IPO ANALYSIS

Research on potential upcoming IPOs from selected candidate companies.

Presidio

Optiv

Impinj

AnaptysBio

Trivago

December, 2016

VentureDeal

Presidio IPO To Pare Debt And Fuel Growth

Quick Take

IT software company Presidio intends to raise at least $100 million in an IPO, according to an S-1 regulatory filing.

The company is well positioned selling IT services to the middle market in the U.S., which is forecasted to grow significantly in the coming years.

Although we don't yet know the IPO price range or valuation, and the company has more debt than I would like to see, I'm favorably inclined to the IPO and will provide an update as we know more.

Company

Founded in 2003, New York-based Presidio has developed a suite of IT software, infrastructure and security solutions that it markets to middle market, enterprise and government clients located primarily in the United States.

The company is headed by CEO Robert Cagnazzi who has been with the firm since early 2012 when his previous company, Bluewater Communications was acquired by Presidio.

Presidio was acquired in early 2015 by private equity firm Apollo Global Management from American Securities, though terms of the acquisition were not disclosed.

Below is a graphic indicating the current breakdown of company clients by industry vertical and type:

(Source: Presidio S-1 Filing)

Technology

Presidio sells vendor agnostic IT and related services in three categories:

- Digital Infrastructure
- Cloud
- Security

Specific examples of the company's service offerings include:

- Advanced networking
- Internet of Things, IoT
- Data analytics
- Data center modernization
- Hybrid and multi-cloud environments
- Cyber risk management
- Enterprise mobility

Below is a brief explainer video from the company:

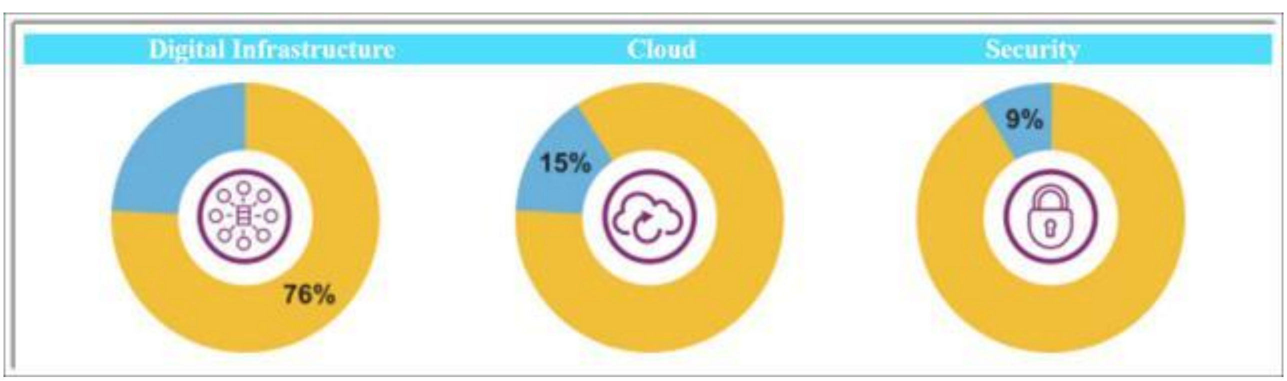
(Source: Presidio YouTube)

Since the company's acquisition by Apollo, it has acquired two companies:

- November 2015 - acquired certain assets and liabilities of Sequoia, a cloud consulting and integration company
- February 2016 - acquired certain assets and liabilities of Netech to broaden its portfolio of services in the Midwestern U.S.

Presidio has more than 60 offices and 2,800 employees throughout the U.S.

A breakdown of company revenue by segment in fiscal 2016 is shown below:

