IPO ANALYSIS

Research on upcoming or recent IPOs for selected companies.

Harmony Biosciences Begins $100 Million IPO Effort

Duck Creek Technologies Seeks $200 Million IPO

Oak Street Health Aims For $250 Million IPO

August 2020

VentureDeal

Harmony Biosciences Begins $100 Million IPO Effort

Quick Take

Harmony Biosciences Holdings (HRMY) has filed to raise $100 million in an IPO of its common stock, according to an S-1 registration statement.

The firm is a biopharma commercializing its WAKIX molecule for the treatment of excessive sleepiness in adult narcolepsy.

HRMY has initially grown revenue quickly as it begins to commercialize its primary product.

I’ll provide an update when we learn more about the IPO from management.

Company & Technology

Plymouth Meeting, Pennsylvania-based Harmony was founded to commercialize a drug to treat narcolepsy that is not scheduled as a controlled substance.

Management is headed by president and Chief Executive Officer John Jacobs, who has been with the firm since October 2017 and was previously SVP and General Manager of the Respiratory Business Unit at Teva Pharmaceuticals (TEVA).

The firm's in-licensed drug, WAKIX (pitolisant), is also nearing FDA approval for the treatment of cataplexy and for treatment of pediatric forms of narcolepsy.

Below is the current status of the company’s drug development pipeline:

Source: Company S-1 Filing

Investors in the firm have invested at least $422 million and include Valor, Fidelity, HBM Healthcare, Vivo Capital, Marshman Fund Trust, Novo Holdings, Quantum Strategic Partners and venBio.

Market & Competition

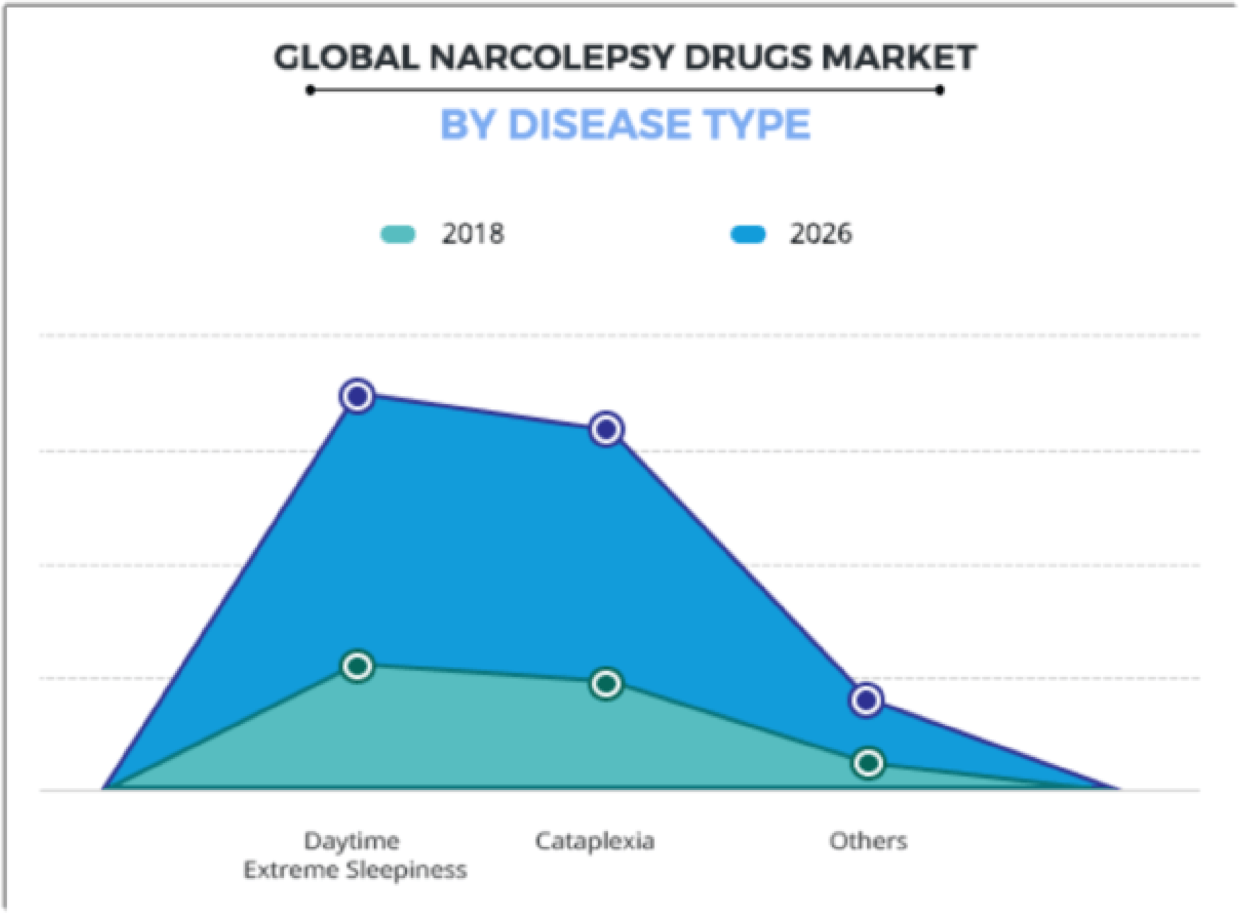
According to a 2019 market research report by Allied Market Research, the global market for narcolepsy treatment was an estimated $2.4 billion in 2018 and is expected to exceed $5.3 billion by 2026.

