IPO ANALYSIS

Research on potential upcoming IPOs from selected candidate companies.

Veritone

Akcea Therapeutics

Yext

NCS Multistage

Valeritas Holdings

April, 2017

VentureDeal

Veritone Files S-1 Registration For $15 million IPO

Summary

Veritone wants to raise $15 million in an IPO for its video analytics aggregation service.

The company experienced a severe revenue drop in 2016.

When we know more about the IPO details, I'll provide an opinion.

Quick Take

Newport Beach, California-based Veritone (VERI) has filed an S-1 registration for a proposed IPO of up to $15 million.

The company provides video analytics technologies to a range of customers in media, business and government.

It has experienced a major revenue drop in 2016 vs. 2015, which leads me to question the predictability of its revenues; management says it won't be profitable 'for the foreseeable future.'

We don't yet know proposed valuation details for the IPO, so I will provide an opinion when we know more.

Company

Veritone was founded in 2014 by brothers Chad Steelberg [CEO] and Ryan Steelberg [President], among others.

The company has developed a SaaS-based business that incorporates mostly third party image and sound recognition technologies to provide enterprises, media firms and agencies with machine-driven analytics and search capabilities.

Veritone has raised two rounds of disclosed financing:

- A $15 million equity round in 2015 from Miramar Ventures and Checketts Partners

- An up to $50 million convertible debt commitment from Acacia Research (ACTG)

Acacia is a firm that owns, invests in and enforces patented technologies in the U.S. and is also based in Newport Beach.

Technology

Veritone has developed two technology sets that it calls the [a] Media Agency Business and [b] AI Platform Business.

Most of its revenues have come from its Media Agency Business, but management appears to be transitioning its focus to its "AI Platform Business".

This business 'incorporates over 40 cognitive engines of various class and types, from multiple vendors, including Google (GOOG), IBM (IBM), Microsoft (MSFT), Nuance (NUAN), and Hewlett-Packard (HPE), among others, in addition to several Veritone developed cognitive 'engines.'

The company then uses the relevant 'engine' to analyze video and audio data to provide its analytics to customers.

The reference to "AI" is overused these days by just about any software company to describe systems that analyze information and learn from that analysis.

Veritone plasters the term over all of its communication, so I wonder if it isn't using the term just for window-dressing.

Management also states that "We intend to continue to invest significant resources and capital in developing our AI Platform Business, and therefore we do not expect to achieve profitability for the foreseeable future."

With that ominous and concerning prediction straight from the horse's mouth, let's turn to the market opportunity.

Market and Competition

According to a research report by market research firm Markets and Markets, the video analytics market is expected to grow from $1.69 billion in 2016 to $4.23 billion in 2021, representing an estimated CAGR of 20.2%.

The key driver of this high growth rate is the rise in security and 'need for intelligent surveillance systems across the globe.'

Geographically, the U.S. represents that largest market by region, followed by the APAC region.

Major vendors that provide video analytics solutions include:

- Cisco Systems (CSCO)
- Avigilon (OTCPK:AIOCF)
- Axis Communications (OTC:AXCTY)
- Aventura Technologies
- Honeywell International (HON)
- Agent Video Intelligence
- Genetec

Veritone says that it has hosted its systems on the Microsoft Azure secure government cloud, apparently in recognition that its greatest opportunity lies in the law enforcement and public security submarkets.

Financials

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

- Sharply reduced revenues, down 36% in 2016 vs. 2015
- High gross margin, but dropping from 86% in 2015 to 82% in 2016
- Skyrocketing cash used in operations of $26.5 million

Below are the company's operational results for the past two years (Audited GAAP):

	Year Ended December 31, 2016	2015
	(in thousands, except share and per share data)	
Consolidated Statements of Operations Data:		
Net revenues	$ 8,911	$ 13,928
Cost of revenue	1,577	1,860
Gross profit	7,334	12,068
Operating expenses:		
Sales and marketing (1)	8,279	5,735
Research and development (1)	7,900	4,633
General and administrative (1)	14,935	7,990
Total operating expenses	31,114	18,358
Loss from operations	(23,780)	(6,290)
Other income (expense), net	520	85
Loss before provision for income taxes	(23,260)	(6,205)
Provision for income taxes	6	5
Net loss	$ (23,266)	$ (6,210)
Accretion of redeemable convertible preferred stock	(3,204)	(3,330)
Net loss attributable to common stockholders	$ (26,470)	$ (9,540)
Per Share Data:		
Net loss per share attributable to common stockholders, basic and diluted	$ (7.68)	$ (4.04)

(Source: Veritone S-1)

Revenue

- 2016: $8.9 million, 36% decrease vs. prior year
- 2015: $13.9 million

Gross Margin

- 2016: 82%
- 2015: 86%

Cash Flow from Operations

- 2016: $26.5 million cash used in operations
- 2015: $2.4 million cash flow from operations

As of December 31, 2016, the company had $12 million in cash and equivalents and $50.9 million in total liabilities.

