

# FALCON STRATEGIC RESEARCH

Written by Investors for Investors

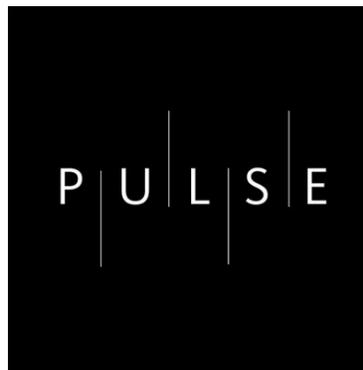
## **Updating Coverage - Strong Buy**

**7/17/18**

**6 Month Price Target Range \$1.00 - \$1.30**

**Closing Stock Price on 7/12/18    \$.25**

**Pulse Evolution Corporation**



**(OTC: PLFX)**

[www.pulse.co](http://www.pulse.co)

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## Unlocking the Value in Pulse Evolution's Arbitrage Play

- **Time to close deal (3 months)**
- **Backed by the John Textor name**
- **Irrational investor sentiment**
- **Tender offer \$1.38/share vs \$.25**
- **Extraordinary Returns.**

It is not very common to see an arbitrage play opportunity in the small cap marketplace let alone one that is so telegraphed and with so much profit potential. Arbitrage plays by their definition is taking advantage of the price differential within two or more markets. Pulse Evolution Corporation (PLFX) is being purchased by Recall Studios (BTOP) in a tender offer for \$1.38 yet the stock sits at a \$.25 stock price. PLFX has a 206,553,546 shares issued and outstanding which give the stock a market capitalization of \$42.8 million. BTOP has 87,288,159 shares issued and outstanding with a market capitalization of \$87.3 million but BTOP has audited financials and is current in its reporting requirement unlike PLFX. These two companies are slated to merge together and if their respective market caps were mashed together it would result in \$130.1 million with 293.8 million shares outstanding with a post-merger price of \$.44/share. At \$1.38 per share the combined market capitalization is supposed to be \$405.4 million not \$130.1 million. There is a big market disconnect and this article will explore why.

### Timing of Deal – Up to 3 months

In any arbitrage deal, the timing and the opportunity cost of the money sitting in the position for the exit is central to the analysis. In this deal it is unclear on how long the deal will last but enough is known to speculate and make a reasonable guess. Recall Studios made the Tender Offer to PLFX and is waiting on a definitive answer from the board of directors. On [July 10, 2018](#) Pulse Evolution's board of directors went on record and said " based on the information provided to us, but subject to a further evaluation of the definitive tender offer, the Board of Directors of Pulse **tentatively supports** the proposed acquisition and tender offer by Recall Studios. We will provide a definitive decision following receipt of additional information about the transaction."

The key words are tentatively supports and then the timing is following the receipt of additional information. Since all these board members know each other or are on familiar terms this additional information could come in the form of an email with the final definitive merger agreement being drafted by the attorneys for review. The "**additional information about the transaction**" could also be **the source of funds** of the potential **cash component** of this deal. Assuming the attorney review process takes 2 – 4 weeks, the next step in the process is a shareholder proxy by PLFX shareholders with the board's recommendation for approval. This would add another 4 – 6 weeks onto the time table. The final step would be the definitive merger agreement and the issuance of the new shares and cashing out the shares at \$.85 with money held in escrow. This final step could take anywhere from 1 – 2 weeks which conservatively estimates a 3 month exit time frame on this deal.

## Recall Studios, Inc. – Underlying Strength

Arguably the most vital element in an arbitrage deal is the underlying creditworthiness of the tendering party. Well in this particular case the track record of Recall Studios is almost non-existent until investors take the time to connect the dots. This is the likely reason the stock pair is trading at such a huge discount to the closing transaction price of \$1.38. Recall Studios effected a 1 for 10,000 share split in Jan 2017 which reduced the share count to 28 million in the float. After key management issued themselves more stock based compensation the percentage owned by management increased to 73.4%. This was the structure of the corporation before the acquisition. In 2018 Recall Studios started raising capital via convertible promissory notes. According to the latest 10-Q “as of march 31, 2018, outstanding balance of the notes payable amounted to \$878,500, accrued interest of 10,295 and unamortized note discount of 747,626. “ 12 new convertible promissory notes were used to raise capital which left the company with \$428,000 in cash and cash equivalents. These funds might have been factored in to be used to repay part of the cash tender offer.

With the low share price, no one is connecting the dots. The back story is needed to make the connection. John Textor is the key to the story as he was the ex-chairman of PLFX and the CEO of Evolution AI Corporation. In July 2017 in a conference call Textor stepped down as president and announced the appointment of Jordan Fixenbaum to move the entertainment business forward. Then his intentions were to later known as he pursued the development of the Evolution AI business which is focused around creating hyper realistic digital humans that are the visual piece of artificial intelligence. So instead of visualizing IBM’s Watson as a blue ball it would have a face we could relate to.

