IPO ANALYSIS

Research on potential upcoming IPOs from selected candidate companies.

MeiraGTx

Adaptive Insights

Shared Labs

June, 2018

VentureDeal

MeiraGTx Files Proposed Terms For U.S. IPO

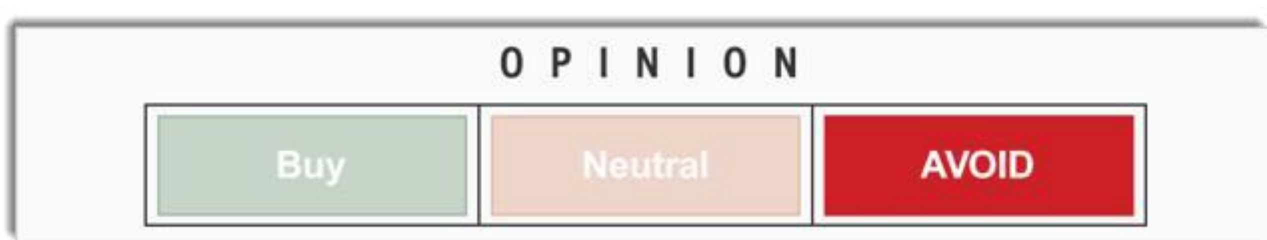
Quick Take

MeiraGTx (MGTX) intends to raise $75 million from the sale of its ordinary shares, according to an amended S-1/A registration statement.

The company is developing a pipeline of treatment candidates for various genetic diseases.

MGTX is still in Phase 1 stage and is seeking approval for genetic treatments which the FDA is moving cautiously in its approval process. The firm will likely need significantly more capital to advance its ambitious pipeline through trials; the IPO isn't cheap.

My opinion is to AVOID it.



Company & Technology

MeiraGTx Limited was founded in 2015 in London and will be a subsidiary of MeiraGTx Holdings.

Management is headed by Alexandria Forbes, Ph.D., who has been with the firm since March 2015 and was previously SVP of Commercial Operations at Kadmon Holdings.

Kadmon Corporation is the largest shareholder of MGTX (17.7% pre-IPO), followed by other investors Perceptive Life Sciences (16.1%), Adena Estate (8.8%), Alexandria Equities (8.2%, no relation to CEO) and Robin Ali (5.5%).

MGTX has created a diverse pipeline of four clinical-stage programs currently with worldwide development and commercialization rights to all of its portfolio:

(Source: [MeiraGTx])

The firm's lead candidate is AAV-CNGB3, which is in ongoing Phase 1/2 trials in the UK for the treatment of achromatopsia, a genetic condition that results in the partial or total absence of color vision.

A second candidate for the condition is in pre-clinical development phase.

Additional candidates are in ongoing Phase 1/2 trials include:

- AAV-RPE65 - associated with recessive gene blinding diseases
- AAV-RPGR - retinal degeneration condition X-linked retinitis pigmentosa
- AAV-AQP1 - xerostomia, known as dry mouth and dry mouth syndrome

Market & Competition

The global ophthalmic drugs market is expected to from at a CAGR of between 5.2% and 5.5% from 2016 to 2022, according to a market research report by Research and Markets.

Key factors driving the growth of ophthalmic drugs are expected to include an aging world population, an increase in the prevalence of eye disorders and 'increasing awareness in healthcare spending.'

More specifically, per a WSJ report, nearly one in twelve men suffer from some degree of color blindness and one in forty women are affected as well. Extrapolating from these estimates would indicate a global affected population of 280 million men and 88 million women.

However, management states that the condition its candidates hope to treat has an incidence of approximately one in 30,000 (U.S.).

Major pharma firms that develop or sell ophthalmic drug treatments include:

Direct competitors:

- Applied Genetic Technologies (AGTC)
- Nightstar Therapeutics (NITE)
- Spark Therapeutics (ONCE)

Ophthalmic Drug Developers:

- Abbott Healthcare (ABT)
- Allergan (AGN)
- Bayer (OTCPK:BAYRY)
- Johnson & Johnson (JNJ)
- Merck & Co. (MRK)
- Novartis (NVS)
- Pfizer (PFE)
- Regeneron (REGN)
- Santen Pharmaceuticals (OTC:SNPHF)
- Valeant Pharmaceuticals (VRX)

Financial Performance

MGTX's recent financial results are typical of a development stage biopharmaceutical firm in that they feature no revenues and significant R&D and G&A expenses associated with advancing its pipeline of candidates through the trials process.

