https://activerain.com/blogsview/5416487/how-shorts-went-wrong-on-health-insurance-innovations-and-mimedx

How Shorts Went Wrong on Health Insurance Innovations and MiMedX

Posted on September 24, 2019 10:47 AM

How Shorts Went Wrong on Health Insurance Innovations and MiMedX

Notorious short-seller Marc Cohodes has made millions profiting from claims of fraud made throughout his career. From 1985 to 2006, Cohodes partnered with David Rocker (another prominent short) and targeted companies like Conseco Inc. and AremisSoft Corp.

In 2006, Rocker left the firm and Cohodes took strategic control under the name Copper River Management, LLC. After the Lehman Brothers collapse helped initiate the 2008 financial crisis, Copper River's position crumbled to the point of being non-viable. Soon after, Marc Cohodes was forced to dismantle the company and retreat to a California chicken ranch that he owns and operates as a secondary business.

Short-Sellers Targeting MiMedx and Health Insurance Innovations

However, in recent years Cohodes has continued to target vulnerable companies; his latest victims being **MiMedx** (OTCMKTS: MDXG) and **Health Insurance Innovations** (NASDAQ: HIIQ). In both cases, it has been found that the assertions made by Cohodes have been based largely on personal vendettas that fail to carry any legitimate weight for market investors.

Prior to the attacks made by Cohodes against MiMedx, the company had been ranked by Fortune Magazine as the fifth-best fast-growing public company in the United States. At the time, annual revenue growth at MiMedx had risen to 58% while its earnings growth averaged 88% over the previous three years. Cohodes accused MiMedx of channel stuffing (shipping more products than customers could use and booking nonexistent revenues) and silencing critics of the company's practices.

However, the reality was that no such tactics had even been implemented by the company. Instead, embattled former MiMedx Group Chairman and CEO Parker H. Petit had simply posted a link to an unsigned article strongly criticizing "naked short selling" as an illegal practice. As a point of reference, naked short selling was considered to be a hot topic amongst financial conspiracy theorists about 15 years ago. The article cited by Petit specifically mentioned Cohodes and others in the text, however, it didn't establish a direct link between these entities and the cited nefarious practices. In spite of this discrepancy, Cohodes asserted MiMedx was attacking free his speech and forcing short-sellers to stop their activities.

Similar events unfolded with targeted attacks that short-sellers made against Health Insurance Innovations. Massive short positions were initiated against HIIQ stock after distributor Simple Health was directly accused of wrongdoing by the Federal Trade Commission in a high-profile fraud case. The Federal Trade Commission and many state regulators reviewed the case against Simple Health (and its CEO Steven Dorfman), finding that Health Insurance Innovations was not guilty of any wrongdoing.

Wrongly Assumed Guilt By Association

In November 2018, Health Insurance Innovations severed all ties with Steven Dorfman and Simple Health after learning of illegal sales practices. After settling an expansive multi-year examination covering 43 states, Health Insurance Innovations was found to not be guilty of any and all wrongdoing. No fines or penalties were levied against the company because all 43 states agreed Health Insurance Innovations did nothing wrong for which to be fined.

However, in a clear instance of "guilt by association," popular short-sellers managed to redirect the narrative in ways that placed an inaccurate focus on the actions of Simple Health and Steven Dorfman. Key examples can be found in articles published by a short-seller operating under the moniker "Aurelius Value" which made nefarious accusations against Health Insurance Innovations while publicly disclosing a short position in HIIQ stock.

In the periods that followed the dissolution of all operational relationships between Health Insurance Innovations and Simple Health, short positions skyrocketed by more than 200%. As this occurred, Aurelius Value tweeted an excerpt of a 3-year-old complaint from the state of Montana which referred to Health Insurance Innovations as the "mastermind" behind a "boiler room" scheme.

