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Company Update

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Remark Holdings, Inc. (MARK US)

Share Price	\$4.63
Price Target	\$2.23
Difference	-52%
Market cap (mln)	\$151.10
S/l as % of float	16.3%

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



Remark Holdings, Inc. (MARK US) What's Not Artificial: the Losses

► **Huh?**

Our work in China continues to show that absolutely no one in the AI world has ever heard of KanKan, and the company's claims appear to be highly exaggerated, if not fabricated.

► **Just not worth it.**

CFO Doug Osrow has abruptly left Remark. We suspect that is because there is just not enough to gain from share sales anymore.

Remark Holdings' Q1 report was dismal. The company missed its revenue target by 14%--which is a lot, considering that revenue was less than \$17 mln—and lost -\$0.43 instead of the promised -\$0.35. But CEO Kai-Shing Tao powered shamelessly through the call, reciting promises for new products that suggest he's been watching Minority Report on Netflix rather than talking to his staff in China.

The promise of a blossoming market in credit analysis, which is supposed to sustain \$50 mln in revenue this year for KanKan AI, was downplayed. Instead, the company said that "our credit risk analysis product helped several large institutions successfully issue over four million credit cards." (Seeking Alpha transcript) This, despite the fact that we have never found a bank that has heard of Kankan AI or uses an external credit solution to issue credit cards. Furthermore, the 5% fee on loan amounts that KanKan was to collect now vanishes under the credit card idea—banks don't pay fees on credit card loans, do they?

Likewise downplayed was the restaurant "security" solution that was so promising in the last quarter. Here is what Tao said on the Q4 2017 call:

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The quarterly calls are sounding more like Minority report and less like a business that actually exists.

We are currently in the process of rolling out our AI systems to 2,000 restaurants in Shanghai. Technically, we charge between \$3,000 to \$5,000 per AI box. Each restaurant will order between three to five boxes depending on size. While we are initially implementing this product to 2,000 restaurants, as previously mentioned, there are 200,000 restaurants throughout Shanghai and approximately eight million restaurants in China. This is our immediate target market. (Seeking Alpha transcript)

If KanKan had rolled out this service to, say, 1,000 of the 2,000 restaurants the company said it had signed up, at the prices Tao indicated, that would have been \$12 mln in revenue in the quarter (1,000 x \$4,000 per box x 3 boxes). Instead, KanKan reported \$1.18 mln in revenue in the quarter. And restaurants seem no longer to be the key priority. "At the close of the year, based on current agreement with local government agencies, we expect our intelligent food safety products will be utilized in over 10,000 restaurant locations," Tao said.

Instead, the AI offering is now all about detecting retail preferences:

Our intelligent retail solutions are designed to embed with each of our clients' franchises and deliver the most relevant data that will allow them to drive a more personalized experience and engage in the one-on-one relationships with each of the customers. This approach is relevant because the on-site retail model has largely moved to a one-to-many environment where brick and mortar businesses has become increasingly personalized and the quest to pursue cost savings in the face of intent competition from ecommerce and mobile shopping. (Seeking Alpha transcript)

We would like to verify some of these KanKan offerings, but the products and customers are described in such vague terms that it is impossible to prove or disprove. For the record, the products described, the customers, and the prices are all so extremely unlikely that we admire Remark's chutzpah in detailing these supposed agreements. But we can always be wrong.

Unable to check on any specific contracts, we decided to call companies and associations engaged in Artificial Intelligence in China to see what they thought of Remark and Kankan.

We spoke by telephone with managers or sales directors at nine top companies offering AI products and at the Chinese Association of Artificial Intel-

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ligence in Beijing. We also previously inquired with a leader at China's new training institute for AI, established by the Ministry of Finance, Peking University, and the AI-focused private equity fund Sinovation Ventures.

Not a single person we spoke with had heard of Kankan AI. We specifically went through KanKan AI, Remark China, and affiliates Chengdu Remark and Hangzhou Shufeng. One person, the chief engineer of a Chongqing-based company engaged in artificial intelligence, had heard of Chengdu Remark but not of KanKan. That engineer did not know what Chengdu Remark did. No one else had heard any of the names. None of the interviewees had heard of the AI offerings described in Remark's Q1 call.

The other event in May that pushed down MARK's share price was the sudden departure of longtime CFO Doug Osrow on May 14. Osrow has been a key member of the team since November 2013. No replacement has been named, and the announcement of his departure was terse, without the customary thanks for valuable service.

Filings indicate that Osrow took home \$260,000 from share sales in the first quarter and \$235,000 in December. But we estimate that his average strike price on options is \$4.96. With the stock now trading at under \$5, employment with MARK is no longer looking attractive.

Valuation

We believe that Remark's sinking share price validates our dim view of the "artificial intelligence" offering. We would be fleeing this stock as fast as possible.

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