IPO Details

Veritone intends to raise $15 million in gross proceeds from an IPO of its common stock.

The company did not disclose an expected per-share price range or proposed post-IPO market capitalization.

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

The principal purposes of this offering are to increase our working capital and financial flexibility, create a public market for our common stock and enable access to the public equity markets for us and our stockholders. We currently intend to use the net proceeds from this offering for working capital or other general corporate purposes, including funding our growth strategies discussed in this prospectus. These uses and growth strategies include investments to expand our platform and enhance our technologies, and to broaden our sales and marketing capabilities for our SaaS licensing business; however, we do not currently have any definitive or preliminary plans with respect to the use of proceeds for such purposes.

Listed underwriters of the IPO are Wunderlick and Craig-Hallum Capital Group.

Commentary

Veritone operates in a strong growth market, but its financial performance over the past two reporting periods has shown high variability, and in a negative sense, posting in 2016 both a dramatic drop in revenue and swing to a huge net loss.

Management explained that its reliance on a few major customers, one of which pulled its system in-house and the other who experienced a temporary major service reduction, were the principal reasons for the revenue fall.

Although Veritone says that it has made progress integrating third party analysis engines into its system, I wonder where the proprietary technology for the company lies?

It appears to me to be primarily an analysis ‘traffic cop’ that routes analysis to the appropriate third party engine for the major work.

If I have that right, then there may not be much technology that is proprietary to Veritone.

In other words, if the ‘special sauce’ is mostly from third party engines, then Veritone is primarily an aggregator of those technologies and therefore is likely a sales & marketing operation.

Management has not indicated further IPO details, so I can’t form a final opinion on the desirability of the IPO at this time.

When we know more, I’ll update with an opinion.

Akcea Therapeutics Files For $100 Million IPO

Quick Take

Development-stage biopharma company Akcea Therapeutics (Pending:AKCA) has filed an S-1 registration to raise up to $100 million in an IPO.

Akcea is developing promising treatments for cholesterol damage to the cardiovascular system, and major investor and partner Novartis (NYSE:NVS) is keenly interested in the company's pipeline.

We don't yet know the expected share price or post-IPO market cap assumptions, but I like what I see so far, and will update when we know more about the IPO pricing.

Company

Cambridge, Massachusetts-based Akcea was founded in 2015 as a wholly-owned subsidiary of parent company Ionis Pharmaceuticals (NASDAQ:IONS) to develop treatments for patients with cardiometabolic lipid disorders related to high levels of the wrong kinds of cholesterol.

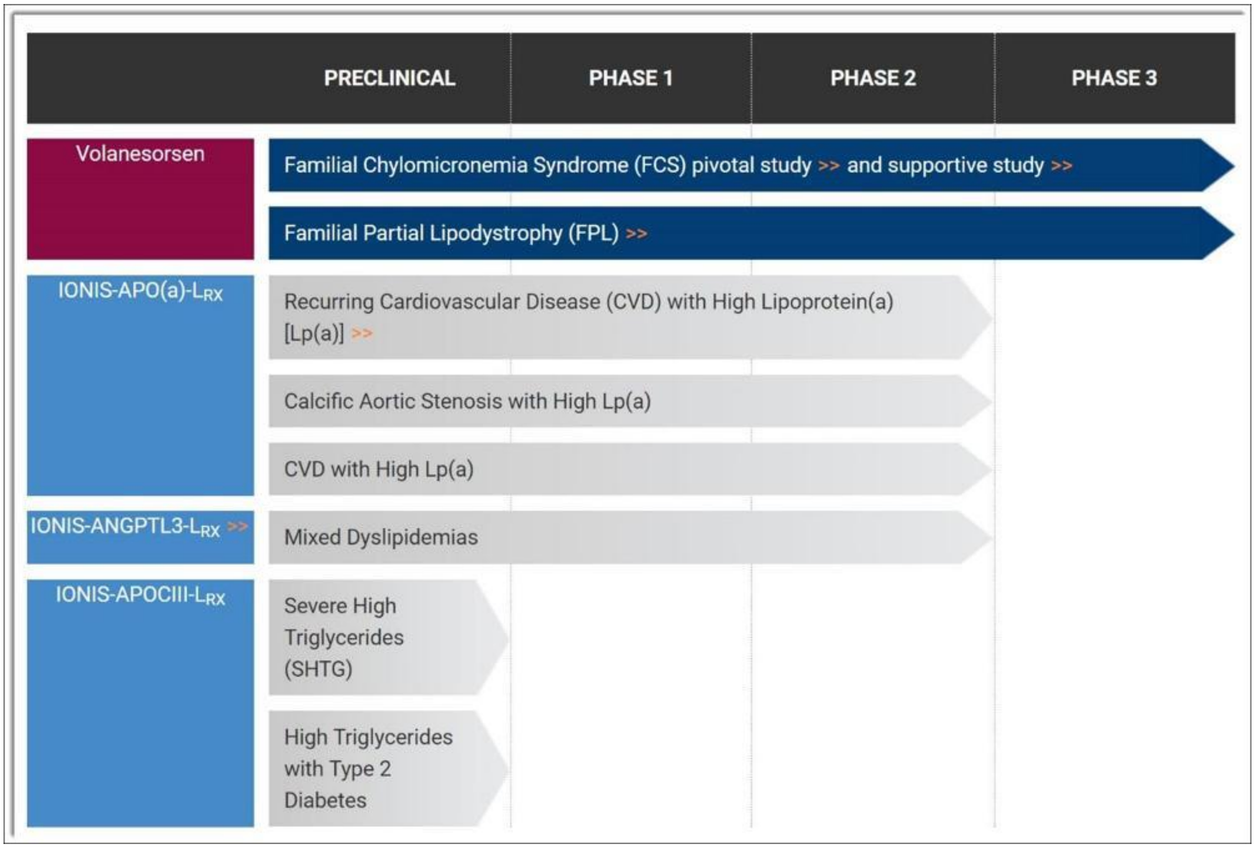
The company is headed by CEO Paula Soteropoulos and Chief Medical Officer Louis St. O'Dea.