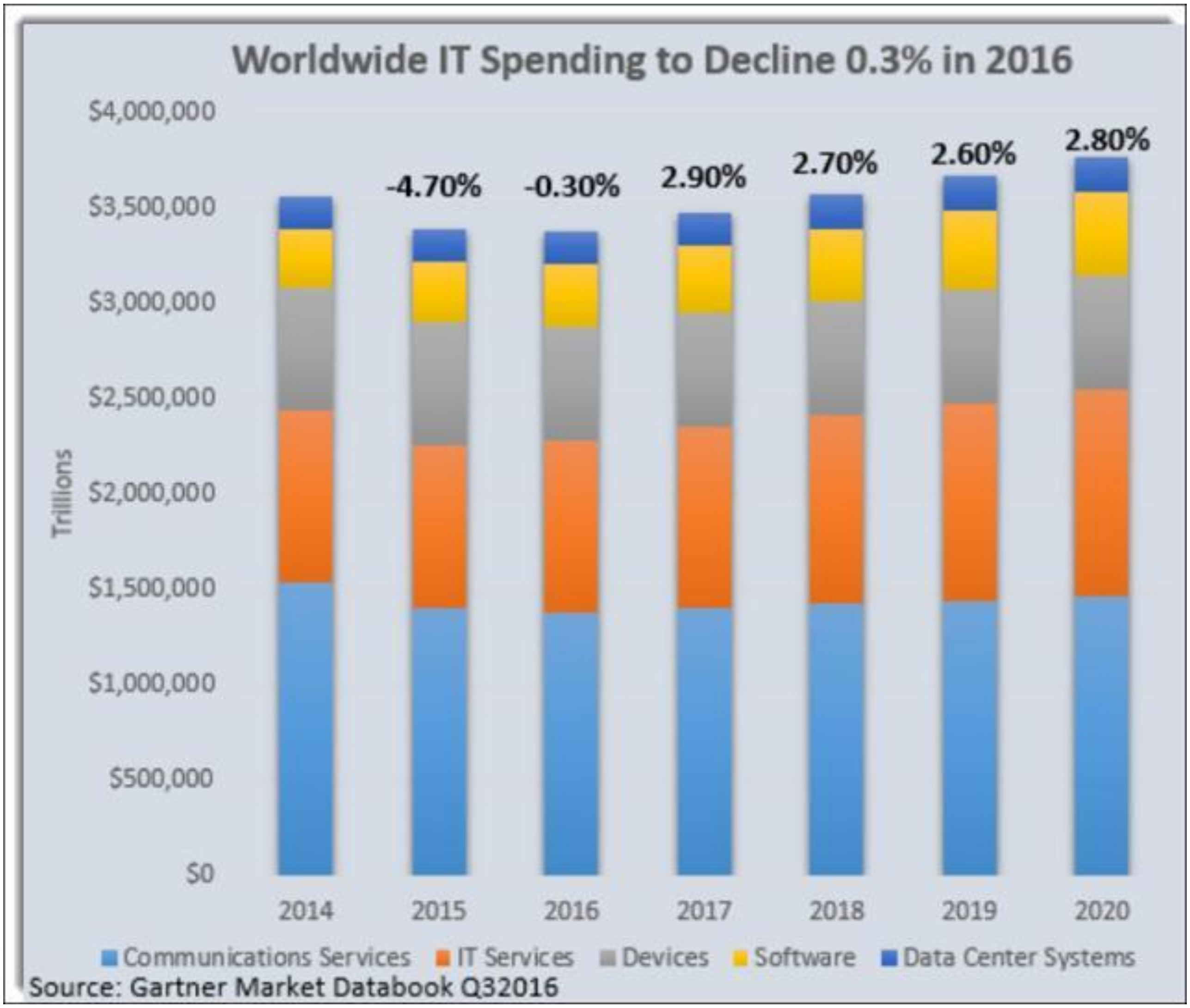


(Source: Presidio S-1 Filing)

Market

Presidio is focused on selling its IT services to the middle market.

According to a 2016 Gartner report, worldwide IT spending will decline in 2016, but grow to nearly $3.8 trillion by 2020:



(Source: Gartner)

Presidio cites Gartner as stating that its middle market target for IT spend is projected to grow from $226 billion in 2015 to $293 billion in 2020, a 5.3% CAGR.

While it may not seem like much, that is a substantial CAGR growth rate for such a large market size and represents a significant opportunity for full-service IT companies such as Presidio.

Major factors driving the growth will be the continued adoption of cloud, security and IoT technologies by middle market companies.

Competition

Although the market size is large, the number of competitors is equally large and varied, with the below only a partial and notable listing:

- Accenture (NYSE:ACN)
- Dimension Data
- Computer Sciences Corporation (NYSE:CSC)
- CDW (NASDAQ:CDW)
- ePlus (NASDAQ:PLUS)
- Dell
- Hewlett Packard (NYSE:HPE)
- Amazon (NASDAQ:AMZN)
- Optiv (Private:OPTV)
- Cognizant Infrastructure Services (NASDAQ:CTSH)
- Equinix (NASDAQ:EQIX)

Furthermore, as new technologies come into existence in this fast-moving sector, new competitive threats will undoubtedly emerge over time.

Between the markets of enterprise, middle market and small business, Presidio believes the middle market is the most under-penetrated market and underserved.

With the increasing complexity of managing IT services, keeping up with new developments and security threats, the middle market is indeed fertile ground for IT services companies like Presidio, that can reduce execution risk and distraction for middle market company clients.

Financials

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

- Revenues increasing over prior, but at a slower pace
- Steady gross margin at 20%
- Steady positive cash flows from operations

Below are the company's operational results for the past 4¾ years (audited GAAP for full years):

(in millions, except share and per share data)	Predecessor: Fiscal year ended June 30, 2012	Predecessor: Fiscal year ended June 30, 2013	Predecessor: Fiscal year ended June 30, 2014	Predecessor: July 1, 2014 to February 1, 2015	Successor: November 20, 2014 to June 30, 2015	Successor: Fiscal year ended June 30, 2016	Successor: Three months ended September 30, 2015	Successor: Three months ended September 30, 2016
Statement of operations data:								
Revenue	$ 1,763.8	$ 2,192.4	$ 2,266.0	$ 1,392.8	$ 985.5	$ 2,714.9	$ 692.0	$ 737.7
Cost of revenue	1,399.7	1,778.8	1,812.0	1,103.5	788.5	2,174.3	555.1	589.1
Gross margin	364.1	413.6	454.0	289.3	197.0	540.6	136.9	148.6
Operating expenses	308.0	334.3	362.5	262.5	186.4	441.7	100.2	118.3
Operating income	56.1	79.3	91.5	26.8	10.6	98.9	36.7	30.3
Interest expense	32.4	33.1	34.3	21.4	46.7	81.9	20.2	20.7
Loss on disposal of business	—	—	—	—	—	6.8	—	—
Loss on extinguishment of debt	—	2.9	2.7	7.5	0.7	9.7	0.1	—
Other (income) expense, net	2.2	(1.9)	(2.4)	(0.2)	0.1	0.1	(0.1)	—
Total interest and other (income) expense	34.6	34.1	34.6	28.7	47.5	98.5	20.2	20.7
Income (loss) before income taxes	21.5	45.2	56.9	(1.9)	(36.9)	0.4	16.5	9.6
Income tax expense (benefit)	10.7	18.4	24.4	3.2	(12.6)	3.8	6.8	4.0
Net income (loss)	$ 10.8	$ 26.8	$ 32.5	$ (5.1)	$ (24.3)	$ (3.4)	$ 9.7	$ 5.6

(Source: Presidio S-1 Filing)

Revenue

- Q3 2016: $738 million, 6.6% increase vs. prior
- FYE 2016: $2.7 billion, 14% increase vs. prior
- FYE 2015: $2.38 billion

Gross Margin

- Q3 2016: 20%
- FYE 2016: 20%
- FYE 2015: 20%

Cash Flow from Operations

- Q3 2016: $20.8 million cash flow
- FYE 2016: $85.6 million cash flow
- FYE 2015: $72 million cash flow

As of June 30, 2016, the company had $33 million in cash, $503 million in accounts receivable and total liabilities of $2.28 billion, of which approximately $1 billion was long term.