This represents a forecast CAGR (Compound Annual Growth Rate) of 10.3% from 2019 to 2026.

Key elements driving this expected growth are increasing risks of narcolepsy from greater consumption of alcohol, tobacco and coffee combined with advances in treatment options and improved reimbursement for government-approved treatments.

However, a lack of awareness regarding diagnosis and treatment options may dampen growth.

Extreme daytime sleepiness is expected to produce the greatest demand for drug treatments, followed by cataplexia, as the chart below shows:



Major competitive vendors that provide or are developing treatments include:

- Jazz Pharmaceuticals (JAZZ)
- Avadel Pharmaceuticals (AVDL)
- Axsome Therapeutics (AXSM)

Management says its WAKIX drug 'has a safety and efficacy profile that is competitive with each of the products listed above for the treatment of EDS in adult patients with narcolepsy, although WAKIX has not been compared with these products in head-to-head clinical trials, and that its non-scheduled status represents a distinct competitive advantage relative to those same products.'

Financial Status

Below are the company's financial results for the past two and ¼ years (Audited PCAOB for full years):

Consolidated Statement of Operations Data: (U.S. dollars in thousands except share and per share data)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Year Ended December 31, 2019	Year Ended December 31, 2018
Net product revenue	$ 19,840	$ —	$ 5,995	$ —
Cost of product sales	3,474	—	1,577	—
Gross profit	16,366	—	4,418	—
Operating expenses:				
Research and development	$ 3,431	$ 52,990	$ 69,595	$ 12,372
Sales and marketing	13,254	6,191	44,318	16,861
General and administrative	9,290	3,962	36,409	12,206
Total operating expenses	25,975	63,143	150,322	41,439
Operating loss	(9,609)	(63,143)	(145,904)	(41,439)
Loss on debt extinguishment	(22,639)	—	—	—
Interest income (expense)	(6,372)	122	(6,073)	1,541
Loss before taxes	(38,620)	(63,021)	(151,977)	(39,898)
Income taxes	—	—	—	—
Net loss and comprehensive loss	$ (38,620)	$ (63,021)	$ (151,977)	$ (39,898)
Accumulation of yield on preferred stock	(10,445)	(8,314)	(35,231)	(30,185)
Net loss available to common stockholders	$ (49,065)	$ (71,335)	$ (187,208)	$ (70,083)
Loss per share:				
Loss per share, basic and diluted(1)(2)	$ (0.77)	$ (1.12)	$ (2.93)	$ (0.96)
Weighted average number of common stock, basic and diluted	64,000,341	63,888,976	63,891,677	72,765,366
Pro Forma net loss per share, basic and diluted (unaudited)(1)(2)	$	$	$	—
Pro Forma weighted average shares of common stock outstanding, basic and diluted (unaudited)				—

