Citron Update September 2024

The past few years have been “interesting”, to say the least, for Citron Research. While we have maintained a quiet profile, we continued to publish a few short reports that played out as anticipated, while also issuing some long predictions that, admittedly, did not perform as expected. In this update, Citron Research would like to provide an overview of its Good, Bad, and Ugly reports last year, as well as name its current portfolio favorites.

Following the national phenomenon leading to the rise of a certain video game retailer, Citron Research decided to step away from long-form activist short selling. In retrospect, the timing was not ideal. During the subsequent two years, SPAC-mania offered great short opportunities as incidents of fraud reached unprecedented levels. We give kudos to the many activists who kept order in the market by reporting on SPAC’s.

The Good: Agilon Health

Although Citron Research walked away from long-form short reporting, we could not pass up the opportunity to report on Agilon Health (NYSE:AGL) because the valuation disconnect was beyond compelling. Agilon was the only company since 2021 that Citron Research wrote long form reports on multiple times. Agilon was perceived by many as a high-potential disruptor in the managed healthcare industry. It went public through an IPO in April 202, underwritten by major investment banks including JP Morgan and Goldman Sachs. Its business model focused on helping physicians and health systems deliver value-based care, focusing on seniors enrolled in Medicare Advantage plans.

Citron Research published several exposés on that business model, warning investors when the stock was trading at $25 that the value was wrong. We set a price target of $5. AGL ultimately fell to our target price. Despite high expectations and cheerleading from the analyst community, the company has never established profitability.

More Good: ETSY and Apelis

Citron has published only a few other long form short reports in the past three years. Two of the standouts have been ETSY (NASDAQ:ETSY), down 60% since publication, and Apellis (NASDAQ:APLS), down 30% since publication.

So while full short reports have been few and far between, they can definitely be categorized as the “Good”.

Even More Good: GEO Group

For the longside, the stock we have tweeted and commented about the most over the past few years has been Geo Group (NYSE:GEO), although we have not issued a full-length report. Geo's stock is up from $8 since our initial commentary, and we still like it. GEO Group operates in an industry that, while controversial, remains crucial for law enforcement in managing public safety. Despite its non-ESG status, GEO has maintained profitability throughout political cycles. Citron expects GEO to begin stock buybacks soon, when leverage permits, and we believe it is a recession proof business with many moats. Still "Good".

Even Better Good: Alibaba Group (NYSE:BABA)

Alibaba, the Chinese e-commerce and technology giant, remains another macro play for Citron Research. We have held long positions in BABA on and off for years, but became particularly bullish about the company in May of 2024 when Alibaba's Qwen AI model began to demonstrate global superiority. This recent article explains it all (Link)

While the Chinese stock market looks just terrible (until the day of this update, with China up 4%), we believe this weakness creates opportunity. Alibaba represents all things tech in China. It will greatly benefit from enterprise software spending, cloud, AI, and yes, that E-commerce business. In contrast to PDD, which Citron views as a gimmick seller of gimmick items, Alibaba is the company that will lead the next tech evolution in China.

The Most Unexpected Good of the Past 3 Years: AST Space Mobile

In 2021, during SPAC mania, Citron recommended AST Space Mobile (NASDAQ:ASTS). At the time, the company had a market cap of $1 billion with shares trading around $20. Citron predicted share prices to rise to $50 based on AST's potential in the low-earth orbit satellite space, which would have given it a market cap of around $2.5 billion. The company aimed to provide cellular connectivity directly to phones in remote and underserved areas via satellites, bypassing traditional telecom infrastructure. This business plan generated considerable interest. We became bullish, believing the company had the potential to disrupt the sector.

However, the stock faced a harsh decline alongside many other unprofitable SPAC's, dropping to as low as $2. Everything changed in 2024, and ASTS made an astonishing run and sits now at $26 with a market cap north of $7 billion.

Citron Research is now cautious about the current valuation and warns investors of the risks, including:

- Increased costs of satellite construction, leading to dilution
- Unclear terms of revenue-sharing agreements with telecom partners
- The unproven business model of providing cellular service to underserved areas
- New competition from Starlink, a formidable player in the low-earth orbit satellite space

The Bad and the Ugly: Edgio and Blue Apron

Citron Research learned a painful lesson from its Edgio (OTCMKTS:EGIOQ) recommendation. We believed in the management's optimistic narrative, but acknowledge we were wrong. What a dog. Cannot believe that the company filed for Chapter 11 bankruptcy a week after issuing a promotional press release. We express regret for believing in the company. The lesson learned here is no matter how cheap a stock seems on a price to sales and how many big name clients that can spew off on their website, IF they are unprofitable and cannot file accurate financials, stay away. We will learn from mistakes about trying to find bottoms in terminal businesses.

Similarly, Blue Apron, a meal-kit delivery company, faced internal issues, and we lost confidence in the company when the CEO notably refrained from purchasing shares as the stock price dropped, causing us to question leadership's confidence in the business.

Most of the Citron misses fall into the category of "trying to find the bottom of a bad stock"

Which reminds me of a famous Warren Buffet quote:

> *"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."*

And there is no price worth paying for a shitty company regardless of how cheap it looks.

We are proud we did not fall into the trap with Peloton, which eventually fell under $5 as the market realized what we had been saying all along, before, during, and after the pandemic.

There seems to be only one Carvana and that is Carvana

Final Thoughts

We have had other hits and misses, but these are the ones that stand out to this writer. The stock market is unpredictable, and price movements do not always reflect reality. Management teams are not always aligned with shareholder interests, and discovering the truth about companies requires hard work and looking far deeper than corporate filings. Citron Research remains committed to offering honest and transparent analysis, and will continue to share insights when discovered.

Cautious Investing to All.

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