



Viceroy Research <viceroyresearch@gmail.com>

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## Research questions

7 messages

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**Stuart Theobald** < >  
To: Viceroy Research <viceroyresearch@gmail.com>

Mon, Jul 9, 2018 at 4:49 PM

Dear Viceroy

You may remember we exchanged emails back in January when I was writing a column for Business Day.

I've been doing a bit more research on short selling, given what a big issue it has become in SA, in part as a result of your work. My company Intellidex researches the SA markets on behalf of various clients on both the sell side and buy side. We have been asked by clients for our view on short selling and its role in the SA market.

I've been reading some of your research reports and have some questions I hope you can give me feedback on.

1. Your reports use various valuation models. For instance, Syrah has a sophisticated net present value calculation and much demand-side analysis. Steinhoff and ProSieben use comparative ratio approaches. Others value stocks at zero without applying a model. What informs the choice of valuation approach?

2. Viceroy has a strong reputation. Do you believe your reports affect the value of companies' shares because of the content of the reports and the specific information conveyed, or because of your reputation and the fact that you are negative on the stocks?

3. I've seen German media reports that some of the Steinhoff report was copied from another hedge fund's report. Is that true?

4. Some of your reports (e.g. Neuroderm) show much specialist knowledge. Does your team have such specialist knowledge itself or do you use outside analysts/contributors?

5. Do you think short sellers should be required to be registered with any regulators (financial markets, etc)? Is Viceroy registered with any?

Many thanks

Stuart

Stuart Theobald, PhD, CFA  
Intellidex UK Limited

Stay in touch with Intellidex's market research. Sign up for our monthly newsletter [here](#)

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**Stuart Theobald**  
To: Viceroy Research <viceroyresearch@gmail.com>

Tue, Jul 10, 2018 at 9:26 AM

Dear Viceroy

Just following up on these questions. We're preparing a report that we'll finish today, so would appreciate some feedback that we can incorporate.

Many thanks  
Stuart

Stuart Theobald, PhD, CFA  
Intellidex UK Limited

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**Viceroy Research** <viceroyresearch@gmail.com>  
To: Stuart Theobald < >

Tue, Jul 10, 2018 at 7:03 PM

Hi Stuart,

We are preparing a response to your questions and envisage we will have them to you by COB tomorrow.

Given the considerable amount of time that your colleague, Graunt Kruger, has spent asking specifically about us on Wall Street, we would like to ask you a few questions as well.

A South African source has advised that your report has been commissioned by a specific client with a slant in mind and a conflict of interest in the content. Could you please advise if this is the case.

If our source is correct, we also anticipate the content of your piece, and will opine on the matter in due course.

Yours faithfully

Viceroy  
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**Stuart Theobald** < >  
To: Viceroy Research <viceroyresearch@gmail.com>

Tue, Jul 10, 2018 at 10:27 PM

Hi Viceroy

Thanks. We are finalising a report today, but it would be good to receive your feedback by COB South Africa time tomorrow.

As I indicated in my email, we have been asked by various clients for our views on short selling which has become a hot topic owing in part to your work. We have been working recently on a commission by Business Leadership South Africa, which may be what your contact is referring to. We have been asked for an independent opinion.

We will send you our report and welcome your opinion.

Regards  
Stuart

Stuart Theobald, PhD, CFA  
Intellidex UK Limited

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**Viceroy Research** <viceroyresearch@gmail.com>  
To: Stuart Theobald < >

Wed, Jul 11, 2018 at 12:49 AM

Hi Stuart

Responses as follows. Could you please send us a copy of your report once available?

1. Your reports use various valuation models. For instance, Syrah has a sophisticated net present value calculation and much demand-side analysis. Steinhoff and ProSieben use comparative ratio approaches. Others value stocks at zero without applying a model. What informs the choice of valuation approach?

It depends on the company and how analysts are currently valuing the group. For instance, Syrah is a mine, and mines have a limited lifetime – an NPV is appropriate. NPV's are not particularly well suited for companies such as Caesarstone, ProSieben and Steinhoff as there are too many variables which can't be priced in accurately.

We withhold valuation or present a \$0 value opinion when we believe the business is so fundamentally flawed that it cannot feasibly continue as a going concern, or in a business where we cannot accurately determine financial results in belief they have been adulterated.

2. Viceroy has a strong reputation. Do you believe your reports affect the value of companies' shares because of the content of the reports and the specific information conveyed, or because of your reputation and the fact that you are negative on the stocks?

We believe the content of our reports is the catalyst that drives share prices downwards. On many occasions (MiMedx, Caesarstone, Neuroderm, AMD) there have been flat or positive price movements on our reports. We have always been proponents of due diligence, and believe our work should be scrutinized to the same extent as "buy" reports.

3. I've seen German media reports that some of the Steinhoff report was copied from another hedge fund's report. Is that true?

Viceroy is sent significant amounts of data anonymously, which of course may come from funds. In the case of Steinhoff, we received an email with data pertaining to further information on an off-balance sheet entity which we incorporated into our report, and transcripts of a call to IR suggesting that loans to these entities were made to "Chinese Suppliers". We, of course, incorporated this into our own work.

Unfortunately, we had significant amounts of leads on Steinhoff which are no longer viable for us to pursue. Fortunately, the media has done a tremendous job of following these leads.

4. Some of your reports (e.g. Neuroderm) show much specialist knowledge. Does your team have such specialist knowledge itself or do you use outside analysts/contributors?

Viceroy has a large network of specialist contractors which we engage on a case-by-case basis to assist with industry specific analysis. This is commonplace in the industry.

5. Do you think short sellers should be required to be registered with any regulators (financial markets, etc)? Is Viceroy registered with any?

Viceroy is governed by the same laws as any other fund operating in our jurisdiction. The South African Standing Committee of Finance has recently expressed a view in a media statement that suggests we are free-willed buccaneers who can do as we please. This is not the case. We are beholden to regulators.

Of course, we are huge advocates of free speech and whistleblower programs, as we believe they keep companies honest. Viceroy's lawyers have advised we are not required to register for free speech.

Thanks

Viceroy

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**Stuart Theobald** < >  
To: Viceroy Research <viceroyresearch@gmail.com>

Wed, Jul 11, 2018 at 6:46 AM

Many thanks.

Will send through the report when ready.

Stuart

Stuart Theobald, PhD, CFA  
Intellidex UK Limited

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**Stuart Theobald** < >  
To: Viceroy Research <viceroyresearch@gmail.com>

Thu, Jul 12, 2018 at 4:06 AM

Please find our report attached.

Regards  
Stuart

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**Intellidex-Report\_Investment-Research-in-the-Era-of-Fake-News.pdf**  
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