In January 2017, Akcea and Novartis announced that Novartis would receive exclusive options to license two investigational treatments for lipoprotein-regulated cardiovascular conditions.

Novartis agreed to pay $75 million up front to Akcea, invest $100 million in parent company Ionis, and make an equity investment of $50 million in either Akcea or Ionis within 18 months following the announcement.

Technology

Akcea was created within Ionis to develop a pipeline of lipid disorder treatments:



(Source: Akcea Therapeutics)

The company is in Phase 3 trials for its volanesorsen compound for the treatment of Familial Chylomicronemia Syndrome and Familial Partial Lipodystrophy.

The Novartis license option agreement pertains to the Phase 2 stage IONIS-APO(a)-LRx group and the IONIS-APOCIII-LRx candidate groups noted in the light blue sections in the above graphic.

Market and Competition

According to a report by Grand View Research, the market size for dyslipidemia drugs is "expected to witness lucrative growth over the forecast period [2015 to 2022] owing to growing prevalence of lipid associated disorders and cholesterol abnormalities."

Furthermore, the report states that the Asia Pacific market region is "expected to register the fastest growth over the forecast period." Factors contributing to the growth of incidence include a rise in diabetes and obesity, which leads to the growth of dyslipidemic disorders.

Primary competitors to Akcea include major pharmaceutical firms including:

- Abbott Laboratories (NYSE:ABT)

- Pfizer (NYSE:PFE)
- Merck (NYSE:MRK)
- Amgen (NASDAQ:AMGN)
- Mylan (NASDAQ:MYL)
- AstraZeneca (NYSE:AZN)

Financials

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

No revenues and high research & development and G&A expenses, which are typical for development-stage biopharmaceutical companies.

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

(in thousands, except share and per share amounts)	Years Ended December 31, 2014	2015	2016
Consolidated statement of operations data:			
Research and development expenses	$ 29,028	$ 50,885	$ 68,459
General and administrative expenses	$ 995	$ 10,553	$ 15,053
Net loss	$ (30,023)	$ (61,422)	$ (83,217)
Net loss per share of preferred stock, basic and diluted(1)	$ (0.41)	$ (0.83)	$ (1.13)
Weighted-average shares of preferred stock outstanding, basic and diluted(1)	73,800,000	73,800,000	73,800,000
Pro forma net loss per share, basic and diluted (unaudited)(1)(2)			$ (1.13)

(Source: Akcea Therapeutics S-1)

As of December 31, 2016, Akcea had $7.86 million in cash and equivalents and total liabilities of $28.4 million, of which $24.36 million were payables due to parent company Ionis Pharmaceuticals.

IPO Details

Akcea intends to raise $100 million in its IPO, although this amount is commonly used as a placeholder amount, so the final plans may be significantly less or more.

No expected per share pricing details have been provided, nor has management indicated a proposed post-IPO market cap.

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

- To complete planned Phase 3 development for volanesorsen in both FCS and FPL, including regulatory expenses for global marketing authorizations for FCS and, to support the launch and initial commercialization of volanesorsen for FCS, if approved;
- to complete the planned Phase 2 program for AKCEA-APO(a)-LRx;
- to complete the planned Phase 2 program for AKCEA-ANGPTL3-LRx;
- to complete the planned Phase 2 program for AKCEA-APOCIII-LRx; and
- $15.0 million to satisfy our obligations to Ionis under our license agreement as a result of our receipt of the $75.0 million upfront payment from Novartis; and the remainder for development personnel expenses, other development activities, working capital and other general corporate purposes.

