IPO ANALYSIS

Research on upcoming IPOs for selected candidate companies.

Bill.com

Reynolds Consumer Group

CDP Holdings

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VentureDeal

Bill.com Begins U.S. IPO Effort

Quick Take

Bill.com (BILL) has filed to raise gross proceeds of $100 million from a U.S. IPO, according to an S-1 registration statement.

The firm provides cloud-based accounting software solutions with a focus on Small and Medium Businesses [SMBs].

BILL is growing rapidly and producing impressive financial and operational metrics.

I'll provide a final opinion when we learn management's assumptions on pricing and valuation.

Company & Technology

Palo Alto, California-based Bill was founded in 2006 to develop cloud-based software for complex back-office financial operations simplification, digitization, and automation.

Management is headed by Founder, Director and CEO René Lacerte, who previously founded PayCycle.

Bill.com has developed a cloud-based platform on which businesses can generate and process invoices, streamline approvals, send and receive payments, synchronize with their accounting system, and manage their cash.

Below is a brief overview video of the company:

Source: Bill.com

Investors in Bill.com have included Kayne Anderson Capital Advisors, Franklin Templeton Investments, Temasek Holdings, Fidelity, Cross Creek, JP Morgan (JPM), Mastercard, Emergence, and TTV Capital. Source Crunchbase

Customer Acquisition

Bill.com markets its products directly to businesses through online digital marketing and referral programs and indirectly by leveraging partnerships with accounting firms, financial institutions, and accounting software companies, including industry trade shows.

Excluding its financial institution partners, more than 82% of its customers as of June 30, 2018 were customers as of June 30, 2019.

Based on its most recent quarter annualized, the firm's current average annual revenue per customer is approximately $1,737.

Sales and marketing expenses as a percentage of revenue have been fluctuating slightly, per the table below:

Sales & Marketing	**Expenses vs. Revenue**
Period	**Percentage**
Three Mos. Ended Sept. 30, 2019	29.2%
FYE Ended June 30, 2019	27.8%
FYE Ended June 30, 2018	29.7%

Source: Company registration statement

The sales & marketing efficiency rate, defined as how many dollars of additional new revenue generated by each dollar of sales & marketing spend, was 1.2x in the most recent three-month period, as shown in the table below:

Sales & Marketing	**Efficiency Rate**
Period	**Multiple**
Three Mos. Ended Sept. 30, 2019	1.2
FYE Ended June 30, 2019	1.4

Source: Company registration statement

The firm reported a dollar-based net revenue retention rate of '110% for fiscal 2019 and 106% for fiscal 2018.'

Any figure above 100% is good, since this indicates the firm is gaining new revenue from each annual cohort.

Market & Competition

According to a [2019 market research report] by Market Research Report, the global accounting software industry was valued at $4.36 billion in 2017 and is anticipated to reach $10.37 billion by 2025, growing at a CAGR of 11.7% between 2018 and 2025.

The main factors driving forecast market growth are the increasing penetration of cloud-based solutions, growing demand for efficient and cost-effective as well as more sophisticated account management solutions.

Management believes that its primary competition is from manual, legacy processes that small and medium businesses continue to utilize, rather than direct competitors.

However, I believe this is understating the competition. In my opinion, the firm faces myriad competitors from numerous vectors across all of the offerings, too many to list here.

Financial Performance

Bill.com's recent financial results can be summarized as follows:

- Sharply growing topline revenue, though at a decelerating rate
- Increasing gross profit and gross margin
- Uneven operating losses and negative margin
- Fluctuating negative cash flow from operations

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

Total Revenue

Period	Total Revenue	% Variance vs. Prior
Three Mos. Ended Sept. 30, 2019	$ 35,180,000	56.9%
FYE Ended June 30, 2019	$ 108,351,000	67.0%
FYE Ended June 30, 2018	$ 64,865,000	

Gross Profit (Loss)

Period	Gross Profit (Loss)	% Variance vs. Prior
Three Mos. Ended Sept. 30, 2019	$ 26,033,000	61.9%
FYE Ended June 30, 2019	$ 78,433,000	72.4%
FYE Ended June 30, 2018	$ 45,493,000	

Gross Margin

Period	Gross Margin
Three Mos. Ended Sept. 30, 2019	74.00%
FYE Ended June 30, 2019	72.39%
FYE Ended June 30, 2018	70.13%

Operating Profit (Loss)