Continued misleading posts by Aurelius Value cited a March 2019 FTC complaint that was made against Simple Health as a sole defendant. In other words, Health Insurance Innovations was never considered to be a defendant in the cases cited and Aurelius Value made no attempt to clarify distinctions between the company and its former distributor. In the discussion, Marc Cohodes followed suit and consistently repeated sentiments expressed by Aurelius Value:

Marc Cohodes @AlderLaneeggs · Apr 1
So John Fichthorn is on the Board of $HIIQ and works at B Riley. The firm p
out garbage research this am and there is no disclosure anywhere of his
affiliation. Everyday someone pumps this into a bag.. Just pathetic
@SEC_Enforcement @AureliusValue

2 2 7

(Source: Seeking Alpha)

Public posts submitted by Cohodes fail to mention disclosures in Health Insurance Innovations' proxy statements, which clearly outline John Fichthorn's B Riley relationship:

John A. Fichtorn (age 45). Mr. Fichthorn has served as a director since December 2017. Mr. Fichthorn has served s
Investments for B. Riley Capital Management, LLC, which is an SEC-registered investment adviser and wholly owned subsid
that, Mr. Fichthorn was a co-founder of Dialectic Capital Management, LLC, an investment management firm, and has bee
2003. Mr. Fichthorn served as a director of California Micro Devices from September 2009 until the company's sale in F
Fichthorn was employed by Maverick Capital, most recently as Managing Director of the technology group. From 1999 to
Alliance Capital working across multiple hedge fund products and as a member of the technology team. From 1997 to 1999, I
Corporation, a short-biased hedge fund where he covered all sectors, with a focus on technology. From 1995 to 1997, Mr.
Partners where his responsibilities included small cap research, international closed-end fund arbitrage and operations. After
briefly worked at Aviation Week and Space Technology. We believe Mr. Fichthorn is qualified to serve on our Board of Direc
capital markets and of complex financial matters, his unique insights into effective stockholder communication and engagem
his experience serving on other public company boards.

(Source: Seeking Alpha)

Thus, it would appear that the "research" released by Cohodes simply rehashed statements released by Aurelius Value (rather than working as the product of true due diligence on the inner operations of Health Insurance Innovations). Cohodes has consistently sent messages through social media in an attempt to influence sentiment and inspire other authors to write negative articles on his targeted set of companies. Not surprisingly, many of those Twitter messages have since been deleted by Cohodes.

However, large groups of short-sellers followed suit and publicly touted their short positions on stocks like HIIQ without conducting any original research on their own accord. Unfortunately, these questionable trading strategies can often result in significant losses for bearish investors in the event of a short squeeze.

Wall Street Analysts Change The Outlook

Of course, it must be remembered that Health Insurance Innovations is a separate and distinct entity now that all relationships with Simple Health and Steven Dorfman have been dissolved for nearly a year. Fortunately, these types of separations between Health Insurance Innovations and other independently owned/operated subsidiaries have been further confirmed by legal findings in several relevant cases. For example, in the case of Diaz v. Health Plan Intermediaries, a policy claim of $250k was denied by Everest (the carrier) and they were sued for damages alongside Health Insurance Innovations. Ultimately, the suit was thrown out of court but the process involved re-filings which included unfounded accusations of collusion between Health Insurance Innovations and ASIA (an independently owned and operated subsidiary).

However, most of the public criticisms made by Cohodes and other short-sellers fail to mention these types of favorable legal findings and instead focus solely on the negatives in an attempt to generate renewed bearish interest in the stocks. As a result, it is highly unlikely that biased market pundits with publicly acknowledged short positions can be viewed as credible sources of information and Wall Street has already turned the corner on both MDXG and HIIQ.

According to several analysts, these are companies with massive upside potential given the inexpensive valuations currently reflected in share prices. Cantor Fitzgerald analyst Steven Halper recently explained: “We believe that HIIQ is well-positioned to benefit from the increasing demand for short-term medical products. We expect top-line growth of 24% in 2019 and we reiterate our view that concerns regarding HIIQ’s exposure to FTC lawsuit against Simple Health are entirely overblown.” Cantor Fitzgerald recently raised its HIIQ price target to $80 per share (which indicates potential gains of more than 300% from current levels). Raymond James analyst Randy Binner has expressed similar views on the stock, saying that the complete resolution of all prior legal matters will be positive for HIIQ shares.

Overall, HIIQ holds seven recent buy ratings from analysts on Wall Street, with average analyst price target above $65 per share (which suggests upside potential of roughly 230%). As a result, it has become clear that the short-seller community has gone overboard in its assertions that MDXG and HIIQ carry excessive risks. For investors, the main lesson here is that there is no substitute for due diligence and individual research whenever the market’s view has reached extremes that are simply unsupported by the facts.