Notably, the company stated that:

"Novartis Pharma AG, our strategic collaborator, has agreed to purchase $50.0 million of our common stock in a separate private placement concurrent with the completion of this offering at a price per share equal to the initial public offering price."

Furthermore, Novartis has agreed not to sell purchased shares until "the earlier of January 5, 2020 or six months after we stop developing a drug under agreement…[and] then Novartis may only sell a limited number of shares each day."

This is a very bullish sign of support that is a prominent feature of many successful biopharma IPOs, so it's important for prospective IPO investors to note.

Commentary

Akcea has a pipeline of cholesterol treatment candidates that Novartis clearly wants the option to in-license. As part of the collaboration deal between Novartis, Akcea has the potential to receive milestone payments of up to $1.13 billion, if both programs are licensed by Novartis and attain all of their development milestones.

In addition, Akcea would receive "tiered royalties in the mid-teens to low twenty percent range on net sales of each drug." Also, AKCA retains the right to co-commercialize the drugs in certain markets.

So, as with most development-stage biopharma companies, the future hinges on successful trials of its potential blockbuster drugs. Akcea is further along with some of its pipeline than other biopharmas going public, and it has the deep pockets of a corporate parent and major pharma partner to back up its ambitions.

The market for treatments that reduce cholesterol and thereby reduce cardiovascular disease is indeed large and "lucrative".

Although we don't know Akcea's proposed valuation expectations, I'm very interested in the potential for a solid IPO from this company and will provide an update when we know more.

Yext Sets Proposed Terms For $95 Million IPO

Quick Take

Local listing management platform Yext (YEXT) has set terms for its proposed $95 million IPO.

The company offers a subscription service that enables businesses to manage their online profile information.

The company's revenue growth rate is dropping while operational expenses and net losses are ballooning.

My opinion is to AVOID the IPO.

Company Recap

New York City-based Yext was founded in 2006 by current CEO Howard Lerman, Brent Metz and Brian Distelburger.

The company has created a subscription-based online system that helps businesses "manage the public facts about your brand everywhere they appear online."

It provides a service composed of these modules:

- Knowledge Manager
- Listings
- Pages
- Reviews
- Analytics

The system publishes and updates subscriber company information to more than 100 different online services, thereby promising to standardize online profile information for businesses while making it easier to update and stay current.

Yext has raised at least $117 million in several financing rounds from venture capital firms, including IVP, Sutter Hill Ventures, Insight Venture Partners, Marker and Grape Arbor VC.

Its most recent financing round, for $50.25 million in June 2014, reportedly valued the company at $525 million.

Yext has a number of direct or adjacent competitors, including Moz Local, Synup, LocalSiteSubmit, Vendasta, Locu, Manta and others.

Yext's operational results for FYE January 31 are now available for three full years. (Audited GAAP):

	Fiscal year ended January 31,		
	2015	2016	2017
	(in thousands, except share and per share data)		
Consolidated Statement of Operations Data:			
Revenues	$ 60,002	$ 89,724	$ 124,261
Cost of revenues(1)	24,832	31,033	36,950
Gross profit	35,170	58,691	87,311
Operating expenses:			
Sales and marketing(1)	31,588	49,822	81,529
Research and development(1)	11,945	16,201	19,316
General and administrative(1)	8,988	18,806	29,166
Total operating expenses	52,521	84,829	130,011
Loss from operations	(17,351)	(26,138)	(42,700)
Other income (expense), net	78	(412)	(382)
Loss from operations before income taxes	(17,273)	(26,550)	(43,082)
Benefit from (provision for) income taxes	—	55	(68)
Net loss	$ (17,273)	$ (26,495)	$ (43,150)
Net loss per share attributable to common stockholders, basic and diluted(2)	$ (0.61)	$ (0.89)	$ (1.39)

(Source: Yext S-1/A)

Financial results can be summarized as follows:

- Topline revenues grew YoY in 2017 by 39% and YoY 2016 by 50%; this indicates slowing revenue growth rate.
- Gross profit margin is growing, from 59% in 2015 to 70% in 2017.
- Yext is using less cash in operations, down from $14.2 million used in 2015 to $7.7 million used in 2017.
- Net loss amount and per share is increasing, from $17.3 million in 2015 to $43.1 million 2017.

Commentary

Yext aims to raise $94.5 million in gross IPO proceeds, subject to the usual over-allotment share options provided to the underwriters, which include Morgan Stanley, J.P. Morgan and RBC Capital Markets.

Management has not provided any details on how it intends to use the proceeds, other than the boilerplate "general corporate purposes." Yext doesn’t have much debt to pay down, so there is no need for an IPO to specifically reduce debt load.

Assuming the company goes public at the midpoint price of $9 per share, there will be 85.5 million common shares outstanding, for a proposed market cap of $770 million, representing a Price/Sales multiple of **6.2x**.