Period	Operating Profit (Loss)	Operating Margin
Three Mos. Ended Sept. 30, 2019	$ (6,284,000)	-17.9%
FYE Ended June 30, 2019	$ (9,803,000)	-9.0%
FYE Ended June 30, 2018	$ (7,817,000)	-12.1%

Net Income (Loss)

Period	Net Income (Loss)

Three Mos. Ended Sept. 30, 2019	$ (5,696,000)
FYE Ended June 30, 2019	$ (7,314,000)
FYE Ended June 30, 2018	$ (7,195,000)

Cash Flow From Operations

Period	**Cash Flow From Operations**
Three Mos. Ended Sept. 30, 2019	$ (2,380,000)
FYE Ended June 30, 2019	$ (3,949,000)
FYE Ended June 30, 2018	$ (8,356,000)

Source: Company registration statement

As of September 30, 2019, the company had $157.6 million in cash and $1.5 billion in total liabilities of which $1.46 billion was customer funds deposits. (Unaudited, interim)

Free cash flow during the twelve months ended September 30, 2019, was a negative ($9.3 million).

IPO Details

BILL has filed to raise $100 million in gross proceeds from an IPO of its common stock, although the final figure will likely differ.

Per the firm's latest filing, the firm plans to use the net proceeds from the IPO as follows (standard boilerplate language):

We currently intend to use the net proceeds we receive from this offering for working capital and other general corporate purposes, which may include product development, general and administrative matters, and capital expenditures.

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

Listed underwriters of the IPO are Goldman Sachs, BofA Securities, Jefferies, KeyBanc Capital Markets, William Blair, Canaccord Genuity, Needham & Company, and William Blair.

Commentary

BILL is a 13 year-old tech company that is seeking public funding at a volatile time in U.S. markets, due to overall market volatility and the IPO market's recent disappointments.

The company's financials show a firm that is growing quickly but is within easy striking distance of operational cash flow breakeven.

Operating losses have been fluctuating but are also within sight of breakeven.

Sales and marketing expenses as a percentage of revenue are more or less stable and the firm's dollar-based net retention rate is an enviable 110% in the most recent fiscal year, indicating the company is generating more revenue from its existing customers, i.e., negative net churn.

The market opportunity for automating financial processes for small and medium businesses is large and forecast to grow at a reasonably strong 11.7% in the years ahead, so BILL has positive industry dynamics in its favor.

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 48.4% since their IPO. This is a top-tier performance for all major underwriters during the period.

As a SaaS fintech business, BILL appears to have all the basics for a successful IPO.

I look forward to reviewing their proposed terms for a final opinion.

Expected IPO Pricing Date: To be announced.

Reynolds Consumer Group Seeks Large U.S. IPO

Quick Take

Reynolds Consumer Products (REYN) has filed to raise gross proceeds of $100 million from a U.S. IPO, according to an S-1 registration statement.

The firm provides essential household storage and other kitchen products.

REYN is producing profits but its growth trajectory has been uneven.

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

Company & Technology

Lake Forest, Illinois-based Reynolds was founded to provide household essentials under the brands Reynolds Wrap, Reynolds Kitchens, The Hefty and Alcan in the North America region as well as the Diamond brand internationally.

Management is headed by President and CEO Lance Mitchell, who has been with the firm since 2010 and was previously President and CEO at Closure Systems International.

The firm's 'Reynolds Waste & Storage' product line, which includes foil, disposable aluminum pans, parchment paper, freezer paper, wax paper, plastic wrap, baking cups, oven bags and slow cooker liners, is marketed under the KITCHENS and E-Z Foil brands in the US, ALCAN brand in Canada, as well as its Diamond brand, intended for international sales.

Reynolds' Hefty waste and store segment, whose products are marketed under the Hefty Ultra Strong, Hefty Strong Trash Bags, Hefty Renew and Hefty Slider Bags brands, includes branded and store brand trash and food storage bags.

The company's Hefty tableware products, marketed under the disposable and compostable plates, bowls, platters, cups and cutlery. Its Hefty branded products also include dishes and party cups.

Management says the firm also serves other consumer product companies through its Fresh-Lock and Slide-Rite resealable closure systems.

Additionally, management says that, according to data from Nielsen (NLSN), its store brand storage bag segment held a 57% market share in the US as the company differentiates itself through 'access to category management, consumer insights, marketing, merchandising and R&D resources.'