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

	Year Ended December 31,		Three Months Ended March 31,	
	2016	2017	2017	2018
Consolidated Statement of Operations and Comprehensive Loss Data:				
Operating expenses:				
General and administrative	$ 6,026,529	$ 9,325,017	$ 2,148,540	$ 11,122,016
Research and development	14,037,918	22,359,712	4,823,357	6,927,322
Total operating expenses	20,064,447	31,684,729	6,971,897	18,049,338
Loss from operations	(20,064,447)	(31,684,729)	(6,971,897)	(18,049,338)
Other non-operating income (expense):				
Foreign currency gain	265,543	1,676,117	149,249	978,624
Convertible note inducement	—	(553,500)	—	—
Change in fair market value of warrant liability	—	(465,633)	—	669,408
Interest income	32,068	26,073	10,389	25,308
Interest expense	(25,440)	(42,863)	(8,126)	(27,355)
Net loss	(19,792,276)	(31,044,535)	(6,820,385)	(16,403,353)
Net loss attributable to non-controlling interest in subsidiary	305,883	—	—	—
Net loss attributable to MeiraGTx shareholders	(19,486,393)	(31,044,535)	(6,820,385)	(16,403,353)
Other comprehensive loss	(671,391)	(1,361,365)	(130,895)	(757,765)
Comprehensive loss	(20,157,784)	(32,405,900)	(6,951,280)	(17,161,118)
Less: comprehensive loss (income) attributable to non-controlling interest	8,520	—	—	—
Comprehensive loss attributable to MeiraGTx shareholders	$(20,149,264)	$(32,405,900)	$(6,951,280)	$ (17,161,118)

(Source: MeiraGTx S-1)

As of March 31, 2018, the company had $32.4 million in cash and $14.3 million in total liabilities.

IPO Details

MGTX intends to raise $75 million in gross proceeds from the sale of 5 million shares of common stock at a midpoint price of $15.00 per share.

There is an expression of interest for existing shareholders to buy up to $40 million of additional common stock at the IPO price. This is a positive signal to public investors.

The firm's market capitalization at the share price midpoint will be $408 million, excluding the effects of underwriter options.

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

Approximately $20 million to $25 million to further develop our most advanced product candidates, AAV-CNGB3, AAV-CNGA3, AAV-RPGR,AAV-RPE65 and AAV-AQP1;

Approximately $10 million to $15 million to scale up our manufacturing facility and related processes;

Approximately $10 million to $15 million to fund research and development of our other pipeline product candidates and technologies; and

the remainder, if any, to fund new and ongoing research and development activities and for working capital and other general corporate purposes.

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

Listed bookrunners of the IPO are BofA Merrill Lynch, Barclays, Evercore ISI and Chardan.

Commentary

I previously wrote about MeiraGTx in my analysis, *First Look | MeiraGTx Files For $86 Million U.S. IPO*.

In that piece, I highlighted that management is largely focused on genetic diseases affecting the eye. I can appreciate its primary emphasis on eye related disorders.

However, a number of issues occur to me.

First, the firm is very early stage, still in Phase 1 safety trials for its lead candidate and several other vision and dry mouth candidates.

Second, while the markets for its lead candidates are significant and expected to grow due to demographic changes as the world's population ages, there is major competition among large pharma firms worldwide.

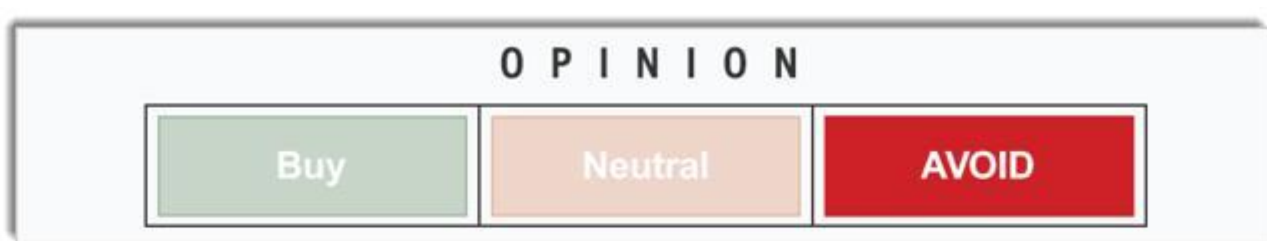
Third, MGTX is only raising $75 million in gross proceeds for a rather large pipeline, so it is likely the firm will need additional capital shortly, potentially further diluting IPO investors in the near-term.