(1) See Note 13 to our financial statements for the three months ended March 31, 2020 appearing at the end of this prospectus for further details on the calculation of basic and diluted net loss per share attributable to common stockholders.
(2) See Note 15 to our financial statements for the year ended December 31, 2019 appearing at the end of this prospectus for further details on the calculation of basic and diluted net loss per share attributable to common stockholders.

Consolidated Balance Sheet Data: (U.S. dollars in thousands except share and per share data)	March 31, 2020	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 71,517	$ 24,457	$ 83,523
Working capital(1)	74,048	11,605	79,453
[illegible]	[illegible]	[illegible]	[illegible]

Source: Company registration statement

As of March 31, 2020, the company had $71.5 million in cash and $212.8 million in total liabilities. (Unaudited, interim)

IPO Details

Harmony intends to raise $100 million in gross proceeds from an IPO of its common stock, although the final amount may be different.

No existing shareholders have indicated an interest to purchase shares at the IPO price, although this element may become a feature of the IPO if disclosed in a future filing.

Management says it will use the net proceeds from the IPO as follows:

to fund the potential new indications for pitolisant in PWS, MD and pediatric narcolepsy through clinical development; and

the remainder for working capital, business development opportunities, a potential milestone payment to Bioprojet and general corporate purposes, including to support the continued commercialization of WAKIX in the United States.

Management's presentation of the company roadshow is not available.

Listed bookrunners of the IPO are Goldman Sachs, Jeffries and Piper Sandler.

Commentary

Harmony is seeking public investment capital to continue its WAKIX commercialization ramp up efforts and grow its TAM through additional indications for pitolisant.

The market opportunity for treatments for various indications within the narcolepsy condition is expected to grow quickly in the years ahead.

The firm has in-licensed the WAKIX product, so will have to pay royalty and milestone payments to licensor Bioprojet as Harmony grows revenue.

The company's investor syndicate includes several well-known and highly regarded venture capital firm investors.

Goldman Sachs is the lead left underwriter and IPOs led by the firm over the last 12-month period have generated an average return of 83.3% since their IPO. This is a top-tier performance for all major underwriters during the period.

Harmony has intriguing prospects as it enters the commercialization phase for its primary product.

I look forward to learning the IPO's pricing and valuation assumptions from management.

Expected IPO Pricing Date: To be announced.

Duck Creek Technologies Seeks $200 Million IPO

Quick Take

Duck Creek Technologies (DCT) has filed to raise $200 million in an IPO of its common stock, according to an S-1 registration statement.

The firm provides property and casualty (P&C) insurance companies with a SaaS delivered suite of software solutions.

DCT has produced strong revenue growth and appears to be making a turn toward operating breakeven. Industry growth prospects are significant.

I'll provide an update when we learn more about the IPO from management.

Company & Technology

Boston, Massachusetts-based Duck Creek was founded to develop an online platform that provides P&C insurance carriers with software to improve their operational efficiencies for policy administration, claims management and billing functions.

Management is headed by Chief Executive Officer Mr. Michael Jackowski, who has been with the firm since August 2016 and was previously a managing partner at Accenture and held several positions at insurance carrier The Allstate Companies (ALL).

Duck Creek's major customers include:

- Progressive
- Liberty Mutual
- AIG
- The Hartford
- Berkshire Hathaway Specialty Insurance
- GEICO
- Munich RE Specialty Insurance

The company says it has more than 150 insurance companies worldwide as customers, 'including the top five North American carriers.'

The firm's primary offerings include:

- Duck Creek Policy
- Duck Creek Billing
- Duck Creek Claims

Duck Creek has received at least $397 million from investors including private equity firm Apax, Accenture and Kayne Anderson Rudnick.