IPO Details

Presidio intends to raise $100 million in its IPO, according to an S-1 filing; however, IPO Renaissance thinks this amounts to a 'placeholder' sum, and that it could raise as much as $400 million.

The company said it intends to use the net proceeds to:

repay or redeem certain of our indebtedness, with any remaining net proceeds to be used for working capital or general corporate purposes...we presently anticipate that any portion of the proceeds of this Offering by the Company to redeem the Subordinated Notes [$111.8 million, 10.25% held by majority investor Apollo], if any, would be paid, directly or indirectly, to such affiliates of Apollo.

Apollo is a 93.1% equity shareholder (pre-IPO) in the company, in addition to holding the subordinated notes.

Presidio has also made $400 million in senior notes, which have the same terms as the subordinated notes, but I could not confirm that Apollo was the holder of that paper.

Bookrunners on the IPO are listed as J.P. Morgan, Citigroup, Barclays and RBC Capital Markets.

We don't know the expected share price range of proposed valuation of the company post-IPO.

Commentary

In its positioning as a comprehensive provider of IT services to the middle market, Presidio is in a sweet spot for profitability and future growth prospects. As IT becomes more complex, even middle market companies will struggle to keep their technology stack up to date. However, Presidio has indicated it intends to focus more on the cloud and security segments of its business, rather than infrastructure. My belief is that these are higher demand, higher margin services than pure infrastructure services. Also, there is likely a wider range of growth opportunities in cloud and security, as infrastructure has already been put in place by many middle market firms.

The company's gross margin, which has historically remained steady at 20%, is relatively low when compared to fast-growing cloud companies where it is common to see gross margins in the 50%-60% range.

So, a focus on higher margin growth segments is the right decision by management.

Although we don't know the proposed IPO valuation yet, based on what I'm seeing from management's focus and the industry's growth prospects, I'm favorably inclined to the IPO, assuming a reasonable valuation.

A concern is the company's high debt load; it says the higher interest rate tranches will be pared down partially by the IPO proceeds - a choice with which I also agree.

Optiv's Upcoming IPO Is One Worth Watching

Quick Take

Security technology company Optiv (Private:OPTV) wants to go public and raise $100 million, according to an S-1 filing.

The company operates in the security consulting, third-party integration and managed services sectors, which are all growing rapidly in a significant threat environment.

We are awaiting final terms of the IPO, but I'm favorably inclined toward the opportunity despite the company's high debt load.

Company

Optiv is the result of a 2015 merger between Accuvant and FishNet. The combined company provides a suite of cyber security assessment, strategy, managed services and consulting to enterprises.

The two companies reported very little customer overlap as an important justification for the merger.

The CEO is Dan Burns, who co-founded predecessor company Accuvant in 2002. The Chief Security Officer is Jason Clark, who was previously chief security and strategy officer for Websense.

The company is majority owned by private equity firm Blackstone (58.5% pre-IPO) which backed Accuvant, Investcorp (24.6%), which backed FishNet, and Sverica (7.2%) which backed Accuvant, as additional institutional shareholders. CEO Dan Burns owns 2.19%.

Technology

Optiv provides a range of consultative solutions to enterprises facing cyber security threats.

The company has two reportable segments: Security Technology and Security Services

Security Technology

- Client needs analysis
- Product evaluation and testing
- Product procurement
- Security vendor management
- Implementation and integration

Security Services

- Security consulting
- Security operations
- Managed security services
- Incident response
- Support services
- Strategic staffing

So, the company acts as a consultant, integrator and manager of enterprise information security needs to the degree that each enterprise needs.

Optiv says it has "served over 7,5000 clients over the past three years." In addition, it touts its deepening relationships with customers, stating that "Over the six years ended September 30, 2016, on average, our returning clients have spent nearly twice as much with us in the second year of our relationship."

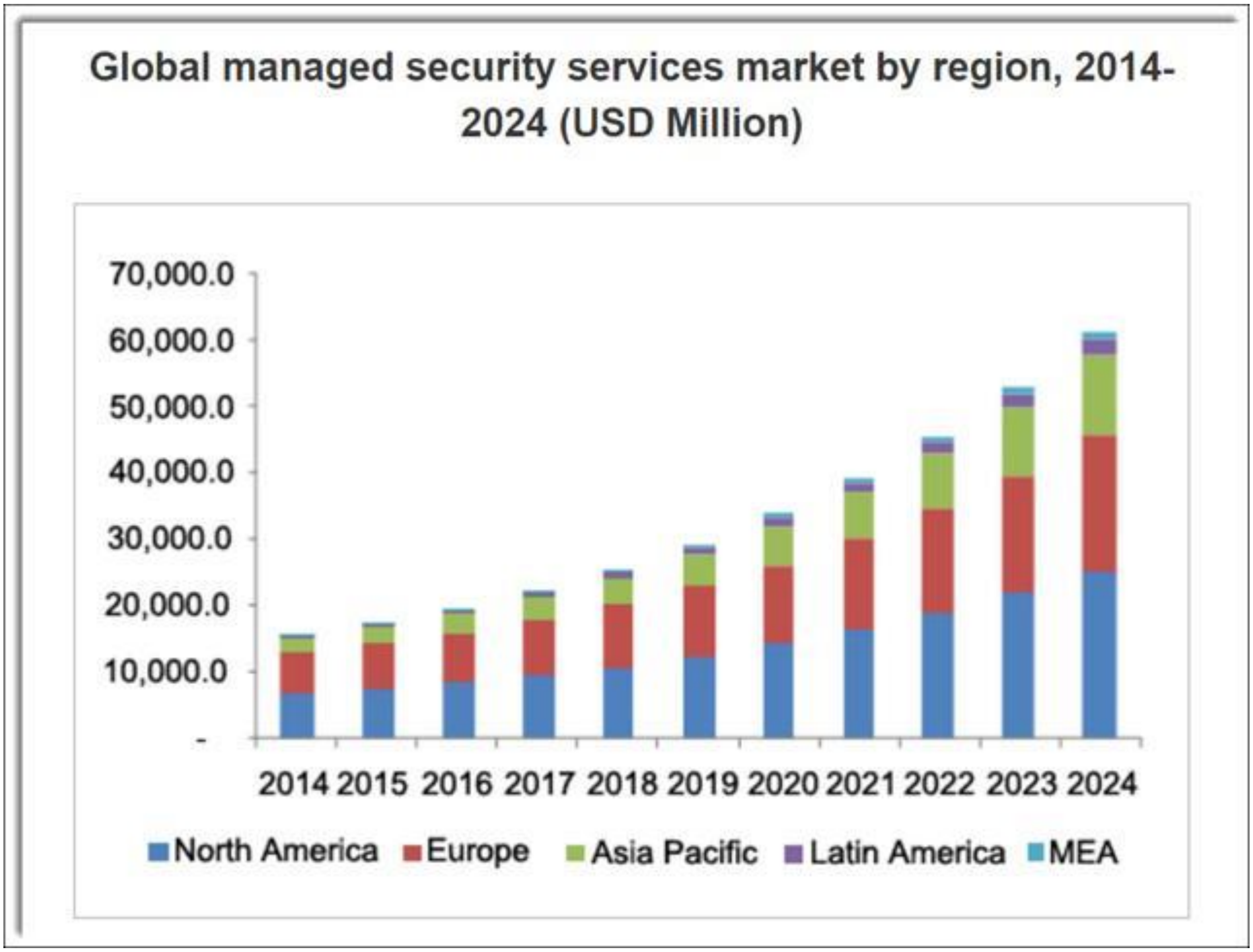
Since its formation in early 2015, Optiv has acquired three companies for a total consideration of $39 million:

- Advancive - Identity and access management
- Evantix - SaaS application for managing third-party risk
- Adaptive - InfoSec solutions integrator in Northeast U.S.

Market

According to a 2016 research report by Grand View Research on the Managed Security Services market, it expects the market size to exceed $60 billion worldwide.

Next page is a breakdown of the managed security services market by geographic area:



(Source: Grand View Research)

The industry growth of 16.5% CAGR from 2016 to 2024 will be driven by an increased BYOD (Bring Your Own Device) trend as companies continue to decentralize their employee and contractor bases.

Notably, small and medium-sized enterprise are expected to grow the fastest, representing a CAGR of over 17.5%. The report cites the staffing challenges of SMBs in finding employees capable of handling increasingly complex cyber threats.

Also, the Asia-Pacific region is expected to be the fastest growing region, at a 19% CAGR over the nine-year period.

Competition

Competitors in the managed security and services market include:

- Dell SecureWorks

- IBM (NYSE:IBM)
- Symantec (NASDAQ:SYMC)
- Verizon Communications (NYSE:VZ)
- Trustwave Holdings
- CSC (NYSE:CSC)
- AT&T (NYSE:T)
- NTT (NYSE:NTT)
- BT (NYSE:BT)
- Hewlett Packard Enterprise Co. (NYSE:HPE)

Financials

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

- Uneven revenues due to "pushdown accounting" treatment in 2014; most recently a 4.4% decline so far in 2016
- Increasing gross margin
- Wide swings in cash flows and/or use

Below are the company's operational results for the past one and ¾ years (Audited GAAP):

(Dollars in thousands, except per share and unit data)

	Successor	
	Year Ended December 31, 2015	Period from April 22 to December 31, 2014
Revenue:		
Products	$ 650,071	$ 232,085
Subscriptions, maintenance and support	132,893	36,767
Security services	164,312	53,645
Total revenue	947,276	322,497
Costs of sales:		
Products	542,870	195,081
Security services	106,105	34,644
Total costs of sales	648,975	229,725
Gross profit	298,301	92,772
Operating expenses:		
Selling, general and administrative expenses	214,276	71,160
Amortization of acquired intangibles	25,190	6,042
Other expense	32,701	8,927
Total operating expenses	272,167	86,129
Operating income	26,134	6,643
Non-operating income (expense):		
Other income	11	24
Interest expense	(45,339)	(4,342)
Net foreign currency exchange gain (loss)	(707)	(37)
Income (loss) before income tax expense	(19,901)	2,288
Income tax benefit (expense)	5,543	(2,399)
Net income (loss)	(14,358)	(111)
Other comprehensive income (loss), net of tax:		
Cumulative foreign currency translation gain (loss)	434	(55)
Total comprehensive income (loss)	$ (13,924)	$ (166)
Earnings (loss) per share (note 11)		
Basic	$ (6,027)	$ (62)
Diluted	$ (6,027)	$ (62)

(Source: Optiv S-1 Filing)

Revenue

- To Q3 2016: $644 million, 4.4% decrease vs. prior
- 2015: $947 million
- 2014: $405 million

Note: The company says "pro-forma" 2015 YoY revenue increased by 134% vs. 2014.

Gross Margin

- To Q3 2016: 37%
- 2015: 31.5%
- 2014: 29%

Cash Flow from Operations

- To Q3 2016: $33 million cash flow from operations
- 2015: $35.7 million cash used
- 2014: $24.9 cash flow

As of September 30, 2016, the company had $15.3 million in cash, $328.5 million in accounts receivable, $366 million in current liabilities and $689 million in long-term liabilities.

The long-term liabilities are likely a result of debt taken on to effect the merger of Accuvant and FishNet to create Optiv in early 2015.

IPO Details

Optiv intends to raise $100 million per its S-1 filing, although an item by IPO Renaissance indicates the IPO could be as high as $200 million.

The company says it will use the IPO proceeds to "repay a portion of our outstanding indebtedness and the remainder, if any, for general corporate purposes."

It did not say how much of the roughly $1.055 billion in current and long-term liabilities it would repay.

The company also did not state an expected price range for the shares nor how many shares would be offered or outstanding after the offering.

The lead left underwriter was not disclosed, but Morgan Stanley, Goldman Sachs, Barclays and Citi are bookrunners on the offering.

Commentary

Majority owner Blackstone has been angling to monetize its stake in Optiv.