Fourth, and perhaps most importantly, the firm is seeking regulatory approval for genetic treatments. To-date, the FDA has approved only one genetic treatment. There is a significant backlog at the FDA for other genetic treatments seeking approval.

The FDA is taking a 'go slow' approach to approving genetic treatments, so the regulatory risks for MeiraGTx are significant, especially in terms of the length of time to approval, should trials succeed.

As to valuation, the firm is highly valued at $408 million giving its Phase 1 status.

Given the above concerns and the high valuation, my opinion on the IPO is to AVOID it.



Expected IPO Pricing Date: June 7, 2018.

Adaptive Insights Files For $100 Million IPO

Quick Take

Adaptive Insights (ADIN) intends to raise $100 million in an IPO of its common stock, according to an S-1 registration statement.

The firm sells a SaaS business planning software suite for finance and sales functions within enterprises.

ADIN is growing quickly but is in a significant transition as the firm seeks to expand its geographic footprint, service offerings and customer base.

I'll provide an update when we learn further details from management.

Company & Technology

Palo Alto, California-based Adaptive Insights was founded in 2003 by Rob Hull to remove frustrations with out-of-date or poorly-performing corporate planning software.

Management is headed by CEO Thomas Bogan, who has been with the firm since January 2015 and was previously a venture capitalist with Greylock Partners and President of Rational Software.

The firm partners with a range of companies and consultants, including VARs, technology consulting firms, software companies, business consulting firms, ISVs and technology platform providers.

Investors have invested $180 million in the firm to date and include venture capital firms such as ONSET Ventures, Norwest Venture Partners, Bessemer Venture Partners, Information Venture Partners, CVP SBIC, JMI Equity Fund and Monitor Ventures.

ADIN has created what it calls Business Planning Cloud, a suite of easy-to-use modules that enables businesses to more effectively plan their financial operations as well as human capital management for the sales function which flows directly into so many aspects of an enterprises financial planning.

Below is a brief overview video of the Adaptive Insights suite:

(Source: [Adaptive Insights)]())

The primary financial and sales areas that ADIN's software suite assists businesses with are:

- Revenue Management
- Expense Management
- Capital Management
- Workforce Management
- Balance Sheet & Cash Flow
- Financial Close

Customer Acquisition

As of April 30, 2018, ADIN claimed 3,800 customers in more than 50 countries.

Its customer base is composed of primarily small and medium-sized businesses [SMEs] that it obtains either through a self-serve portal for smaller businesses via a free trial or through a direct sales team approach for the medium sized clients it pursues.

ADIN's cost of revenue for its subscription segment has been steadily dropping in recent years:

- FYE 2018: 15.7%
- FYE 2017: 16.6%
- FYE 2016: 18.4%

Sales and marketing costs as a percentage of total revenue have dropped, indicating increased efficiencies as the firm scales its operations:

- FYE 2018: 73.1%
- FYE 2017: 78.7%
- FYE 2016: 101.0%

Revenue retention rate is high, but has dropped below the 'magic 100%' rate for a negative net churn:

- FYE 2018: 98%
- FYE 2017: 102%

- FYE 2016: 103%

Market & Competition

According to management, it believes the market size for its application functionality is $12.5 billion.

It intends to focus its efforts on international markets such as Australia, Ireland, Canada, Japan, New Zealand and the UK.

Additionally, as the firm expands internationally, management will need to focus its sales efforts are larger firms and it has only recently begun to make investments in its large enterprise sales force, so will take time to ramp up the success of those efforts.