Customer Acquisition

The firm obtains new insurance carrier clients through dedicated sales and marketing teams along with technical teams, since P&C carriers typically have fairly complex back office processes.

Almost all of the firm's new bookings come from SaaS subscriptions to its Duck Creek OnDemand.DCT also offers related professional services primarily for implementation aspects of the firm's software suite.

Sales and Marketing expenses as a percentage of total revenue have been fluctuating as revenues have increased, as the figures below indicate:

Sales and Marketing	**Expenses vs. Revenue**

Period	Percentage
Nine Mos. Ended May 31, 2020	21.9%
FYE Ended Aug 31, 2019	23.5%
FYE Ended Aug 31, 2018	21.4%

Source: Company registration statement

The Sales and Marketing efficiency rate, defined as how many dollars of additional new revenue are generated by each dollar of Sales and Marketing spend, rose to 0.9x in the most recent reporting period, as shown in the table below:

Sales and Marketing Period	Efficiency Rate Multiple
Nine Mos. Ended May 31, 2020	0.9
FYE Ended Aug 31, 2019	0.3

Source: Company registration statement

The Rule of 40 is a software industry rule of thumb that says that as long as the combined revenue growth rate and EBITDA percentage rate equal or exceed 40%, the firm is on an acceptable growth trajectory. DCT's most recent calculation was 20% as of the nine months ended May 31, 2020, so the firm has some work to do in this regard.

The firm's net dollar retention rate was 118% and 113% for the nine months ended May 31, 2019 and 2020, respectively.

A figure above 100% is considered positive as it indicates the firm is generating more revenue from the same cohort of customers, i.e, negative net churn.