A Bloomberg report in April 2016 indicated that Blackstone was preparing to either sell or IPO Optiv at a value believed to be $2 billion at the time.

The original merger between Accuvant and FishNet appears to be a sound move since there was little overlap in their respective customer bases.

However, the combined firm has in excess of $1 billion in short-term and long-term liabilities.

While revenues are approaching $1 billion and gross margins are healthy and growing, given recent macroeconomic developments, it is likely that the cost of debt service will rise in the near future, increasing the need for Optiv to improve its balance sheet.

I'm bullish on the managed security services sector as I agree with management that increasing complexity means that both small and mid-sized firms are having a hard time guarding against threats due to the increased threat environment and the difficulty in finding and retaining InfoSec talent.

We don't yet know the final terms of the offering, but Optiv is operating in a rapidly growing sector with a compelling offering. It's hard to mess that up.

Impinj Files For $116 Million Follow-on Offering

Seattle, Washington-based RFID tag technology company Impinj (NASDAQ:PI) has been the subject of a precipitous drop in its stock price in the month of November.

Two relevant financial events have occurred in the context of the stock's swoon:

1. A 'material' error related to the current 10-Q cash flow statement

2. A follow-on offering of $75 million, later raised to $116 million.

Material Cash Flow Error

On November 15, the company filed an amended 10-Q for the three and nine months ended September 30, 2016.

The amendment corrected a classification error in the accounting for lease incentives for its 2015 financial statements:

Correcting this error resulted in an increase in cash from operating activities, from a use of $3.8 million to cash provided of $500,000, and an associated increase in cash used in investing activities, from a use of $2.6 million to $7.0 million. We determined to correct the error in our future filings that contained the unaudited interim consolidated financial statements for the nine months ended September 30, 2015; however, we inadvertently did not reflect such correction in the statement of cash flows included in our quarterly report on Form 10-Q filed with the SEC on November 7, 2016 (the "Third Quarter 10-Q") and are filing this amendment to correct such error.

Note that the net effect on cash flow was zero due to the reclassification of the activity from 'operating activities' to 'investing activities.'

As such, the amendment had no financial effect but was not exactly a confidence-building moment for the fledgling company on the public market.

Follow-on Offering Filings

Two days later, on November 17, the company filed an S-1 registration statement for a $75 million follow-on offering of its common stock at the then trading price of $32.14 per share.

In the wake of the filing, the stock dropped from $32.83 on November 17 to $28.60 by November 25, a drop of 13%.

It is likely the original $75 million filing was just a 'placeholder' filing, since no details were provided in that filing as to the number of shares to be sold, who the selling shareholders were, or specific use of proceeds.

I wrote an analysis of the follow-on offering and company prospects here:

Impinj Files For $75 Million Follow-On After IPO

On November 28, Impinj updated its follow-on offering registration with a new S-1 filing.

The new, amended filing registered the sale of 3.5 million shares for up to $116 million in gross proceeds. The reference stock price in the filing was listed as $28.69 per share.

The revised offering called for the sale of 1 million company shares and up to 2.5 million shares by selling stockholders.

Selling stockholders were listed as two of its institutional venture capital firm investors, inactive Mobius Venture Capital and active investor Polaris Partners. Three other institutional venture capital firms, ARCH Venture Partners, Intel Capital and Madrona Venture Group, do not intend to sell in the offering.

Perhaps most notably, CEO Chris Diorio is the only other listed seller, intending to sell 80,000 shares of his 1.17 million share stake.

After this amended filing, the stock resumed its drop from $28 per share to approximately $24 - $25 per share.

Conclusions

So, at this point, the stock is trading down approximately 30% - 35% from its post-IPO high set on September 30, 2016.

The sharp stock sell-off did not begin until the original $75 million follow-on offering was filed.

Next, when the amended follow-on was filed showing an increased share sale AND insiders including the CEO selling $2 million worth of shares less than six months after the IPO, those details no doubt spooked traders.

Also, the IPO lockup period is expiring in January 2017, giving justification to fears about large supplies of stock coming on to the market in the near term.

However, what has negatively changed in the company's business to warrant the drop?

In my view, nothing.

For example, in the company's most recent earnings call on November 2, CEO Diorio increased their estimate for 2016 endpoint IC volumes, from 5 billion previously to now between 5.6 billion and 5.8 billion units, a greater than 12% to 16% guidance increase.

The value of endpoint IC growth is that it allows the company to cross-sell and pull through demand for its connectivity products, increasing margins, promoting customer retention and diversifying revenue streams.

The global market for the passive UHF RAIN RFID tags that are Impinj' focus is currently $6.2 billion and expected reach $18.68 billion by 2026, according to IDTechEx Research. So the market is large and growing rapidly.

Thus, I reiterate that I'm bullish on the company and its future prospects.

My opinion for risk-on, short term traders is to buy this dip in the range of $24 - $25, notwithstanding the IPO share lockup expiration in January.

For more risk-averse investors, my suggestion would be to wait until after the January 17, 2017 IPO share lockup expiration and buy on any dip after that time.

AnaptysBio Files For IPO And Shows Real Promise

Quick Take

AnaptysBio (Pending:ANAB) wants to raise an undisclosed amount in an upcoming IPO.

The company has received significant milestone revenues from successful collaborators, which it has used to fund its wholly-owned pipeline of anti-inflammatory biologics.

We will need to wait until we know the proposed financial terms of the IPO, but so far, I like what I see with ANAB.

Company

San Diego-based AnaptysBio was founded in November 2005 to develop treatments for severe inflammatory diseases.

The company CEO is Hamza Suria, who has been with the firm since 2008, when he was hired as VP Corporate Development.

Marco Londei, M.D., was appointed the company's chief medical officer in September 2016 and was previously Therapeutic Area Head Immunosciences at Bristol-Myers Squibb (NYSE:BMY).

Chief Scientific Officer Matthew Moyle started with the company in May 2016 and was most recently VP Biotherapeutics at Boehringer Ingelheim GmbH. He has 25 years of relevant industry experience.