Cohodes’ Allegations of “Disrespect”

In light of all this, it can be argued that these events go beyond trends in the financial markets and extend into the realm of the personal. Marc Cohodes has publicly accused MiMedx CEO

Parker Petit of defaming his character and resorting to “ultimate disrespect.” In response, Cohodes took a short position in MGXD stock and openly encouraged other investors to publicly criticize MiMedx in a negative fashion.

(Source: BNN Bloomberg)

But Cohodes didn’t stop with the initial accusation of channel stuffing (as described above). Instead, Cohodes went on to claim that the company engaged in Medicare fraud and the bribery of doctors. Cohodes went so far as to interrupt a conference presentation being made by Petit (to accuse MiMedx of fraud in person) and he even set up a website called “Petite 3: Parker the Barker” which volleyed further accusations at the company.

Several attacks made by Cohodes on Twitter were even physically threatening in nature. In response to an October 2017 tweet sent by Cohodes, Petit even requested help from the FBI, as he felt this personal safety might be at risk. FBI agents confronted Cohodes at his ranch and told him to stop the barrage of threatening tweets that were brin directed at Petit. Cohodes argued the tweets were non-threatening and took the position that the FBI intervention was the equivalent of "short-selling intimidation" and "bullying" by Petit.

No Medical Fraud or Bribery

Upon closer examination conducted by the Justice Department and the Securities and Exchange Commission (SEC), the internal investigations didn't find any proof indicating MiMedx bribed doctors. Similarly, no Medicare fraud was unveiled.

In response, Cohodes seems to be taking things personally and has literally doubled down with an army of short-sellers aiming to destabilize the company. Cohodes has put out a list of 12 distinct categories of alleged egregious wrongdoings. These include endangerment of patient safety, Medicare fraud, extortion, evidence destruction, influence peddling, bribery and securities fraud. He insisted that MiMedx was a "criminal enterprise." None of these accusations, however, have been supported by any evidence found during the examinations conducted by the Justice Department or the Securities and Exchange Commission.

Similar findings have been reported by private reviews of these businesses. One notable example can be found in the analysis conducted by Prescience Point Capital Management, which investigates firms and reports on information used to determine the viability of stocks targeted by short-sellers. Whenever short-sellers trade based on misleading information, the probability for a massive short-squeeze increases. This is essentially what occurred when SeaWorld Entertainment, Inc. (NYSE: SEAS) was battered by shorts for its treatment of whales and dolphins but Prescience Point analyst Eiad Asbahi knew the market's opinion had reached an extreme. The firm then bought shares of SEAS when its valuation was trading at its multi-year lows (and the stock has since tripled in value).

Based on the same approach, Prescience Point Capital Management has established investments in companies like MiMedx because Asbahi believes the allegations from bias short-sellers are false and misleading. Upon completing its review of the company, Prescience Point concluded that MiMedx products were legitimate, sustainable for future use, and considered to be "best in class" by many doctors within the industry. MiMedx currently remains cash flow positive and Prescience Point found there was no smoking gun as referenced by the detractors of the company (in support of claims that massive fraud had occurred in the company's operations). As a result, Prescience Points has suggested that the smear campaign initiated by short-sellers may have created a strong buying opportunity for these stocks.

Now Investors Are Seeking The Truth

Since the shorts made a large number of unnecessary allegations which were simply untrue (fraud, bribery, etc.), it is difficult to view the short attack as anything other than a smear campaign. For most of the company's history, doctors have always considered MiMedx products to be superior despite the unfair criticisms that were made by short-sellers. However, it is noteworthy that after the MiMedx report was released by Asbahik, Cohodes added Prescience Point to his targeted hit list.

Essentially, Cohodes alleged that Prescience Point bought MiMedx stock at valuations between $5 and $10 per share and was attempting to boost the stock price back into profitable levels via glowing analyst reports. However, publicly accessible trading records show that the MiMedx stock was bought at an average price of $2.60 per share and Prescience Point is investing in MiMedx with a 2-year lock-up. Thus, it's certainly not a pump and dump operation as has been alleged by Cohodes through several social media channels.

Now, it's up to the investing community to make sure that the accurate story is told about companies like Mimedx and Health Insurance Innovations. This will be essential in preventing nefarious and biased short-seller narratives from eroding the value of reputable businesses in ways that damage the investments of supportive investors.

By MBM RESEARCH Education & Training with MBMRESEARCH