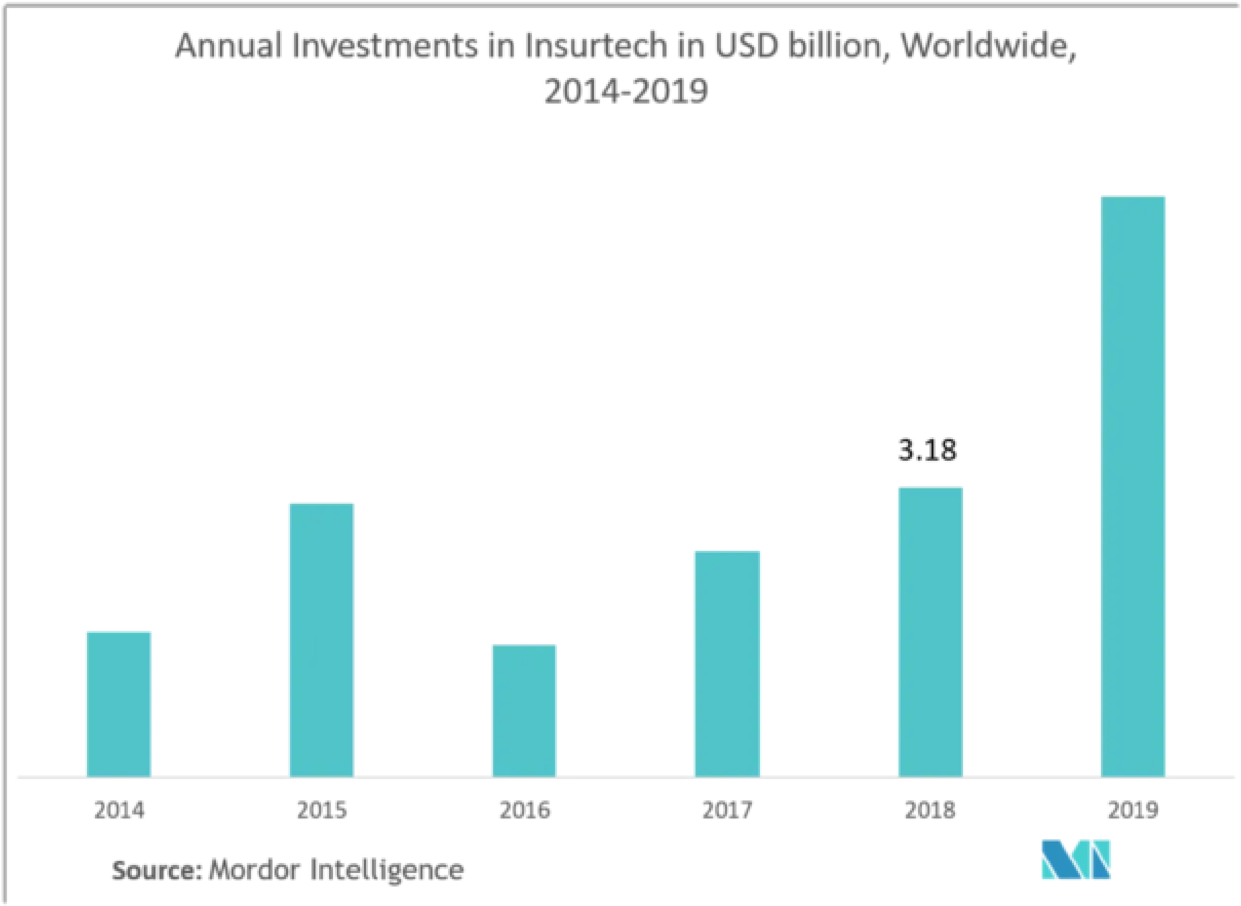
Market & Competition

According to a 2019 market research report by Mordor Intelligence, the global market for Insurtech software and services is expected to grow from $5.5 billion in 2019 to $10.14 billion in 2025.

This represents a forecast CAGR of 10.8% from 2019 to 2025.

The main drivers for this expected growth are the need to increase efficiencies through automation along with improved technological offerings.

Also, the sector has seen an almost continuous increase in investment since 2014, as the chart shows below:



Major competitive or other industry participants include:

- Lemonade (LMND)
- Zhong An
- Guidewire (GWRE)
- Insurity
- Majesco
- Sapiens

Financial Performance

Duck Creek's recent financial results can be summarized as follows:

- Growing topline revenue
- Increased gross profit
- Reduced gross margin
- Fluctuating operating
- Variable cash flow from operations

Below are relevant financial results derived from the firm's registration statement:

Total Revenue

Period	**Total Revenue**	**% Variance vs. Prior**
Nine Mos. Ended May 31, 2020	$ 153,350,000	24.3%
FYE Ended Aug 31, 2019	$ 171,273,000	7.3%
FYE Ended Aug 31, 2018	$ 159,669,000	

Gross Profit (Loss)

Period	**Gross Profit (Loss)**	**% Variance vs. Prior**
Nine Mos. Ended May 31, 2020	$ 85,818,000	20.2%
FYE Ended Aug 31, 2019	$ 99,095,000	3.9%
FYE Ended Aug 31, 2018	$ 95,337,000	

Gross Margin

Period	**Gross Margin**
Nine Mos. Ended May 31, 2020	55.96%
FYE Ended Aug 31, 2019	57.86%
FYE Ended Aug 31, 2018	59.71%

Operating Profit (Loss)

Period	**Operating Profit (Loss)**	**Operating Margin**
Nine Mos. Ended May 31, 2020	$ (7,082,000)	-4.6%
FYE Ended Aug 31, 2019	$ (14,151,000)	-8.3%
FYE Ended Aug 31, 2018	$ (6,348,000)	-4.0%

Net Income (Loss)

Period	**Net Income (Loss)**
Nine Mos. Ended May 31, 2020	$ (8,453,000)
FYE Ended Aug 31, 2019	$ (16,896,000)
FYE Ended Aug 31, 2018	$ (7,802,000)

Cash Flow From Operations

Period	**Cash Flow From Operations**
Nine Mos. Ended May 31, 2020	$ 8,247,000
FYE Ended Aug 31, 2019	$ 14,833,000
FYE Ended Aug 31, 2018	$ 11,833,000

(Glossary Of Terms)

Source: Company registration statement

As of May 31, 2020, Duck Creek had $19.2 million in cash and $100 million in total liabilities.