AnaptysBio is backed by a syndicate of top life science venture capital firms, such as Frazier Healthcare, Novo A/S, Avalon Ventures, Alloy Ventures, HBM Healthcare Investments and Biotechnology Value Fund.

These institutional investors hold a combined 79.1% of company stock pre-IPO.

The company has raised $94.3 million in venture financing in several financing rounds from these investors, with its largest funding round of $40 million closed in July 2015.

Technology

AnaptysBio is developing two antibody candidates to help fight severe inflammatory disorders via its wholly-owned pipeline:

- ANB020 - Promises to inhibit interleukin-33, which can cause severe adult asthma and peanut allergies.

- ANB019 - An antibody to inhibit interleukin-36 and that may treat generalized pustular psoriasis and palmoplantar pustular psoriasis, GPP and PPP respectively.

Below is a summary of the company's pipeline of wholly-owned and collaboration candidates:

	THERAPEUTIC AREA	ANTIBODY TARGET(S)	CLINICAL INDICATIONS	CURRENT STATUS	COMMERCIAL RIGHTS
Wholly-Owned Programs	Inflammation	IL-33 antagonist (ANB020)	Asthma and peanut allergy	Phase I	AnaptysBio
		IL-36R antagonist (ANB019)	Pustular psoriasis	Preclinical Development	
		Checkpoint agonist	Inflammation	Lead Selection	
		Checkpoint agonist		Lead Selection	
	Immuno-Oncology	Checkpoint antagonist	Oncology	Lead Selection	AnaptysBio
Partnered Programs	Immuno-Oncology	PD-1 antagonist (TSR-042)	Oncology	Phase I	TESARO
		TIM-3 antagonist (TSR-022)		Phase I	
		LAG-3 antagonist (TSR-033)		Preclinical Development	
		PD-1/TIM-3 bispecific antagonist		Lead Selection	
		PD-1/LAG-3 bispecific antagonist		Lead Selection	
		Bispecific antagonist of two undisclosed checkpoints		Lead Selection	
	Inflammation	Undisclosed	Inflammation	Preclinical Development	Celgene
		Undisclosed		Preclinical Development	

(Source: AnaptysBio)

Also, the company is developing antibody programs through the following collaborations:

- TESARO - A Phase 1 clinical trial began in Q1 2016 for an AnaptysBio-generated anti-PD-1 antagonist antibody (TSR-042).
- Celgene - An in-vivo toxicology study was completed in Q2 2016 for an AnaptysBio-generated antibody.

Additional candidates in the wholly-owned and partner programs are in either Lead Selection or Preclinical Development stages.

The company has developed what it calls the "SHM-XEL" platform, which it believes can "generate an unprecedented diversity of antibodies by applying SHM-based diversification outside of the constraints of an in vivo environment."

Thus, it has the potential to develop antibodies for treatments that may not have been accessible using existing technologies.

Market

The market for anti-inflammatory therapeutics is expected to exceed $100 billion in 2020, representing a CAGR of 5.9% from 2015, according to a 2015 research report by Allied Market.

There are numerous drug classes that treat various inflammatory diseases, such as biologics, NSAIDs and corticosteroids.

Anti-inflammatory biologics hold the largest market share by drug class, at 60% as of 2014, according to a 2015 report by Research and Markets. This category is also expected grow the fastest through 2020, with corticosteroids decreasing due to negative side effects of withdrawal syndrome.

The disease psoriasis is expected to grow the fastest, at an 8.1% CAGR, and North America will account for half of global revenue, leading the Europe and Asia-Pacific regions.

However, Asia-Pacific is expected to be the fastest-growing region during the period.

Competition

Major competition for anti-inflammatory treatments include the following companies:

- AbbVie (NYSE:ABBV)
- Amgen (NASDAQ:AMGN)
- AstraZeneca (NYSE:AZN)
- Eli Lily and Company (NYSE:LLY)
- GlaxoSmithKline (NYSE:GSK)
- Hoffmann-La Roche AG
- Johnson & Johnson (NYSE:JNJ)

- Merck (NYSE:MRK)
- Novartis AG
- Pfizer (NYSE:PFE)
- Roche (OTCQX:RHHBY)

Note that the above list is not exhaustive, since there are many inflammation antibodies and other treatment under development for various inflammatory indications.

Financials

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

- Growing revenues from collaboration milestones
- Uneven operating margin
- Uneven cash flows from operations

Below are the company's operational results for the past 3¾ years (audited GAAP full years only):

	Year Ended December 31,			Nine Months Ended September 30,	
(in thousands, except per share data)	2013	2014	2015	2015	2016
Consolidated Statements of Operations Data:					
Collaboration revenue	$ 5,483	$15,838	$17,571	$13,517	$ 13,930
Operating expenses:					
Research and development	8,820	8,614	17,304	10,732	10,403
General and administrative	1,950	2,354	3,589	2,515	3,378
Total operating expenses	10,770	10,968	20,893	13,247	13,781
Income (loss) from operations	(5,287)	4,870	(3,322)	270	149
Other income (expense), net					
Interest expense	(886)	(1,281)	(460)	(344)	(347)
Change in fair value of liability for preferred stock warrants	627	(59)	(1,277)	(1,528)	335
Other income (expense), net	1	2	(207)	(241)	182
Total other income (expense), net	(258)	(1,338)	(1,944)	(2,113)	170
Income (loss) before income taxes	(5,545)	3,532	(5,266)	(1,843)	319
Provision for income taxes	—	—	(139)	(50)	—
Net income (loss)	(5,545)	3,532	(5,405)	(1,893)	319
Net income attributed to participating securities	—	(3,300)	—	—	(319)
Net income (loss) attributed to common stockholders	$ (5,545)	$ 232	$ (5,405)	(1,893)	—
Net income (loss) per common share: (1)					
Basic and diluted	$ (0.71)	$ 0.01	$ (0.30)	$ (0.11)	$ —

(Source: AnaptysBio S-1 Filing)

Revenue

- To Q3 2016: $13.9 million
- 2015: $17.6 million
- 2014: $15.8 million

Operating Margin

- To Q3 2016: 1%
- 2015: Negative
- 2014: 31%

Cash Flow from Operations

- To Q3 2016: $3.5 million cash used
- 2015: $9.7 million cash used
- 2014: $$14.6 million cash flow

As of September 30, 2016, AnaptysBio had $47 million in cash on hand and current liabilities of $7.5 million.