Major competitive vendors that provide CPM solutions include:

- Anaplan (APLAN)
- Host Analytics
- Oracle (ORCL)
- Workday (WDAY)
- IBM (IBM)
- SAP (SAP)
- Centage
- Prophix Software
- Vena Solutions

Financial Performance

ADIN's recent financial results can be summarized as follows:

- Growing topline revenue, although starting to slow the rate of growth
- Increased gross profit
- Increasing gross margin
- Reduced cash used in operations

Below are the company's financial results for the past three fiscal years (Audited GAAP):

	Year Ended January 31,		
	2016	2017	2018
	(in thousands, except per share data)		
Consolidated Statements of Operations Data:			
Revenues:			
Subscription	$ 49,365	$ 69,696	$ 93,888
Professional services and other	12,341	12,095	12,620
Total revenues	61,706	81,791	106,508
Cost of revenues:			
Subscription	9,104	11,628	14,684
Professional services and other	13,623	13,236	13,209
Total cost of revenues(1)	22,727	24,864	27,893
Gross profit	38,979	56,927	78,615
Operating expenses:			
Sales and marketing(1)	62,463	64,417	77,903
Research and development(1)	22,024	23,514	24,342
General and administrative(1)	12,718	13,669	16,993
Total operating expenses	97,205	101,600	119,238
Loss from operations	(58,226)	(44,673)	(40,623)
Other expense (income), net	596	(100)	1,796
Loss before provision for income taxes	(58,822)	(44,573)	(42,419)
Provision for income taxes	316	147	254
Net loss	$(59,138)	$ (44,720)	(42,673)

(Source: Adaptive Insights S-1)

Total Revenue ($)

- FYE 2018: $106.5 million, 30.2% increase vs. prior
- FYE 2017: $81.8 million, 32.6% increase vs. prior
- FYE 2016: $61.7 million

Gross Profit ($)

- FYE 2018: $78.6 million
- FYE 2017: $56.9 million
- FYE 2016: $39.0 million

Gross Margin (%)

- FYE 2018: 73.8%
- FYE 2017: 69.6%
- FYE 2016: 63.2%

Cash Used in Operations ($)

- FYE 2018: ($15.2 million) cash used in operations
- FYE 2017: ($34.4 million) cash used in operations
- FYE 2016: ($40.8 million) cash used in operations

As of January 31, 2018, the company had $30.1 million in cash and $55.4 million in total liabilities excluding deferred revenues.

IPO Details

ADIN intends to raise $100 million in gross proceeds from an IPO of its common stock, although the final figure may be higher.

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

... for general corporate purposes, including working capital, operating expenses and capital expenditures. We also intend to use a portion of the net proceeds we receive from this offering to repay outstanding indebtedness under our 2018 Amended Loan Agreement and our 2017 Loan Agreement... The outstanding principal under the 2018 Amended Loan Agreement accrues interest at a floating annual rate of 0.25% above the Wall Street Journal's Prime Rate, and matures in March 2021. The outstanding principal under the 2017 Loan Agreement matures in June 2021. We pay cash interest in arrears on the unpaid principal on a monthly basis at a fixed rate of 6.5% per annum, and we also incur additional interest paid in kind on the unpaid principal at a fixed rate of 5.5% per annum, which amount is added to the outstanding principal balance monthly in arrears. If we prepay the principal under the 2017 Loan Agreement, we will be required to pay a prepayment premium between 1.0% and 4.0% of the principal amount prepaid.

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

Listed bookrunners of the IPO are Morgan Stanley, BofA Merrill Lynch, Jefferies, RBC Capital Markets, JMP Securities and Oppenheimer.

Commentary

Adaptive is attempting to transition from a primarily North American-centric SME provider of SaaS financial planning software to a more internationally-focused company with larger customers - in the mid-market and large enterprise markets.

The firm has a large customer base and its revenue retention rate is good, although slipping somewhat and most recently below 100%.

ADIN recently launched its Sales Planning Solution, presumably to take advantage of cross-selling opportunities within its installed customer base. This is a smart move and indicates management is trying to grow revenues by deepening its relationship with existing customers as well as compete against other cross-discipline applications for new customers.

Other cost of revenue and sales efficiency metrics have shown a distinct improvement over recent periods, which is a positive signal.

However, I’m struck by the firm’s continued poor operating results, even as it has been in existence for 14 years.

While operating losses are trending lower, ADIN still posted an operating loss of $40.6 million in FYE 2018.

Other financial metrics show growing topline revenue, gross profit and margin; while management has reduced cash used in operations.

So, the financial picture of ADIN is muddled, further bolstering my opinion that the firm is in transition as it seeks to expand its geographic footprint, its target customer base and the functional areas with enterprises it serves.

