of Google results before coming on a Vegas.com result. The company says that site conversion improved dramatically, but Alexa says that more than 40% of visitors still bounce off, meaning they are directed to the site by pop-ups or other ads and do not actually have interest in the site. The company said: “December was the single best month for show ticket consumption in the history of the business where generally this is a slow time of the year.”

We note that the December 2017 [announcement](#) of a supposed deal with China’s Shenhua Coal has now been removed from MARK’s website. It is hardly worth mentioning that Shenhua has never mentioned MARK or

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Kankan in any of its statements, nor is there news in China mentioning Shenhua and Kankan.

Remark has previously said that it has a contract with 7-Eleven, but it has not issued an 8-K or reported on this in any SEC reports. Asked about the hardware costs associated with the contract, management said it could not divulge details but that they would not be asking 7-Eleven to replace existing equipment.

The call Q&A was almost a parody of evasiveness, with management claiming in one sentence that Kankan would increase revenue by 10x in 2018 and in the next sentence saying that Q1 was slow and they really could not say much about Q2.

In the 10-K, the company finally offered an organization chart for the China business and admitted that there are four companies in China that are owned by senior executives. Remark did not explicitly say which of the companies are VIEs. It said that the company believes it is normal to operate a WFOE and VIEs for the Kankan business. However, there is no business reported by Kankan that is restricted under Chinese law and would require a VIE business to operate it. We also note that Remark has not filed its wholly owned entity's contracts with the purported VIE companies, as is customary.

Remark reports that it has a new wholly owned entity called Kankan Technology (Shanghai) Co. Ltd. Shanghai registration records show no company of a name resembling that. There is a "Tiantian Kankan" company but that is not owned by anyone associated with Remark or Kankan Hong Kong. The following table represents the registered entities associated with Remark Holdings, as discoverable from government registries:

Table 1. Remark Holdings Entities in/for China

Name	Country	Owner	Legal Person/ Directors	Established	Link
Kankan Limited	British Virgin Islands	Remark Holdings	Unknown	15/04/2015	Registration
Kankan HK Limited	Hong Kong	Kankan Limited (BVI)	Tao Kaishing (Remark CEO)	22/04/2015	Annual Filing

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Name	Country	Owner	Legal Person/ Directors	Established	Link
CD Remark Technology Co Ltd	Chengdu, China	Jason Wei (Remark CTO) and Xiao Li (Remark Employee)	Jason Wei, Legal Person and Tao Kai-Shing, Supervisor	25/01/2016	Registration
成都睿码科技有限责任公司		魏宏峰, 肖利	魏宏峰		Website
Hangzhou Shufeng Technology	Hengzhou, China	Jason Wei	Jason Wei, Legal Person and Tao Kai-Shing, Supervisor	15/02/2016	Registration
杭州数峰科技有限公司		魏宏峰	魏宏峰, 肖利		Website
Kankan Limited	Hong Kong	Sino Asean Fiduciaries (HK) Limited	Tao Kai-Shing, Jason Wei (Wei Hongfeng)	7/11/2016	Registration
Bonai Beijing Technology	Beijing, China	Jason Wei and Xiao Li	Jason Wei	19/07/2007	Registration
博耐 (北京) 科技有限责任公司		魏宏峰, 肖利	魏宏峰		

Source: Government databases

Our valuation assessment derives entirely from the U.S. businesses, chiefly from MARK's 5% holding in Sharecare. We expect the valuation is generous. We believe there is nothing to the China business.

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