Free cash flow during the twelve months ended May 31, 2020, was $18.7 million

IPO Details

Duck Creek intends to raise $200 million in gross proceeds from an IPO of its common stock, although the final amount may differ.

Management says it will use the net proceeds from the IPO as follows:

[i] redeem up to [an as-yet-undisclosed amount] outstanding LP Units of the Operating Partnership held by certain of the Existing Holders immediately prior to the consummation of this offering, after giving effect to the contributions that are part of the Reorganization Transactions, at a redemption price per LP Unit equal to the initial public offering price of this offering after deducting underwriting discounts and commissions payable by us, and

[ii] pay [an as-yet-undisclosed amount] to Apax, representing the cash portion of the merger consideration in the Reorg Merger.

[an as-yet-undisclosed amount] of the net proceeds that we receive in this offering will be paid to Accenture to redeem the outstanding LP Units owned by Accenture that are not contributed to the Company in the Reorganization Transactions.

Management's presentation of the company roadshow is not available.

Listed bookrunners of the IPO are Goldman Sachs, J.P. Morgan, BofA Securities, Barclays, RBC Capital Markets, JMP Securities, Needham & Company, Stifel, William Blair, D.A. Davidson & Co, Raymond James and Loop Capital Markets.

Commentary

Duck Creek is seeking public investment capital to buy units in the underlying operating company and pay its private equity firm shareholder Apax consideration.

The company's financials indicate strong revenue growth, increased gross profit, and reduced negative operating losses.

Sales and Marketing expenses have varied as revenues have increased, while its Sales and Marketing efficiency rate has improved markedly in the most recent reporting period.

The market opportunity for providing software to legacy insurance carriers is expected to double in the coming years, so presents a strong industry growth backdrop to Duck Creek and its peers.

DCT produced a 113% net dollar retention rate for the most recent nine month period, a strong result indicating negative net churn and good service market fit.

Goldman Sachs is the lead left underwriter and IPOs led by the firm over the last 12-month period have generated an average return of 82.2% since their IPO. This is a top-tier performance for all major underwriters during the period.

Duck Creek appears to be making a turn toward operating breakeven while revenue growth has been impressive.

I look forward to learning more about the IPO's pricing and valuation assumptions from management.

Expected IPO Pricing Date: To be announced.

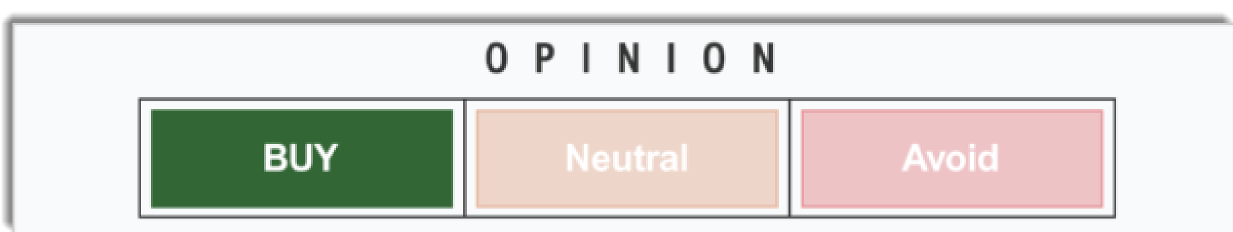
Oak Street Health Aims For $250 Million IPO

Quick Take

Oak Street Health (OSH) has filed to raise $250 million from the sale of its common stock in an IPO, according to an amended registration statement.

The company provides healthcare services to Medicare Advantage patients and others in the U.S.

OSH is operating in a large and growing market, is making a turn toward operating breakeven and continues on a steep revenue growth trajectory, so my opinion on the IPO is a BUY at up to $16.00 per share.