The markets for ADIN’s offerings are large, diverse and growing. Furthermore, as so many mid-market and large enterprise firms continue their historic shift from legacy on-premise solutions to cloud-delivered software, ADIN is well positioned to take advantage of that shift.

One question for me will be how quickly and well management will be able to navigate the transitions it is undertaking.

Additionally, valuations for software IPOs are continuing to rise, so the firm’s assumptions on pricing and valuation will be critical.

I’ll provide a final opinion when we learn more details.

Shared Labs Files For $32 Million IPO

Quick Take

SharedLabs (SHLB) intends to sell 3.5 million shares of its common stock for gross proceeds of $32.5 million from a U.S. IPO, according to an S-1 registration statement.

The firm is an information technology services company that is designed to create, support, manage, repair, or improve software, applications, and ecommerce systems.

SHLB is growing due to acquisitions but shareholders are selling into the IPO and there is negative organic revenue growth.

I'll provide a final opinion when we learn further details from management.

Company & Technology

Jacksonville, FL-based SharedLabs was formed in 2016 to provide software, managed, and cloud services to enterprise software companies, and large global enterprise companies across the banking & financial services, payments, insurance, telecommunications, retail, technology and media industries.

Management is headed by CEO Jason Cory, who has been with the firm since 2016. Cory was previously a Senior Vice President of Presidio from 2015 - 2016 and President and CEO of Atherio from 2012 - 2015. Cory also serves as Chairman and CEO at SmartWorks and iTech US.

The company maintains offices in New England, NY/NJ Metro, San Jose, CA, Reston VA, Dallas, and Montreal Canada with four delivery centers in India.

Shareholders in the company include RACE Holdings, Peach Management and RedChip Companies, among others.

SharedLabs partners with businesses to enable them to take advantage of the various opportunities on the web. The company assists with the entire application development process including idea, conceptualization, and product launch.

SharedLabs also offers a broad range of custom blockchain development services such as the creation of decentralized applications, support of a private blockchain, and full stack blockchain integration.

Below is a brief overview graphic of SharedLabs' building block capabilities:

(Source: S-1 statement)

SharedLabs services include the following:

- Blockchain Solutions
- Blockchain Products
- Web & Digital Services
- Managed Services
- Software Development
- Consulting Services
- ESP Methodology

The firm offers solutions in a service delivery framework. This includes consulting, managed services and outsourcing. The company focuses on such areas as business process improvement, project management and business strategy.

SHLB uses an Embedded Service Partner methodology which allows clients to see around the corner. Through the integration of capabilities and strategy, ESP assists managers and employees to lower costs and expedite change.

SharedLabs reduces the effort and costs required to maintain and develop IT applications on an ongoing basis. This is accomplished by streamlining and consolidating clients' applications. Management believes that the solution provides clients with higher value services associated with large consulting and systems integration firms and the cost-effectiveness associated with offshore IT outsourcing firms.

Customer Acquisition

SharedLabs develops and maintains client relationships through localized sales, as well as delivery resources of 600 team members based in over 40 states across the United States.

The firm's client base includes individual customers and industry verticals. SharedLabs organizes sales teams by business unit.

The sales cycle for services normally includes initiating contact with a prospective client, understanding the prospective client's business challenges and opportunities, performing discovery or assessment activities, submitting proposals, providing client case studies and references and developing proofs-of-concept or solution prototypes.

Market & Competition

According to a 2018 market research report by Markets and Markets, the North America IT services market size is estimated to grow from $175.2 billion in 2016 to $261.5 billion by 2021, at a CAGR of 8.3%.

The main factors driving market growth are the shift from on-premises to cloud storage, growing IT complexities, increased spending on IT activities to support the core activities, and increased adoption of IT services by small and medium-sized enterprises.

Concerning market share, the U.S. holds the largest IT services market share in North America. Main factors driving the market are fast technology adoption, presence of large and medium enterprises, and high investment in technology.