Customer Acquisition

The company sells its products through the traditional grocery channel and management sees opportunities to expand its efforts to the 'club, home improvement, dollar-store and eCommerce channels.'

While Reynolds sells in 54 countries, the North America region accounted for 99% of its total sales in fiscal year 2018, so there is a lot of room for potential international expansion and revenue diversification.

Selling, G&A expenses as a percentage of revenue have been fluctuating within a relatively narrow range, per the table below:

Selling, G&A	**Expenses vs. Revenue**
Period	**Percentage**
Nine Mos. Ended Sept. 30, 2019	10.5%
2018	9.2%
2017	9.9%

Source: Company registration statement

The selling, G&A efficiency rate, defined as how many dollars of additional new revenue generated by each dollar of sales & marketing spend, was a negative (0.2x) in the most recent nine-month period, as shown in the table below:

Selling, G&A Period	**Efficiency Rate Multiple**
Nine Mos. Ended Sept. 30, 2019	-0.2
2018	0.6

Source: Company registration statement

Market & Competition

According to a recent market research report by Market Research Future, the global food storage containers market is projected to grow at a CAGR of nearly 4.2% between 2019 and 2023.

The Asia-Pacific region is projected to grow at a higher CAGR due to high demand for fast moving consumer goods.

Major competitors that provide food storage products include:

- Amcor and Bemis
- Tupperware Brands (TUP)
- Newell Brands (NWL)
- Hamilton Housewares
- Ball Corporation (BLL)
- Constar International Constar International

Source: Sentieo

Financial Performance

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

- Uneven topline revenue, contracting in the most recent period
- Fluctuating gross profit and gross margin
- Variable operating profit and operating margin
- Uneven cash flow from operations

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

Total Revenue

Period	Total Revenue	% Variance vs. Prior
Nine Mos. Ended Sept. 30, 2019	$ 2,197,000,000	-1.7%
2018	$ 3,142,000,000	6.3%
2017	$ 2,957,000,000	

Gross Profit (Loss)

Period	Gross Profit (Loss)	% Variance vs. Prior
Nine Mos. Ended Sept. 30, 2019	$ 617,000,000	9.0%
2018	$ 832,000,000	-3.5%
2017	$ 862,000,000	

Gross Margin

Period	Gross Margin
Nine Mos. Ended Sept. 30, 2019	28.08%
2018	26.48%
2017	29.15%

Operating Profit (Loss)

Period	Operating Profit (Loss)	Operating Margin
Nine Mos. Ended Sept. 30, 2019	$ 352,000,000	16.0%
2018	$ 513,000,000	16.3%
2017	$ 540,000,000	18.3%

Net Income (Loss)

Period	Net Income (Loss)
Nine Mos. Ended Sept. 30, 2019	$ 135,000,000
2018	$ 176,000,000
2017	$ 302,000,000

Cash Flow From Operations

Period	Cash Flow From Operations
Nine Mos. Ended Sept. 30, 2019	$ 158,000,000
2018	$ 530,000,000
2017	$ 395,000,000

Source: Company registration statement

As of September 30, 2019, the company had $15.0 million in cash and $4.9 billion in total liabilities. (Unaudited, interim)

Free cash flow during the twelve months ended September 30, 2019, was $235 million.

IPO Details

REYN has filed to raise $100 million in gross proceeds from an IPO of its common stock, although the final figure may be as high as $1.5 billion.

After the IPO, the firm's principal shareholder, Packaging Finance Limited, will retain a majority of the voting power and the firm will be a 'controlled company.'

Packaging Finance is controlled by New Zealand-based Graeme Hart, that country's wealthiest person.

Per the firm's latest filing, the firm plans to use the net proceeds from the IPO as follows:

We intend to use the net proceeds from this offering to repay amounts owed under the IPO Settlement Facility incurred as part of the Corporate Reorganization.

Related party borrowings owed to RGHL Group will be settled as part of the Corporate Reorganization prior to this offering.

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

Listed underwriters of the IPO are Credit Suisse, Goldman Sachs, J.P. Morgan, Barclays, Citigroup, Evercore ISI, RBC Capital Markets, Stifel, SunTrust Robinson Humphrey and HSBC.

Commentary

REYN is seeking public investment capital to pay down debt.

The company's financials have reported uneven results, a curious outcome given that its products are widely considered to be consumer staples relatively less affected by economic variation.

Selling, G&A expenses as a percentage of revenue have fluctuated and the selling, G&A efficiency rate has turned negative, not a good signal.