IPO Details

ANAB has filed its S-1 registration with the SEC, but has not indicated an expected raise amount, which is unusual. It has also not indicated a price per share range.

The company says it intends to use the proceeds to fund further development of its lead, wholly-owned candidates ANB020 and ANB019 through initial clinical trials.

It will also use the proceeds to pursue development of its checkpoint receptor agonist antibodies and for general corporate purposes.

ANAB expects the IPO to fund its operations for the next 24 months.

Given that the company has received $65.4 million in milestone payments from its collaboration partners which are "lumpy" in nature, it is difficult to determine how much future milestone payments will contribute to its wholly-owned development pipeline.

Credit Suisse is the lead left underwriter for the offering.

Commentary

ANAB is pursuing a two-pronged strategy of developing wholly-owned candidates and expanding its proprietary pipeline.

It has created a proprietary platform called SHM-XEL, which generates a greater diversity of antibodies by replicating the natural process of SHM in vitro.

While I can't give an opinion on the validity of its SHM platform, the results of the company's antibody approach are in the numbers: ANAB has received more than $65 million from collaboration partners, which may be used to continue platform development and pursue trials for its wholly-owned candidates.

This strategy is a fantastic approach to reducing financing risk and is one I endorse. While those milestone payments can be "lumpy" and hard to forecast, since they are usually based on collaborators achieving milestones, having a significant source of revenue reduces shareholder dilution and risk.

Notably, the company has not indicated an expected IPO amount. Since ANAB could have filed confidentially to test the waters, one wonders: Why file publicly?

Until we know the financial terms of the IPO offering, I can't provide a fully informed opinion.

But based on the company's financial and development results so far, I like what I see and will provide an update when we know more.

Trivago's IPO May Be A Nice Trip For Investors

Quick Take

Expedia (NASDAQ:EXPE) online subsidiary Trivago (NASDAQ:TRVG) wants to raise $400 million in ADSs (American Depositary Shares) in a spinout transaction from its parent.

The $400 million figure is a placeholder amount according to company representatives.

Trivago is a rapidly growing hotel search platform focused on the hotel travel booking aggregation market.

We don't know the complete terms of the IPO yet, but I'm favorably disposed to this cash-flow-generating industry heavyweight.

Company

Based in Germany, travel B.V. dba Trivago enables users to search for and compare prices for hundreds of hotel chains worldwide.

The company is headed by CEO Rolf Schromgens and CFO Axel Hefer. Schromgens has been managing director of Trivago GmbH since 2005 and was previously founder of consumer review website ciao.com.

Bellevue, Washington-based Expedia is the sole corporate shareholder in the company through its subsidiary Expedia Lodging Partner Services S.a r.l.

Technology

Trivago operates a website that aggregates hotel pricing and availability and allows consumers to enter search criteria in order to find the most relevant hotel for their needs.

The site also encourages the user to write reviews for their hotel stays to help hotels improve their service and to provide visitors with additional, differentiated information about hotel service quality.

The service also incorporates review information from other sources and generates a single score for travelers to more easily compare choices.

Below is a brief explainer video:

(Source: [trivago YouTube]())

According to the company's F-1 filing, in the "12 months ended September 30, 2016, we tracked approximately 1.4 billion visits to our websites and apps, resulting in 487 million qualified referrals, and offered access to approximately 1.3 million hotels in over 190 countries."

Under its CPC (cost per click) platform, advertisers are only charged when a user clicks on an advertised rate for a hotel.

Market

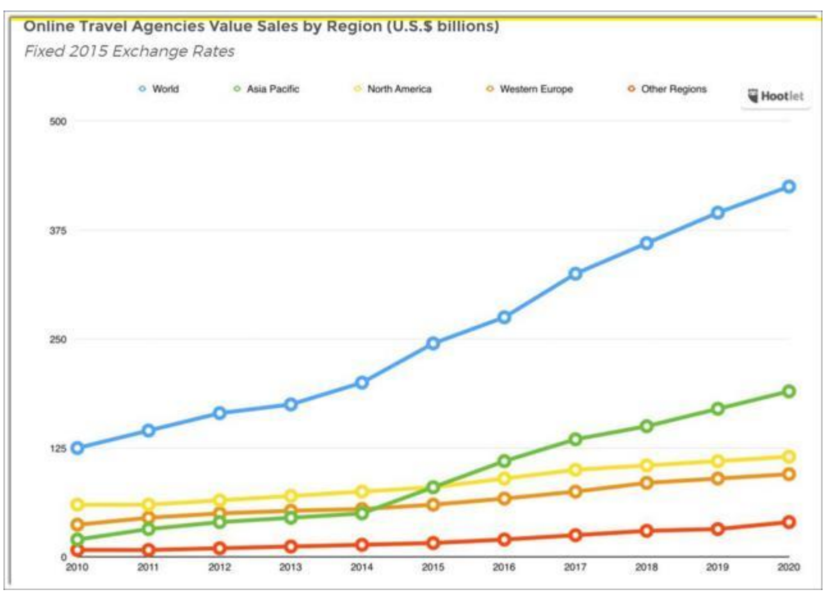
The company operates 55 localized websites and apps in 33 different languages and segments its operations geographically between The Americas, Developed Europe and the Rest of the World.

As more consumers shift to online services, hotel bookings via online portals have increased.

According to a reference to [Euromonitor International's travel research](), the sales of online travel agencies, called OTAs, grew by 19% in the calendar year 2015, to reach $246 billion.

The Asia-Pacific region grew the fastest, by 43% to reach $79 billion in 2015.