In my view, that seemingly reasonable multiple for this level of revenue growth masks a deeper insight: the revenue growth rate is slowing from 50% in FYE 2016 to 39% in FYE 2017, and net losses are ballooning, more than doubling from $17 million in FYE 2015 to $43 million in FYE 2017.

That shows me that Operating Expenses are far too high – Sales & Marketing has almost tripled in three years and G&A has more than tripled. Management appears to be buying revenue growth at the expense of worsening operational results.

If Yext had this kind of revenue growth but with improving operational results, the IPO would be of interest to me. But with a slowing revenue growth rate, skyrocketing operational expenses and no foreseeable path to profitability, my opinion is to AVOID the IPO.

Well Completion Firm NCS Multistage Files For $100 Million IPO

Quick Take

Oil & gas well completion tool manufacturer NCS Multistage Holdings (Pending:NCSM) has filed an S-1 registration for a proposed IPO of $100 million.

Due to expected continued downward pricing pressure for oil, demand for oilfield services companies and related products will remain muted.

Although we are still awaiting definitive IPO terms, my opinion is decidedly negative for oilfield service and technology companies.

Company

Houston, Texas-based NCS was founded in 2006 in Canada by current CEO Robert Nipper.

Nipper has been in the oil & gas industry for more than 30 years and has invented a number of patented devices related to 'downhole oil and natural gas and geothermal service equipment'.

Assisting Nipper is President Marty Stromquist, who has been with the firm since January 2010.

As of December 31, 2016, the company had 197 employees, of which 119 were based in the U.S., 75 were located in Canada and three were based outside North America.

The company's major shareholder is Advent Funds, a family of funds operated by private equity firm Advent International.

Technology

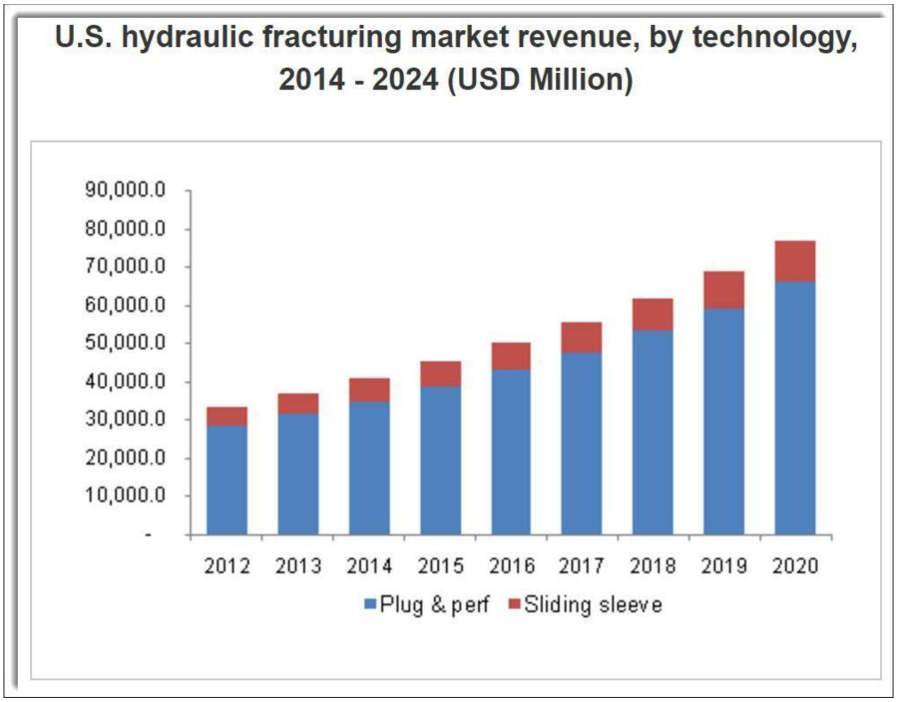
NCS launched in 2011 what it calls its Multistage Unlimited Fracturing System, which it says enables fracturing companies to create consistent, symmetrical fracture networks that allow reservoirs to produce more and produce longer.

NCS states its technology can double the quantity of oil reclaimed in fracturing versus previous technologies, and is 'faster, and can use up to 50% less water, 2/3 less heavy equipment and fewer personnel'.

More than 100,000 of its patented sleeves have been installed and the company claims 'more than 7,000 field successes' with its system that improves recovery from unconventional oil and gas formations.

Market and Competition

According to a report by Grand View Research, the U.S. hydraulic fracturing market (products and services) is expected to reach nearly $80 billion in 2024.



(Source: Grand View Research)

The sliding sleeve sector, where NCS' technology operates, is expected to account for 20% of overall revenue.

Furthermore, sliding sleeve approaches are growing in usage and the sector is expected to post a CAGR of 9.4% from 2016 to 2024.