Major competitive vendors that compose the North America IT services market include:

- IBM Corporation (IBM)
- HP Enterprise (HPE)
- Accenture PLC (ACN)
- Infosys (INFY)
- Wipro Limited (WIT)
- Cognizant Technology Solutions Corporation (CTSH)
- HCL Technologies Limited (HCLTECH)
- Oracle (ORCL)
- Tata Consultancy Services (TCS)
- Tech Mahindra (TECHM))
- Fujitsu (OTCPK:FJTSY)
- Capgemini (CAP)
- NTT Data (OTCPK:NTDTY)
- Nokia Networks (NOK)
- Ericsson (ERIC)

- Huawei Technologies Limited
- Hitachi Consulting (OTCPK:HTHIY)
- Unisys Corporation (UIS)
- Dimension Data (DDT)

SharedLabs' solutions are tailored to each client's needs which provides customized IT solutions and allows them to make the absolute most of the company's services. Management believes that this is better than a "one size fits all" approach.

Financial Performance

SharedLab's recent financial results can be summarized as follows:

- Dramatically increased topline revenue from start of operations with iTech
- $5.2 million gross profit
- 14.2% gross margin percentage
- Slightly positive cash flow from operations

Below are the company's financial results for the past one year and three weeks (Audited PCAOB for full year):

	For the Year Ended December 31, 2017		Period From December 7, 2016 (Inception) To December 31, 2016	
NET REVENUE	$	36,226,660	$	-
COST OF REVENUE		(31,064,482)		-
GROSS PROFIT		5,162,178		-
OPERATING EXPENSES				
Compensation		2,540,586		-
Professional fees		1,727,555		-
Selling, general and administrative		3,184,662		445
Total operating expenses		7,452,803		445
LOSS FROM OPERATIONS		(2,290,625)		(445)
OTHER EXPENSES				
Interest expense		(1,382,826)		-
Other income/(expense), net		(2,092)		-
Total other expenses		(1,384,918)		-
LOSS BEFORE INCOME TAXES AND NONCONTROLLING INTEREST		(3,675,543)		(445)
BENEFIT FROM INCOME TAXES		1,880,629		-
NET LOSS		(1,794,914)		(445)

(Source: SharedLabs S-1)

Note that management states the below figures 'includes the results of operations of iTech and ExoiS from the date of each acquisition forward.'

Total Revenue ($)

- 2017: $36.2 million

Gross Profit ($)

- 2017: $5.2 million

Gross Margin (%)

- 2017: 14.2%

Cash Flow From Operations ($)

- 2017: $44,920 cash flow from operations

- 2016: $15,445 cash used in operations

As of December 31, 2017, the company had $748,987 in cash and $27.3 million in total liabilities.

IPO Details

SharedLabs intends to raise $32.5 million in gross proceeds from an IPO of its common stock.

The firm will sell 2.4 million shares and selling stockholders intend to sell nearly 1.1 million shares.

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

We intend to allocate net proceeds from this offering for working capital purposes, to finance the expansion of our business, which may include the acquisition of complementary businesses, and to hire additional personnel to support such expansion as well as the re-focus of our business plan. We do not have an agreement in place with any acquisition candidates as of the date of this prospectus. We also intend to allocate up to $2,000,000 of the net proceeds to reduce or satisfy our debt obligations to Super G Capital, LLC.

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

The listed bookrunner of the IPO is ThinkEquity.

Commentary

Management has been acquiring various IT firms over the past twelve months, paying a combination of cash and stock for several acquisitions.

The primary acquisition was for iTech and its subsidiaries, which generated $74.3 million in 2016 revenue and $3.3 million in EBIT.

Based on the 2nd half of 2017's financial results, SHLB is generating topline revenue at a run rate of $72.4 million, or slightly **less** than its iTech subsidiary generated in 2016.

So, this is a concerning development, as non-life science IPOs are typically relevant for growing companies and this indicates SHLB is actually contracting.

The larger market opportunity in the general IT services for the firm is favorable, as businesses of all sizes continue to transition to the cloud.

SHLB also states it is beginning to focus on blockchain technologies although these provide only a tiny fraction of a percent of revenue to-date.

Additionally, existing shareholders intend to sell a significant number of shares into the IPO, which is unusual and a negative signal for a relatively unseasoned firm.

Apparently, SHLB will also offer some amount of warrant coverage in an attempt to ‘sweeten’ the offering. I’m generally skeptical of this ploy and it isn’t a feature of many IPOs that succeed in the market.

Based on what I’ve seen so far, I’m not impressed with the SHLB IPO.

When we learn more details, I’ll provide an update.

Expected IPO Pricing Date: Not yet on calendar.