Company & Technology

Chicago, Illinois-based Oak Street was founded to develop an integrated, personalized approach to health care services for Medicare-eligible persons using a value-based capitation contract revenue model.

Management is headed by co-founder and Chief Executive Officer Mike Pykosz, who was previously Principal at the Boston Consulting Group.

The company is paid on a per patient, per month basis, creating a recurring revenue stream model that management believes incentivizes it to focus on 'interventions that keep our patients healthy' while capturing cost savings as a result.

Oak Street has received at least $545 million from investors including private equity firms General Atlantic and Newlight, and Humana (HUM).

Customer Acquisition

The firm obtains new patients through its network of 54 medical centers in 13 markets across 8 states.

Oak Street currently cares for about 85,000 patients 'of which approximately 65% are at-risk and approximately 35% are fee-for-service, although fee-for-service accounted for less than 1% of our revenue for the three months ended March 31, 2020.'

Sales and Marketing expenses as a percentage of total revenue have been trending downward as revenues have increased, as the figures below indicate:

Sales and Marketing	**Expenses vs. Revenue**
Period	**Percentage**
Three Mos. Ended March 31, 2020	5.9%
2019	8.3%
2018	8.0%

Source: Company registration statement

The Sales and Marketing efficiency rate, defined as how many dollars of additional new revenue are generated by each dollar of Sales and Marketing spend, rose to 7.1x in the most recent reporting period, as shown in the table below:

Sales and Marketing	**Efficiency Rate**
Period	**Multiple**
Three Mos. Ended March 31, 2020	7.1
2019	5.2

Source: Company registration statement

Market & Competition

According to a 2017 market research report by LEK Consulting, the U.S market for Medicare Advantage is advancing toward 70% penetration rate among seniors by 2040.

This represents an expected average rise of 1.5% per year from 2010 to 2040.

The main drivers for this expected growth are predictability, more benefits, care coordination and lower annual healthcare costs.

Also, the federal government encourages the plan because it focuses on cost trend management and not fee-for-service.

Major competitive or other industry participants include:

- ChenMed
- Iora Health
- Health system affiliated practices

Financial Performance

Oak Street's recent financial results can be summarized as follows:

- Growing topline revenue
- Increasing gross profit and gross margin
- Reduced operating losses
- Increasing cash used in operations

Below are relevant financial results derived from the firm's registration statement:

Total Revenue

Period	Total Revenue	% Variance vs. Prior
Three Mos. Ended March 31, 2020	$ 201,785,000	71.9%
2019	$ 556,604,000	75.1%
2018	$ 317,938,000	

Gross Profit (Loss)

Period	Gross Profit (Loss)	% Variance vs. Prior
Three Mos. Ended March 31, 2020	$ 69,500,000	73.3%
2019	$ 170,606,000	88.8%
2018	$ 90,372,000	

Gross Margin

Period	Gross Margin
Three Mos. Ended March 31, 2020	34.44%
2019	30.65%
2018	28.42%

Operating Profit (Loss)

Period	Operating Profit (Loss)	Operating Margin
Three Mos. Ended March 31, 2020	$ (13,024,000)	-6.5%
2019	$ (103,876,000)	-18.7%
2018	$ (76,037,000)	-23.9%

Net Income (Loss)

Period	Net Income (Loss)
Three Mos. Ended March 31, 2020	$ (15,000,000)
2019	$ (107,862,000)
2018	$ (79,544,000)

Cash Flow From Operations

Period	Cash Flow From Operations
Three Mos. Ended March 31, 2020	$ (36,891,000)
2019	$ (55,546,000)
2018	$ (75,365,000)

(Glossary Of Terms)

Source: Company registration statement

As of March 31, 2020, Oak Street had $226.3 million in cash and $355 million in total liabilities.

Free cash flow during the twelve months ended March 31, 2020, was negative ($88.3 million).

IPO Details

OSH intends to sell 15.625 million shares of common stock at a midpoint price of $16.00 per share for gross proceeds of approximately $250.0 million, not including the sale of customary underwriter options.