The real action started in January 2018 as Pulse Acquisition Corp started filing [Form 4’s](#) with share counts that resembled some key long term holders. By mid-March Pulse Acquisition Corp filed a beneficial interest of 72,271,706 shares on a [Form 4](#) filing that appeared to represent 11 different shareholder’s interests. Then Evolution AI Corporation started filing [Form 4’s](#) consolidating the Series A Preferred Stock of PLFX. By the end of April in a [Form 4](#) filing Evolution AI controlled 2,204,136 common stock and 1,819,200 Series A Preferred Stock. The great momentum in March waned so the [tender offer](#) was increased to \$1.10/share in May. The final push to increase the tender to \$1.38 was a likely prerequisite for board approval. Investors should now see that Textor is behind the acquisition of his ex-company Pulse Evolution.

Why would Textor go through all this headache? Well that comes down to financial reporting and uplisting on an exchange that would recognize the true value of the assets. For 3 years PLFX was behind on its filings so the stock is suffering from a severe case of investor fatigue. The show side of the business was financed on an as needed basis without any concern for the public filing requirements and the need to keep investors updated on progress. With some major shows in the pipeline like virtual Abba this company could generate billions of revenue in the next couple of years if the shows are as successful as projected. In 2014 Abba turned down a \$1.0 Billion [reunion offer](#). The stock has never traded at its true potential of even one times expected revenues and Textor was probably trying to maximize the value before attempting to raise money at dilutive levels that would hurt existing shareholders.

In June 2018 Evolution AI the private company and BTOP struck a deal to [acquire Evolution AI](#) and its stock holdings (60%) in PLFX for \$200 million subject to adjustments. The assumed value of BTOP is \$.50 which works out to Evolution AI getting 400 million newly minted share of BTOP for their share of the

company. This leaves Evolution AI as the new controlling interest with 82.1% of the shares in an OTCQB fully reporting entity. So the final structure in BTOP would be 82.4 million shares tendered at \$1.38 plus the 87.3 million shares of BTOP which would leave a float of 169.7 million shares out of 569.7 million shares with perceived market cap of \$786.2 million. Under this preliminary structure Textor could raise the money needed to pay off the cash tender offers while raising some additional funds to execute the business plan under non-dilutive terms.

### **Irrational Investor Sentiment**

According to investors there are many reasons NOT to buy PLFX stock. Investor fatigue has set in to an irrational level. Investors on the chat boards are complaining about the time it will take to do the deal, they don't believe the funding is in place, and the volume is thin. What is so curious about all these comments is that these are exactly the reason to buy the stock with extreme prejudice right now. It's only a matter of time before a hedge fund comes by and looks at this deal and runs the numbers and calculates the return.

### **Reiterations of Deal – Not Heeded by Market**

There are 5 separate instances where public announcements of the deal did nothing to persuade investors that it was going to close. Even the use of the word definitive in the press release didn't work. From the Jul 10<sup>th</sup> press release Pulse said "Based on the information provided to us, but subject to a further evaluation of the definitive tender offer, the Board of Directors of Pulse tentatively supports the proposed acquisition and tender offer by Recall Studios. We will provide a definitive decision following receipt of additional information about the transactions."

[Evolution | AI Corporation Offers to Purchase PLFX Unrestricted, 'Public Float' Shares at \\$1.10 per Share](#)  
[Evolution | AI Corporation to Host Public Shareholder Call, Reiterates Offer to Purchase Shares of Pulse Evolution Corporation at \\$1.10 per Share](#)

[Evolution | AI Corporation Increases Offer to Acquire Pulse Evolution Corporation](#)

[Pulse Evolution Announces Opinion Regarding Commencement of Tender Offer by Recall Studios](#)

### **Tender Offer \$1.38/share**

Step one in an arbitrage play is to calculate the total returns. Assuming the current market price is \$.25 there are two possible alternatives in this deal. In one case the stock will be tendered for cash at \$1.10 per share and the other case the stock is converted at \$1.38 per share into the combined entity. The total return for the cash portion starts at 240% and the total for the stock swap is 452%. The estimated duration of this deal is 3 months and it won't be necessary to go through any governmental filings.

### **Investment Summary**

It's clear that John Textor's name and reputation is on the line if investors connect the dots. The investors fear that nothing is backing this deal is far from true. BTOP is a structure of Textor's design to increase the value of the stock to a more reasonable level with the idea that the company will uplist or raise additional capital. The corporate structure of BTOP still need to be cleaned up more. The preferred convertible stock will likely be taken out on the first successful fundraising. Investors should consider that this is a structural arbitrage deal and that most of the risks like the approval of the deal

have been reduced if not eliminated. There remains a chance for unusually large returns in this deal. The stock is very thinly traded so a big position could move the stock in either direction.