The market opportunity for international expansion would appear to be significant, at least in the wealthier markets globally, as only 1% of the firm's revenue comes from ex-North American countries.

Credit Suisse is the lead left underwriter and IPOs led by the firm over the last 12-month period have generated an average return of 7.4% since their IPO. This is a middle-tier performance for all major underwriters during the period.

Valuation expectations by management will be critical for this IPO's success and post-IPO performance prospects.

While the firm is producing profits, the lack of a clear growth trajectory is a concern.

I'll provide a final opinion when we learn more about the IPO from management.

Expected IPO Pricing Date: To be announced.

CDP Holdings Seeks U.S. IPO For Expansion Plans

Quick Take

CDP Holdings (CDP) has filed to raise gross proceeds of $125 million from a U.S. IPO, according to an F-1 registration statement.

The firm provides human capital management software solutions in China.

CDP has grown quickly but that growth is decelerating while the firm produces increasing operating losses and cash burn.

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

Company & Technology

Shanghai, China-based CDP was founded in 2004 as 'CDP Information Technology' to develop and provide human capital management software solutions in China through its 'CDP EcoSaaS' integrated software platform.

Management is headed by Founder, Chairman and CEO Wei (Wayne) Wang, who was previously Chief Information Officer at Schneider Electric Greater China.

CDP Holdings has developed the cloud-based 'CDP EcoSaaS' human capital management platform that covers payroll, tax and social security management, benefits programs, workforce management, and other HR applications, which provides services through Shanghai Caishuo Talent Information in China.

Management says that, according to a 2019 market research report by Frost & Sullivan (which frequently sells its services to IPO firms), the firm was the #1 company in China to provide complete and localized human capital management solutions, with a track record of providing services for over 3,600 organizations, of which more than 1,000 were group customers, as of September 30, 2019.

Additionally, the firm is one of the top three cloud-based workforce management service providers in China in terms of revenue in the first half of 2019.

Management says CDP has built subsidiaries in Hong Kong, Singapore, Australia and India, through which it anticipates to expand its operational coverage.

Investors in CDP included Investor AB, CBC Capital, Morgan Sanley (MS), Sumitomo Corporation, and Eight Road Ventures, among others.. Source: Crunchbase

Customer Acquisition

The firm holds an annual industry conference, named the CDP EcoSaaS Partners Summit, and markets its offerings through other channels, such as online search engine marketing, other user conferences, executive events, trade shows, industry events, regional user group meetings and online customer community, as well as participation and sponsorship in third-party marketing events.

Additionally, CDP has a dedicated sales team tasked with converting possible customers to paying ones.

The firm has one large customer, Best Inc., which accounted for 38.9% of its total revenue for the nine months ended September 30, 2019.

Sales and marketing expenses as a percentage of revenue have been rising, per the table below:

Selling & Marketing	**Expenses vs. Revenue**
Period	**Percentage**
Nine Mos. Ended Sept. 30, 2019	6.1%
2018	5.5%
2017	5.1%

Source: Company registration statement

The sales & marketing efficiency rate, defined as how many dollars of additional new revenue generated by each dollar of sales & marketing spend, was 3.1x in the most recent nine-month period, as shown in the table below:

Selling & Marketing	Efficiency Rate
Period	**Multiple**
Nine Mos. Ended Sept. 30, 2019	3.1
2018	5.6

Source: Company registration statement

Average Revenue per Customer/User has been uneven, per the table below:

Average Revenue Per	Customer	
Period	**ARPC**	**Variance**
Nine Mos. Ended Sept. 30, 2019	$30,158	-26.8%
2018	$41,218	17.9%
2017	$34,957	

Source: Company registration statement

Per management, its revenue retention rate in 2018 was 120.2% for its 2016 cohort of customers.

A number above 100% is considered good as it indicates the firm is increasing its revenue from a given cohort of customers over time.

Market & Competition

According to a 2019 market research report by Fortune Business Insights, the global human capital management market was valued at $15 billion in 2018 and expected to reach more than $30 billion by 2026.

This represents a forecast CAGR of 9.4% from 2018 to 2016, as the chart below illustrates:

The main factors driving forecast market growth are the increasing need for workforce management and core HR for strategic decisions taking while planning talent acquisition and recruitment, and a growing emphasis on digitization.

The North America region accounted for $7.27 billion of the global market in 2018 and is expected to maintain its dominance through the forecast years due to increasing adoption of workforce analytics and employee experience platforms.