Assuming a successful IPO at the midpoint of the proposed price range, the company’s enterprise value at IPO would approximate $3.4 billion.

Excluding effects of underwriter options and private placement shares or restricted stock, if any, the float to outstanding shares ratio will be approximately 7.12%.

Per the firm's most recent regulatory filing, the firm plans to use the net proceeds as follows:

We expect to use approximately $86.2 million of the net proceeds of this offering to repay outstanding borrowings, including fees and expenses, under our Loan Agreement, under which $80.0 million in principal amount was outstanding and which had an interest rate of 9.75% as of March 31, 2020, and the remainder of such net proceeds will be used for general corporate purposes.

Management's presentation of the company roadshow is available here.

Listed underwriters of the IPO are J.P. Morgan, Goldman Sachs, Morgan Stanley, William Blair, Piper Sandler, Baird and SunTrust Robinson Humphrey.

Valuation Metrics

Below is a table of the firm's relevant capitalization and valuation metrics at IPO:

Measure [TTM]	**Amount**
Market Capitalization at IPO	$3,509,434,544
Enterprise Value	$3,364,823,544
Price / Sales	5.47
EV / Revenue	5.25
EV / EBITDA	-31.43
Earnings Per Share	-$0.51
Total Debt To Equity	-0.99
Float To Outstanding Shares Ratio	7.12%
Proposed IPO Midpoint Price per Share	$16.00
Net Free Cash Flow	-$88,279,000
Free Cash Flow Yield Per Share	-2.52%
Revenue Growth Rate	71.91%
(Glossary Of Terms)	

Source: Company Prospectus

Commentary

OSH is seeking public investment capital to pay down some debt, but most of the IPO proceeds will be available for the firm's expansion plans.

The company's financials show strong topline revenue and gross profit growth, reduced operating losses but increasing cash used in operations.

Sales and marketing expenses as a percentage of total revenue have been lower in the most recent reporting period while its sales and marketing efficiency has improved.

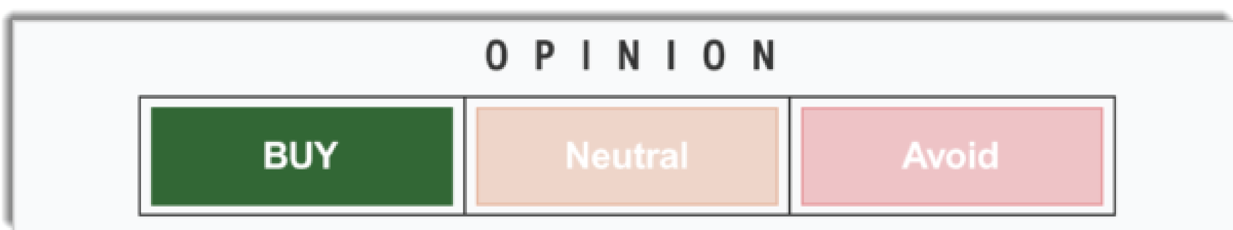
The market opportunity for providing healthcare services via the firm's capital contract model has some promise, although I wonder about how patient care will fare over the longer term when service providers such as OSH only receive a capped amount so the firm is potentially incentivized to lower service quality.

J.P. Morgan is the lead left underwriter and IPOs led by the firm over the last 12-month period have generated an average return of 64.4% since their IPO. This is a top-tier performance for all major underwriters during the period.

As a comparable-based valuation to a basket of publicly held Hospitals/Healthcare Facilities firms as of January 2020 which indicated an EV / Sales multiple of 1.63x, management is asking IPO investors to pay an EV/Revenue multiple of 5.25x at IPO.

This is quite a premium, however, the firm's revenue growth rate, at 71.91% over the trailing twelve month period, is likely far higher than that of the basket of hospital operators.

Given the large market, OSH' growth trajectory and turn toward operating breakeven, my opinion on the IPO is a BUY at up to $16.00 per share.



Expected IPO Pricing Date: August 5, 2020.