

# Burford Capital Limited

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## Burford Capital's mojo not working after Muddy Waters short attack

Burford Capital Limited (LON: BUR) was rollin' and tumblin' off its AIM top spot on Wednesday as its shares lost more than half their value after an attack from notorious US short-seller Muddy Waters.

The hedge fund, led by founder Carson Block, was certainly getting its own mojo working, having tweeted on Tuesday about a "new short position on an accounting fiasco that's potentially insolvent and possibly facing a liquidity crunch".#

On Wednesday, a blog post and video from Block confirmed the short position on the UK-listed litigation finance company, helping precipitate a 60% plunge in Burford stock to as low as 410p by late morning. The shares stood above 1,660p a fortnight ago.

Burford is accused by Muddy Waters of "Enron-esque mark-to-model accounting" and "egregiously misrepresenting" its returns, supported by "laughter-inducing" governance, AIM's light disclosure regime, the esoteric nature of its business and "unethical" behaviour by its largest shareholder, Invesco.

Muddy Waters, which will be known to many AIM investors from last year's interrogation of the finances of Welsh technology outfit IQE, said that Burford's recent release of detailed investment data "proves" that the company has used various methods to misrepresent its return on invested capital and internal rate of return, as well as the state of its overall business.

Muddy Waters is now in a blackout period until tomorrow 8 am London time when we will announce a new short position on an accounting fiasco that's potentially insolvent and possibly facing a liquidity crunch. Investors are bulled up about this company. We're not.

— MuddyWatersResearch (@muddywatersre) August 6, 2019 Burford rebuttal Guernsey-based Burford issued two statements on Wednesday where it accused Muddy Waters of a "short attack" or "bear raid" and stressed that it has a "strong" cash position of US\$400mln and that its returns are "robust"

"Burford uses the same IFRS accounting that is used widely across the financial services industry and has used consistent accounting policies for many years," the statement declared, noting that its accounts have been audited by Ernst & Young since 2010.

It also pointed out that its cash-based investment reporting provided "extraordinary detail, including providing line-by-line investment detail about every litigation finance investment we have ever made", with a latest installment released on Tuesday.

"We are transparent about how we analyse and report on that data; our approach has been consistent for many years."

**Price:** 665.5

**Market Cap:** £1.46 billion

### 1 Year Share Price Graph



### Share Information

**Code:** BUR

**Listing:** LSE

**52 week High Low**  
2045 380.2

**Sector:** Financial Services

**Website:** [www.burfordcapital.com](http://www.burfordcapital.com)

### Company Synopsis:

*Burford Capital is the leading global finance and investment management firm focused on law. Its businesses include litigation finance and risk management, asset recovery and a wide range of legal finance and advisory activities.*

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Burford said it will take legal action if it discovers "actionable misconduct", which some analysts felt was hardly surprising given the nature of its business.

And here is the \$BUR coup de grace - how Neil Woodford protégé Mark Barnett of Invesco bailed out a case, taking it to a total loss to a BS ROIC of 195%. If you do no other work on BUR, watch this <https://t.co/0vBw4Y9thW>

— MuddyWatersResearch (@muddywatersre) August 7, 2019 Invesco and Woodford involvement Block's firm, however, alleges Burford's top management of "aggressively marking cases in order to generate non-cash fair value gains", using metrics that it "heavily manipulates" to "actively mislead" investors about how it accounts for realised gains.

"As a result of this deception, we believe investors give credence to BUR's fair value gains. In actuality, BUR's net realized returns have relied on a very small number of cases," the Muddy Waters statement said, claiming that just four legal cases have produced approximately two-thirds of net realized gains since 2012.

The US firm said that one of the four major cases was actually a loss but "was bailed out by BUR's largest shareholder, Invesco, at the direction of Neil Woodford protégé Mark Barnett", where the fund has a 13.9% stake.

Woodford has a 9.5% stake in the firm, which has been held since he started Woodford Investment Management.

Responding to the Muddy Waters note, Invesco said: "We categorically refute any accusation of improper or unethical behaviour on behalf of Invesco or fund manager Mark Barnett.

"Invesco has been a long term shareholder of Burford Capital and held investments in Napo since 2006. These investments were made and overseen in line with our robust investment and independent oversight processes.

"Invesco's legal advisers are reviewing the accusations and we expect we will be able to make a broader statement in due course."

#### Rise of litigation funding

Although it is not the only activity in which Burford is engaged, the litigation finance portfolio is significant, with exposure to more than 1,100 claims, including some very large investments, which means revenue can be volatile.

Litigation financing is a booming market as corporations have become aware of the opportunity to take legal costs off their books, as the activity has a sizeable cost with uncertainty over the payback.

Firms hand over a stake in their case to a litigation financier in return for a share in the payout in the event of a win.

Research on market awareness shows that around 80% of corporates are aware of the concept compared to nearer 40% three years ago.

Burford's chief executive Christopher Bogart, former general counsel at Time Warner and named one of the top 10 legal innovators by the Financial Times, has Georgetown University law professor Jonathan Molot at his side as chief investment officer, while the group as a whole counts more than 50 veteran lawyers on its staff.

Other listed lawyers are also interested in this area, such Australia's fellow AIM-listed based Litigation Capital Management Ltd (LON:LIT), which has offices in London and Singapore, as well as Rosenblatt Group Plc (LON:RBGP), which sees significant opportunity for growth in litigation financing by targeting cases with claim values that are uneconomic for larger funders but where there remains strong demand for financing.

#### Support from City broker

In a note on Wednesday, broker Peel Hunt questioned whether Burford really had liquidity issues, agreeing that it publishes "good detail" on its investment results and has a good amount of cash in the bank and with potential to raise more from partial sales of stakes in other cases.

Peel Hunt added: "It is true that BURF: (i) is not in control of case settlement, ie, duration, hence cash timings could be volatile and can be delayed; (ii) it has commitments to invest \$800m on cases, although this will be over the next 2-3 years, and it rarely spends the full commitment; and (iii) intends to grow which might need further equity at some point, but close to 45% of its needs in the next 2-3 years should come from third parties already locked in.

"It is also true that BURF's quality of earnings is held back by the (unquantified) contribution of unrealised gains from a single case, Petersen. But that is very different to a liquidity issue."

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