Major competitors include large well completion services companies and smaller, regional competitors:

- Schlumberger (SLB)
- Halliburton Company (HAL)
- Baker Hughes (BHI)
- Weatherford International (WFT)
- Nine Energy Service
- Packers Plus Energy Services
- Superior Energy Services (SPN)

Financials

The company's recent financial results can be summarized as follows:

- Decreasing revenue resulting in a 14% drop vs. 2015
- Decreasing gross margin, from 52% in 2015 to 45% in 2016
- Increasing CFFO (Cash Flow From Operations)

Below are the company's operational results for the past two years (Audited GAAP):

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(in thousands, except share and per share amounts)	
Consolidated Statement of Operations Data:		
Revenues:		
Product sales	$ 73,220	$ 80,079
Services	25,259	33,926
Total revenues	98,479	114,005
Cost of sales:		
Cost of product sales, exclusive of depreciation and amortization expense below	40,511	40,160
Cost of services, exclusive of depreciation and amortization expense shown below	13,322	14,553
Total cost of sales, exclusive of depreciation and amortization expense shown below	53,833	54,713
Selling, general and administrative expenses	37,061	37,804
Depreciation	1,766	2,695
Amortization	23,801	24,576
(Loss) from operations	(17,982)	(5,783)
Other income (expenses)		
Interest (expense), net	(6,286)	(8,064)
Other income (expense), net	45	(131)
Foreign currency exchange (loss) gain	(2,522)	25,779
Total other (expense) income	(8,763)	17,584
(Loss) income before income tax expense	(26,745)	11,801
Income tax (benefit)	(8,818)	(16,224)
Net (loss) income	$(17,927)	$ 28,025
Net (loss) income per share:		
Basic	$ (1.58)	$ 2.65
Diluted	$ (1.58)	$ 2.60

(Source: NCS S-1)

Revenue

- 2016: $98.5 million, 14% decrease vs. prior year
- 2015: $114 million

Gross Margin

- 2016: 45%
- 2015: 52%

Cash Flow from Operations

- 2016: $10.7 million cash flow from operations
- 2015: $4.4 million cash flow from operations

As of December 31, 2016, NCS had $18.3 million in cash on hand and total liabilities of $149.3 million.

Notably, in 2014, the company paid a cash dividend of $150 million stockholders, of which its 5% or greater stockholders and the amounts received are shown below:

Directors, Executive Officers and 5% Stockholders	Total Dividend Received
Advent Funds	$ 125,854,448
Robert Nipper(1)	8,611,095
Marty Stromquist(2)	5,357,265
Don Getzlaf(3)	5,357,265
Tim Willems(4)	2,449,707
John Deane	883,185
Michael McShane	220,793
Wade Bitter(5)	212,565
John Ravensbergen	27,569

(Source: NCS S-1)

IPO Details

NCS intends to raise $100 million in an IPO. However, this is a typical 'placeholder' number, especially since the S-1 registration doesn't include an expected per-share price range or other details that would indicate a proposed post-IPO market cap.

The company intends to use the net proceeds from the IPO to 'repay indebtedness under our Senior Secured Credit Facilities and use the remainder for general corporate purposes'.

The Senior Secured Credit Facilities outstanding indebtedness as of December 31, 2016 was $90.8 million (denominated in Canadian dollars) and is currently scheduled to mature on August 7, 2019.

The debt holders include Wells Fargo (NYSE:WFC), HSBC Bank Canada (HSBC) and Citibank (C). NCS says it plans to enter into a new credit facility after the existing facility is repaid.

Lead underwriters listed include Credit Suisse, Citigroup and Wells Fargo Securities.

NCS also disclosed potential conflicts of interest between some of the underwriters and debt holders who stand to be repaid from the IPO proceeds.

Commentary

NCS is another in a growing line of oilfield services companies filing to go public, as the sector stabilizes after the major drop in oil prices since late 2014.

However, only ProPetro Holding Corp. (PUMP) has been able to go out, and even it has broken its IPO price of $14, since it is now consistently trading at under $13.

I wrote about ProPetro's IPO in my article, *ProPetro Holding Sets $350 Million IPO Terms*.

