



Will Short-Sellers Drive This TSX Stock Price to \$0?

Description

After its IPO in March, **GFL Environmental** ([TSX:GFL](#))([NYSE:GFL](#)) seemed to be a promising growth story. Over the past four years, the company has increased its [total annual revenue by almost 400%](#)!

But shares in the company plummeted last week after a scathing report concerning alleged securities fraud by GFL was released.

Alleged misconduct by GFL

Spruce Point Management issued a report entitled “Green for Life, Red For Losses” on August 18.

In the report, Spruce Point makes some egregious claims. Among them: that GFL’s leverage is understated by its aggressive reporting of revenue and EBITDA, and free cash flow burn is understated by approximately 60%.

Much of the 107-page report focuses on CEO Patrick Dovigi’s background and accuses the CEO of “questionable” business practices. According to Spruce Point, Dovigi has links to “organized crime.”

Allegedly, the company’s Securities and Exchange Commission filings were modified to “omit Mr. Dovigi’s connections to parties that have faced regulatory infractions, legal issues, and allegations of securities fraud.”

The report concluded that “without access to new capital, GFL’s [shares are worthless](#) and likely uninvestable for institutional investors.”

In an interview regarding the report with *Bloomberg Television*, Ben Axler, founder of Spruce Point, said, “We think the DOJ needs to take a serious look at the viability and the survivability of this business and whether or not they’re accurately presenting their financials.”

With over 20 years of experience, Axler is a well-known short-seller. The report includes a disclaimer that Spruce Point and its affiliates have a short position in GFL. Thus, Spruce Point stands to profit

from the decline in the share price of GFL.

GFL fights back

In [response to the Spruce Point report](#), GFL claimed the report contained misleading and false statements. According to GFL, these numerous inaccuracies and mischaracterizations are solely intended to benefit Spruce Point.

A spokesperson for GFL said, “We are very disappointed by the baseless report put out today by Spruce Point Capital. Spruce Point has never engaged with the company and the report is without merit. We have the support of our shareholders and the utmost confidence in management, who have held themselves to the highest ethical standards. We continue to believe in the strategy of the business and its focus on creating long-term shareholder value.”

Shining star

Throughout Canada and the U.S., GFL offers services in solid waste management, liquid waste management, and infrastructure development. GFL is the fourth-largest service of its kind in the North American market.

The company’s distinctive bright green trucks collect, haul, sort, transfer, and dispose of non-hazardous solid waste (including recyclable materials and organics). GFL also offers infrastructure services, such as site excavation, demolition, soil retention, and remediation.

The bottom line

Prior to the damaging report from Spruce Capital, GFL was highly rated among analysts. Many experts saw GFL as a shining star in the environmental space.

As of this writing, the stock is trading at \$24.39, significantly down from its high of \$30.78, just weeks before the report was released.

As for now, investors should be wary of this stock. It’s too early to tell what lasting damage the Spruce Capital report will have on GFL.

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