Below is a chart showing the growth in online travel agency value by region:



(Source: [Skift.com]())

Furthermore, the report expects the worldwide OTA market to reach sales of $434 billion in 2020, a 12% CAGR from 2015.

Trivago obtains a significant portion of its revenues from OTAs.

While there are possibilities for disintermediation of OTAs by services such as Google and TripAdvisor, OTAs may shift their business model to focus more on offering services throughout the travel process.

Competition

The company's main competitors are diversified online travel resources that offer a range of services, such as:

- Priceline (NASDAQ:PCLN)
- Ctrip International (NASDAQ:CTRP)
- eDreams (EDR.MC)
- Lastminute (LMN.SW)
- Yahoo Travel (NASDAQ:YHOO)

In addition, the major hotel chains operate their own online booking services where consumers that are loyal to one brand can go directly to the brand to book their stay.

Financials

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

- Strong revenue growth, although slowing
- Consistently negative operating margins
- Uneven but improving cash flow from operations

Below are the company's operational results for the past one and a half years (Unaudited, German GAAP = U.S. GAAP):

(in millions, except share and per share data)	Year ended December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2015 (unaudited)	Nine months ended September 30, 2015	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2016
Consolidated statement of operations:						
Revenue	€ 209.1	€ 298.9	$ 324.6	€ 239.4	€ 378.7	$ 425.6
Revenue from related party	100.2	194.2	210.9	154.4	206.3	231.8
Total revenue	309.3	493.1	535.5	393.8	585.0	657.4
Costs and expenses:						
Cost of revenue, including related party(1)	1.4	2.9	3.1	2.0	3.1	3.5
Selling and marketing(1)	286.3	461.3	501.0	383.5	538.1	604.7
Technology and content(1)	15.4	28.7	31.2	20.9	40.6	45.6
General and administrative(1)	6.5	18.1	19.7	12.4	42.2	47.4
Amortization of intangible assets	30.0	30.0	32.6	22.5	11.3	12.7
Operating income (loss)	(30.3)	(47.9)	(52.1)	(47.5)	(50.3)	(56.5)
Other income (expense):						
Interest expense	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other, net	(1.4)	(2.7)	(2.9)	(0.7)	0.5	0.6
Total other income (expense), net	(1.4)	(2.8)	(3.0)	(0.8)	0.4	0.5
Income (loss) before income taxes	(31.7)	(50.7)	(55.1)	(48.3)	(49.9)	(56.0)
Expense (benefit) for income taxes	(8.6)	(11.3)	(12.3)	(10.9)	1.6	1.8
Net loss	(23.1)	(39.4)	(42.8)	(37.4)	(51.5)	(57.8)
Net income attributable to noncontrolling interests	—	0.3	0.3	0.1	0.5	0.6
Net loss attributable to trivago GmbH	€ (23.1)	€ (39.1)	$ (42.5)	€ (37.3)	€ (51.0)	$ (57.2)
Pro forma basic and diluted earnings per share(2)						
Key performance indicator						
Adjusted EBITDA(3)	€ 3.5	€ (1.1)	$ (1.2)	€ (13.4)	€ 16.3	$ 18.3

(Source: trivago F-1)

Revenue

- To Q3 2016: $657 million, 48% increase vs. prior
- 2015: $536 million, 60% increase vs. prior
- 2014: $374 million

Operating Margin

- To Q3 2016: ($56.5 million)
- 2015: ($52.1 million)
- 2014: ($36.7 million)

Cash Flow from Operations

- To Q3 2016: $14.8 million cash flow
- 2015: $1.1 million cash used
- 2014: $762,000 cash flow

As of September 30, 2016, Trivago had $4.4 million cash on hand, accounts receivable of $94.2 million and current liabilities of $90.5 million.

IPO Details

Trivago intends to raise $400 million in a spinout IPO, according to its F-1 filing.

The company has not yet indicated an expected price range for the shares, so we don't have specific knowledge of an expected post-IPO market cap. Pre-IPO, Expedia holds 63.5% of trivago, but we don't know how much of the company Expedia will retain post-IPO.

There is an important tax-related contingency, that of the entity making a tax ruling request of the German tax authorities post-IPO about wanting a tax-free exchange of founder's shares vs. Germany's rights to tax the new public limited company entity for any capital gains as a result of the disposal of certain assets (merger with Trivago N.V.)

If Trivago does not receive a favorable ruling, the entity will reorganize first into a German stock corporation and then into a European public limited liability company (Trivago Societas Europaea).

Selling shareholders are the company founders, who will receive all of the net proceeds from the offering.

J.P. Morgan is the lead left underwriter for the offering, which also includes Goldman Sachs, Morgan Stanley, Allen & Company, BofA Merrill Lynch, Citigroup, and others.

Commentary

Trivago has created a hotel and lodging-focused search and review process that makes it easy for consumers to find lodging that fits their needs.

It has developed a CPC-based bidding platform to enable hotels to place higher in results, a la a Google-type of advertising system.

The service's independence is also a selling point, with user reviews providing consumers with additional, in-depth information that can't be found anywhere else.

I call this the "Amazon" approach. Users know they can get largely unbiased consumer reviews of the hotel experience to make smarter decisions. This feature also incentivizes hotels to provide better customer service to avoid negative reviews.

Trivago also likely benefits from being in the Expedia family, although their F-1 filing indicated an "independent" approach to their business, with the exception of Expedia providing certain "corporate functions, including with the legal, tax, treasury, audit and corporate development areas, and hosts all of the servers we use that are located within the United States."

However, the online market for travel aggregation is a very large market, so Trivago will always have significant competitive threats from existing players and potential new market entrants.

We don't know the proposed pricing of the IPO shares or potential market cap of the public entity so cannot form a final opinion on the IPO opportunity.

But the company's financials indicate that top line revenues are growing quickly, and the firm is generating cash flow from operations. Operating income is negative, however, so that is a caution.

Depending on valuation, Trivago may be a potential addition to a growth investor's portfolio.