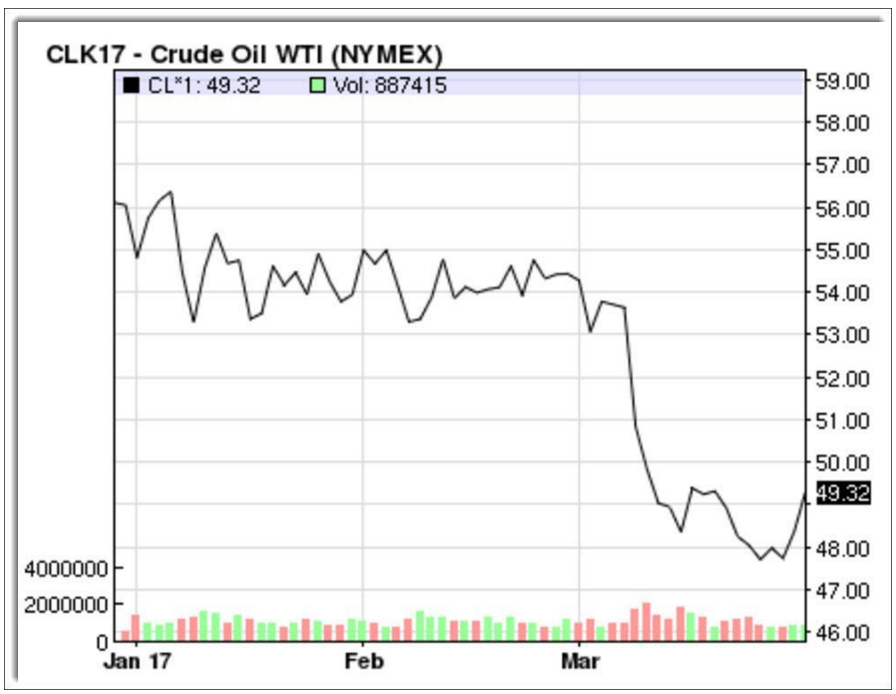
In that piece, I recommended investors avoid the IPO for the primary reason of continued downward pricing pressures hurting demand for oilfield services companies.

NCS' financials show the effect of the oil patch downturn, just like its peers.

Revenues and gross margins are down YoY, and net losses have ballooned in 2016.

There's no amount of management speak that can spin a crummy macro environment for the growth of their business.

Recently, the price of oil has yet again dropped below $50, as the WTI (West Texas Intermediate) price chart since January 1, 2017 shows:



(Source: Nasdaq)

With oil prices under threat of further downward pressure due to a worldwide glut in part due to increased fracturing efficiencies, E&P (Exploration & Production) firms will be limited in the number of wells they choose to complete.

In my view, downward revenue pressures will continue on the oilfield producers and technology providers such as NCS.

Although we don't yet know proposed per share pricing or post-IPO market cap expectations, my general opinion is to AVOID the oilfield service providers.

I'll provide an update when we hear more details about the planned IPO.

Valeritas Sets Terms For $60 Million Diabetes Treatment Device IPO

Quick Take

Medical device maker Valeritas Holdings (OTCQB:VLRX) (OTCQB:VLRXD) has disclosed proposed terms for its $60 million IPO, according to an S-1 registration statement.

Valeritas sells a disposable insulin pump that provides an innovative treatment option for Type 2 diabetes patients.

Management has reduced sales headcount and focused on high-volume prescribers in order to decrease cash burn and improve financial results.

I'm NEUTRAL on the IPO as I recommend waiting to learn more about company progress in the near term as its go-to-market strategy unfolds.

Company Recap

Bridgewater, New Jersey-based Valeritas, Inc. was founded in 2006 by Robert Gonnelli, who soon thereafter hired John Timberlake as executive vice president.

Mr. Timberlake became president in 2008 and is now CEO of the successor entity Valeritas Holdings.

The company has developed the disposable V-Go wearable insulin pump, which enables Type 2 diabetes patients to receive a precisely-measured infusion of insulin over a 24-hour period.

The company has received more than $250 million in private investment from a large syndicate of venture capital and strategic investors.

The V-Go competes with a number of insulin delivery devices, including insulin pens and syringes.

Management doesn't consider other insulin pumps to be competitors primarily because they aren't disposable.

Major manufacturers of insulin pens include:

- Novo Nordisk (NYSE:NVO) – NovoMix, NovoRapid and Levemir
- Sanofi-Aventis (NYSE:SNY) – Lantus and Apidra
- Eli Lilly & Co. (NYSE:LLY) – Humulin and Humalog

Commentary

Valeritas plans to sell 6 million shares of common stock at a midpoint price of $10 per share for gross proceeds of $60 million, not including customary over-allotment shares available for purchase by the underwriters.

No stockholders are selling shares into the IPO.

