ORANGE COUNTY BUSINESS JOURNAL

Whose Intelligence To Believe?

9 Oct 2017 | Orange County Business Journal | By PETER J. BRENNAN

Veritone Drops in Half After Tweet by Famous Short Trader

A Wall Street brawl has erupted over high-flying Veritone Inc. (NASDAQ: VERI) in Costa Mesa.

Shares have soared as much as ninefold since the middle of August, causing skepticism among short traders who bet the stock will fall.

Andrew Left, founder of Citron Research, which became famous for successfully shorting Valeant Pharmaceuticals International Inc., posted a mocking tweet on Sept. 27. "$VERI is not artificial intelligence, more like natural stupidity. Stock should trade right back to $20."

The tweet caused shares to plunge in half over two trading sessions, dropping from an intraday high of $74.92 on Sept. 27 to $36.88 by the close of Sept. 28. The day of the tweet, 5.3 million shares were traded, 12 times the daily average and more than double the number of shares floated.

The tweet also led to rebuttals from Brian Alger, the senior technology analyst at Newport Beach-based Roth Capital Partners LLC, and Tiernan Ray, a Barron's columnist who has championed the company since a column in August.

"I've gotten numerous inquiries from readers ranging from whether the stock is overvalued to whether Veritone is a fraud to whether I am secretly an insider profiting off the stock," Ray wrote in an Oct. 2 post after Citron's tweet.

Stock Promotion

Co-founder and Chief Executive Chad Steelberg met with Barron's on Sept. 29 at the end of a three-week road show to promote his company in places like Amsterdam, London and New York.

"Outside of Google, we have the best data scientists on the planet," Steelberg told Barron's, a weekly published by Dow Jones & Co. since 1921 that bills itself as "America's premier financial magazine."

Ray, principal technology columnist at Barron's, wrote that Veritone's software, assets and brain power "are real."

"People who suspect the company is a fraud likely do not know what they are talking about."

Veritone declined to comment for this article; its website provides a link to Ray's article.

"The company is complete bullshit," Left said in an interview. "It's a stock promotion. People think they're investing in a real company."

Citron, which is French for lemon, became famous for calling Valeant "a pharmaceutical Enron," and its shares eventually fell 90%. Valeant in the prior year was in a bitter contest to acquire then Irvine-based Allergan, which instead was bought by Actavis PLC. The Wall Street Journal said an analysis of 111 Citron short-sale reports published from 2001 to 2014 showed an average share-price decline of 42% in the year after a Citron report was released.

Left, who has written a tweet only on Veritone, said he hasn't decided if he'll actually write a report on it.

IPO

Veritone went public in May at $15 a share and steadily declined to below $8 in mid-August. Then it approached Barron's Ray, who mentioned the company favorably in an article about artificial intelligence.

The August article gave Veritone the "Barron's Bump" it needed; the shares shot up further as other analysts chimed in enthusiastically.

Alger, the senior tech analyst at Roth Capital, a firm known for promoting Orange County companies, wrote that Veritone's early days could be compared to those of Microsoft Corp., Facebook Inc. and Salesforce.com when they didn't report much in sales. On Sept. 29, Alger boosted his target price from $13 to $62, saying a $1 billion valuation "is not only reasonable, but could be conservative."

Veritone promotes on its website that it will be featured next month at Roth Capital's second annual Technology Corporate Access Day in New York City.

Veritone hasn't convinced many other Wall Street investors. Only 8.6% of its stock is held by institutional investors, who generally have the biggest staffs capable of independent indepth research. By contrast, Alteryx Inc., an Irvine-based analytics software maker that uses artificial intelligence, is 91% owned by institutional investors.

Veritone's meteoric stock rise might be attributed to a short squeeze, agreed Left, Alger and Ray. Short traders borrow the stock betting it will fall; if the stock rises, the short traders must buy the shares back to reduce losses.

About 45% of Veritone's daily trading volume is short-selling, which is excessive compared to a normal market of 25%, according to Tom Ronk, co-founder of Buyins.com Inc., a short-research firm based in Corona del Mar.

Ronk estimated that short traders collectively are losing money when Veritone trades over $37.42 and making money when it falls below that. Shares closed at $39.69 on Oct. 5.

No Profit

Veritone hasn't reported a profit in three years as a business. Its trailing 12-month revenue for the period ending in June is $12 million, resulting in a price-sales ratio of about 53.

"That is a pretty big number," said Benjamin Lau, chief investment officer at Irvine-based Apriem Advisors, which has $600 million in assets under management.

Apriem recommends investing in companies reporting profits, so it has stayed away from Veritone, Lau said. He likes the fact that Veritone is in a hot space like artificial intelligence and that its management has proven itself before.

The Steelbergs' prior successes include AdForce Inc., a web advertising company sold to CMGI Inc. for $500 million, and an advertising radio business, dMarc Broadcasting Inc. in Newport Beach, sold in 2006 to Google Inc. for an initial payment of $102 million and maxed out at $400 million when certain benchmarks were met.

But Lau sees Citron's point about Veritone being an expensive company by many metrics.

"Who do you want to believe?" Lau said. "Citron is looking at the past, and Barron's is looking into the future. I'll let you know in a few years."

Secret Sauce

Veritone's secret sauce is providing a system that permits companies to track advertisements and media comments in real time, Roth Capital analyst Alger said. Typically, such analysis is done by people actually listening to the advertisements and filing reports that can take six weeks to reach marketing managers, he said.

"Veritone's moat is a first mover advantage where they are permitting the end customer to maintain control," Alger said in an interview. "It's huge in taking on something that wasn't feasible and creating a whole new industry."

To date, most of Veritone's revenue comes from its legacy ad-placement business. The artificial intelligence unit reported only $348,000 in the recently completed second quarter.

Investors see tremendous future revenue. Veritone announced on Oct. 2 it had signed an expanded two-year agreement to license its AIWare platform to iHeartMedia, one of the nation's largest owners of radio stations. In May, Veritone announced a deal with CBS Radio that could provide $1.7 million in revenue.

Acquisition Strategy

Veritone also plans to boost revenue by acquiring companies that typically collect data by labor-intensive methods and switching their customers to much cheaper artificial intelligence. For possible acquisitions, Veritone is eying 30 unidentified companies each with $5 million to $50 million in annual sales, Alger said.

Alger's model predicts that Veritone's revenue from artificial intelligence could jump to $1.1 million in the third quarter and then explode to $55 million by 2019.

The company's acquisition strategy hasn't impressed Left.

"You know how stupid that is?" he said. "The research talks about things the company hasn't done. Veritone should not have gone public, and Roth should have kept their mouths shut." Alger said he has loved Left's prior reports. "A large number of people say Veritone is overvalued," he said. "What is dangerous about a valuation short, unless you really know the company and what the company is in real time, you're dealing with historical information."