Major competitors that provide or are developing human capital management solutions include:

- Automatic Data Processing (ADP)
- Accenture (ACN)
- IBM (IBM)
- Infor
- NetSuite (ORCL)
- Oracle (ORCL)
- SAP (SAP)
- Ultimate Software
- Workday (WDAY)

Source: Sentieo

Financial Performance

CDP’s recent financial results can be summarized as follows:

- Growing topline revenue, but at a decelerating rate
- Increasing gross profit and uneven margin
- Growing operating losses and negative operating margin
- Increasing use of cash in operations

Below are relevant financial metrics derived from the firm’s registration statement:

Total Revenue

Period	**Total Revenue**	**% Variance vs. Prior**
Nine Mos. Ended Sept. 30, 2019	$ 95,328,000	23.1%
2018	$ 104,198,000	45.3%
2017	$ 71,731,176	

Gross Profit (Loss)

Period	**Gross Profit (Loss)**	**% Variance vs. Prior**
Nine Mos. Ended Sept. 30, 2019	$ 9,956,000	26.4%
2018	$ 10,428,000	33.0%
2017	$ 7,840,147	

Gross Margin

Period	**Gross Margin**
Nine Mos. Ended Sept. 30, 2019	10.44%
2018	10.01%
2017	10.93%

Operating Profit (Loss)

Period	**Operating Profit (Loss)**	**Operating Margin**
Nine Mos. Ended Sept. 30, 2019	$ (23,857,000)	-25.0%
2018	$ (8,367,000)	-8.0%
2017	$ (6,012,206)	-8.4%

Net Income (Loss)

Period	**Net Income (Loss)**
Nine Mos. Ended Sept. 30, 2019	$ (22,036,000)
2018	$ (4,363,000)
2017	$ (1,068,235)

Cash Flow From Operations

Period	Cash Flow From Operations
Nine Mos. Ended Sept. 30, 2019	$ (7,612,000)
2018	$ (590,000)
2017	$ (4,414,853)

Source: Company registration statement

As of September 30, 2019, the company had $20.7 million in cash and $42.7 million in total liabilities. (Unaudited, interim)

Free cash flow during the twelve months ended September 30, 2019, was a negative ($7.8 million).

IPO Details

CDP has filed to raise $125 million in gross proceeds from an IPO of ADSs representing Class A shares.

Class A shareholders will be entitled to one vote per share and Class B shareholders, who include existing shareholders, will have ten votes per share.

The S&P 500 Index no longer admits firms with multiple classes of stock into its index.

Per the firm's latest filing, the firm plans to use the net proceeds from the IPO as follows:

to invest in research and development to enhance our CDP EcoSaaS platform;

to enhance our sales and marketing efforts to expand our service coverage in China and overseas; and

to satisfy general corporate purposes.

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

Listed underwriters of the IPO are BofA Securities, Citigroup, and Haitong International.

Commentary

CDP is a Chinese enterprise SaaS firm attempting to access U.S. public capital markets for its expansion plans.

There haven't been many enterprise SaaS firms coming from China to U.S. markets in recent years.

The firm's financials indicate it is growing revenue and gross profit smartly but growth is decelerating as the company has passed through $100 million in annual revenue.

Furthermore, operating losses and operating cash burn are mounting.

Sales and marketing expenses as a percentage of revenue have been rising.

The firm's dollar retention rate was 120.2% for 2018, which is an impressive figure and indicates management's efforts are generating negative net churn.

The market opportunity for human capital management software is large and expected to grow at an enviable rate, so the firm has quite positive industry trends in its favor.

Like many Chinese firms seeking to tap U.S. markets, the firm operates within a VIE structure or Variable Interest Entity. U.S. investors would only have an interest in an offshore firm with contractual rights to the firm's operational results but would not own the underlying assets.

This is a legal gray area that brings the risk of management changing the terms of the contractual agreement or the Chinese government altering the legality of such arrangements. Prospective investors in the IPO would need to factor in this important structural uncertainty.

BofA Securities is the lead left underwriter and IPOs led by the firm over the last 12-month period have generated an average return of 26.1% since their IPO. This is a upper-tier performance for all major underwriters during the period.

CDP's IPO will be an interesting test for the U.S. IPO market, as the firm is showing strong but decelerating growth while producing increasing losses and cash burn.

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

Expected IPO Pricing Date: To be announced.