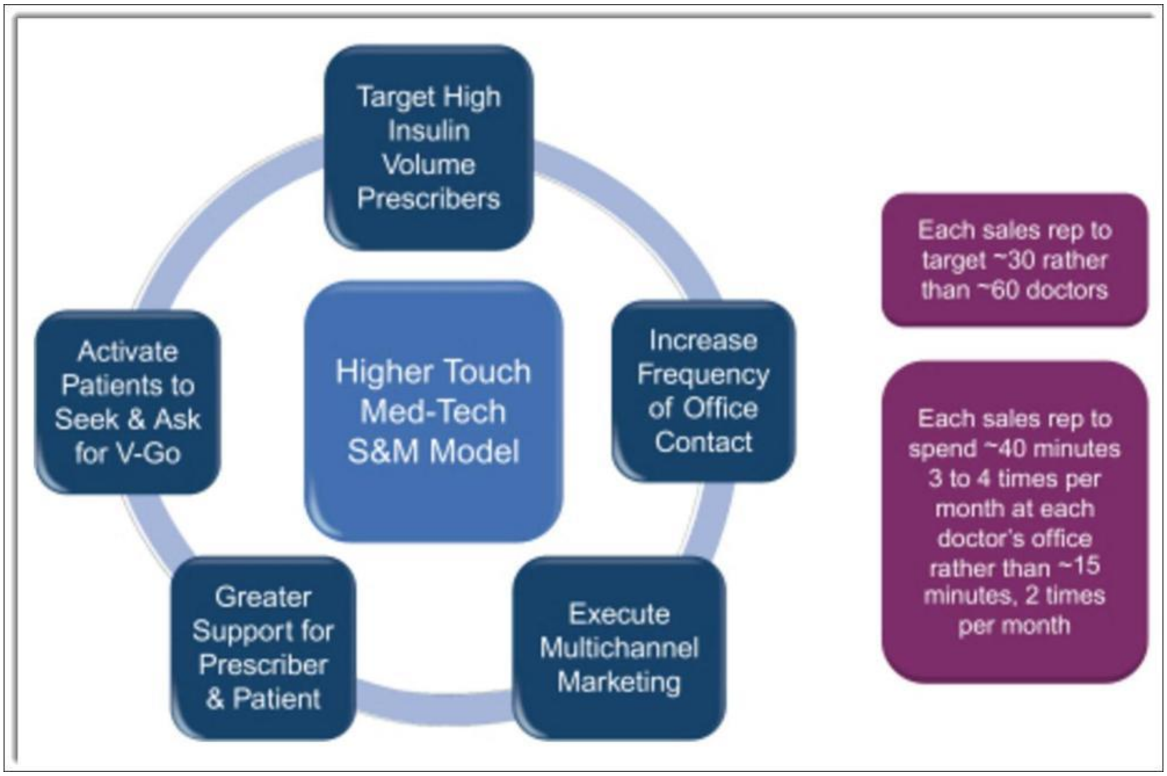
The company intends to use the proceeds as follows:

> "We currently anticipate that we will use approximately $38.0 million of the net proceeds received by us to support ongoing sales and marketing activities for V-Go and to expand our sales and marketing infrastructure. We anticipate we will use approximately $10.0 million of the net proceeds received by us to fund research, development and engineering activities and manufacturing capabilities, which we expect to include the further development of our V-Go Prefill and V-Go Link products, although we expect that we will need to seek additional capital to complete their development and commercialization. We expect that the remaining net proceeds will be used for working capital and other general corporate purposes."

Notably, Valeritas says that it will need additional capital to develop its next generation devices, resulting in shareholder dilution if the capital is raised in the form of equity.

Management has adjusted its go-to-market strategy, by "shifting from aggressively expanding sales representative headcount to focusing on fewer high-volume insulin prescribers."

The shift resulted in reduced cash burn and management new approach is illustrated in the graphic below:



(Source: [Valeritas S-1])

I previously wrote about Valeritas's IPO prospects in my article entitled, *Valeritas Holdings Seeks $50 Million IPO Offering*.

In that piece, I highlighted the company's high cash burn profile, so it is encouraging that management has chosen a more capital efficient approach with its focus on high-volume prescribers and reducing sales headcount.

Overall financial performance in the period 2015 to 2016 can be summed up as:

- Revenues growing by 8.6%
- Gross margin growing from 21% to 35.5%
- Reduced use of cash in operations, from $41 million used in 2015 to $29.7 million used in 2016.

The company's most recent operational results are shown below:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Statements of operations data:		
(in thousands, except share and per share amounts)		
Revenue, net	$ 19,550	$ 18,097
Cost of goods sold	12,606	14,237
Gross profit	6,944	3,860
Operating expense:		
Research and development	4,842	6,523
Selling, general and administrative	33,481	44,680
Restructuring	2,394	–
Total operating expense	40,717	51,203
Operating loss	(33,773)	(47,343)
Other income (expense):		
Interest expense, net	(12,151)	(16,317)
Change in fair value of derivative liabilities	(549)	443
Other income	106	–
Offering costs (including 2014 capitalized IPO costs)	–	(3,978)
Total other expense	(12,594)	(19,852)
Net loss	$ (46,367)	$ (67,195)

(Source: Valeritas S-1)

So, it appears management is steadily growing the business and improving its gross margins, but still showing heavy cash burn, although lessening of late.

Overall, I'm encouraged about Valeritas's prospects, but still concerned about its cash flow burn and its need for additional capital to commercialize its next generation product versions.

Both of those realities cast a long shadow over shareholder return prospects in the near term.

As such, I would like to see greater reductions in cash burn and improved revenue growth rates to become excited about the stock's potential in the near term.

Accordingly, I'm NEUTRAL on the IPO.