JCAP

Technology
United States

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Company Update

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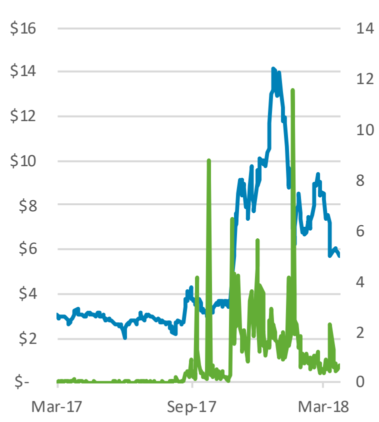
Remark Holdings, Inc. (MARK US)

Share Price	$5.84
Price Target	**$2.23**
Difference	**-62%**
Market cap (mln)	$186.50
E/V (mln)	$205
Shares out (mln)	32.8
Short interest	16.13%

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



Source: Bloomberg

Remark Holdings, Inc. (MARK US)

Correction and Clarification

- **Correction:**
  The shares issued by MARK in Q1 this year represented a conversion of warrants issued to parties associated with the Vegas.com acquisition, not with CP Group, as we previously reported.
- **Cheated in China?**
  Remark believes that it was tricked into acquiring China Branding Group and its Fanstang site. The company announced that it is suing CBG to retrieve the consideration in the deal.

In an April 3 note, we wrote that "the $10 mln invested by CP Group gleaned 3.833 mln shares, coming in at $3.60 per share." We misread the Q4 call transcript. On the call, CFO Doug Osrow told investors that the company had issued 833,000 shares to CP Group and about 3 mln shares to parties involved with the acquisition of Vegas.com in 2015. The statement in MARK's 10-K is clear:

> On January 10, 2018, the price of our common stock closed above $14, and we exercised our right to exercise the remaining VDC Acquisition Warrants [Vegas.com] with respect to 6,184,414 shares of our common stock and the VDC Financing Warrants with respect to 3,117,148 shares of our common stock. Because the VDC Acquisition Warrants and VDC Financing Warrants provide that such warrants are exercisable on a cashless basis only, we did not receive any proceeds from the exercise of the warrants. We issued a total of 2,236,915 and 1,385,396 shares of common stock to the holders of the VDC Acquisition Warrants that we exercised and the VDC Financing Warrants, respectively, in settlement of such warrants.

In the September 2015 Vegas.com transaction, a lending group called

MGG Investment Group LP extended a loan of $27.5 mln at LIBOR plus 10% and also received warrants to purchase 2.58 mln shares. Under the terms of the warrant, MARK issued shares to MGG when MARK's price rose to $14.

In an 8-K filed September 28, 2015, MARK had announced:

> On September 24, 2015, as a condition to closing the Financing Agreement, we issued to an affiliate of MGG a five-year warrant to purchase 2,580,423 shares of our common stock at an exercise price of $9.00 per share valued at $3.0 million, calculated based on specified valuation principles, subject to certain anti-dilution adjustments (the "Financing Warrant"). The Financing Warrant also provides as follows: (i) the Financing Warrant is exercisable on a cashless basis only; (ii) the number of shares of our common stock issuable upon exercise of the Financing Warrant and the exercise price thereof are subject to anti-dilution protection; (iii) we have the right to exercise all or any portion of the Financing Warrant if at any time following its issuance the closing price of our common stock is greater than or equal to $14.00; (iv) the holder has the right to sell the Financing Warrant back to Remark on its expiration date in exchange for $3.0 million in cash (reduced pro rata based on the percentage of the Financing Warrant exercised).

Remark has issued only press releases about the CP Group investment and not an SEC filing; MARK has not disclosed whether CP received warrants in the deal. As of March 28, 2018, MARK reported outstanding warrants to purchase 9,711,774 shares of common stock, of which all but 1 mln were related to the China Branding Group deal.

Second thoughts about China Branding Group

The financing group that converted shares in February, MGG, is a private lending group that launched in 2014. In 2016, MGG also extended financing for the acquisition of China Branding Group, which owned the Fanstang brand. That acquisition does not seem to have fared so well.

In Q4 2017, MARK took a $14.6 mln write-off of goodwill and other intangible assets acquired from CBG a scant 14 months earlier, in September 2016. This represented 96% of the purchase consideration, not counting warrants.

Tucked away in the 2017 AR is the statement:

> "We are alleging that the defendants fraudulently mispresented and concealed material information regarding the companies we acquired in the CBG Acquisition."

In our initiation report, we pointed out that Fanstang is nowhere near as popular in China as MARK claimed it was when it made the acquisition. MARK said that the site had "a social media community of more than 145 mln followers in China" (8-K May 5, 2017). But the site as of January this year had almost no recent comments, had just a few hundred followers on the popular social media site Weibo, and was very low-ranked on Alexa China. Apparently, MARK had not done due diligence but now has come to agree with us. The company wrote on page F-19 of its annual report:

> [W]e decided that we would not rely on the customer base underlying our customer relationship intangible asset that we acquired in the CBG Acquisition and would therefore develop our own customer relationships, and that we would not renew the contracts underlying the media broadcast rights that we acquired in the CBG Acquisition. We also believe that certain of the other parties to the Second Amended and Restated Asset and Securities Purchase Agreement in the CBG Acquisition had fraudulently mispresented and concealed material information (see Note 17 for more information) such that, among other consequences, the Fanstang tradename did not hold more than nominal value to us.

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