

# IPO ANALYSIS

Research on upcoming or recent IPOs for  
selected companies.

Post-IPO Analysis For  
Tufin Software

Post-IPO Analysis For  
PagerDuty

GAN Limited Files For U.S.  
IPO

April 2020

VentureDeal

# Post-IPO Analysis For Tufin Software

## Short Take

Tufin Software ([TUFN](#)) went public on April 10, 2019, raising approximately \$108 million in gross proceeds from the IPO.

The firm provides network security software to legacy on-premises environments and more recently, cloud integrations.

TUFN experienced disappointing revenue results in 2019 due to sales challenges and guided a lower revenue growth rate in 2020.

My bias on the stock is currently Neutral until the firm proves its sales execution credibility and shows demand for its SecureCloud system.

## Company

Ramat-Gan, Israel-based Tufin was founded in 2004 to develop on-premise software that manages various network level security policies.

Management is headed by co-founder and CEO Reuven Kitov, who previously held project management roles at Check Point Software Technologies ([CHKP](#)).

Tufin has created a variety of partner programs, including channel partnerships, managed services partners, service delivery, and integration partnerships.

According to a 2018 market [research report](#) by Transparency Market Research, the network security policy management market is expected to reach \$2.6 billion by 2026.

This represents a forecasted compound annual growth rate [CAGR] of 8.2% from 2017 to 2026.

Key elements driving this expected growth include a growing focus by enterprises on digital risks, increased complexity of hybrid cloud environments, and the availability of the SaaS-based, scalable business model option to reduce capital expenditures and provision based on usage levels.

Major competitive vendors that provide security orchestration software include:

- Palo Alto Networks ([PANW](#))
- AlgoSec
- Skybox Security

- Check Point Software Technologies
- Forcepoint
- FireMon
- IBM ([IBM](#))
- Juniper Networks ([JNPR](#))
- Sophos ([OTCPK:SPHFF](#))
- Hewlett Packard Enterprise ([HPE](#))

Management says it also competes with large IT companies such as Cisco ([CSCO](#)) and Symantec ([SYMC](#)) who bundle functionality in with other products they sell to enterprises, making pricing power difficult.

Several of the above-listed firms are also integration partners for Tufin.

## Recent Performance

TUFN's topline revenue by quarter has been uneven; the firm's Q4 2019 performance was only 3.1% over the same quarter in 2018:

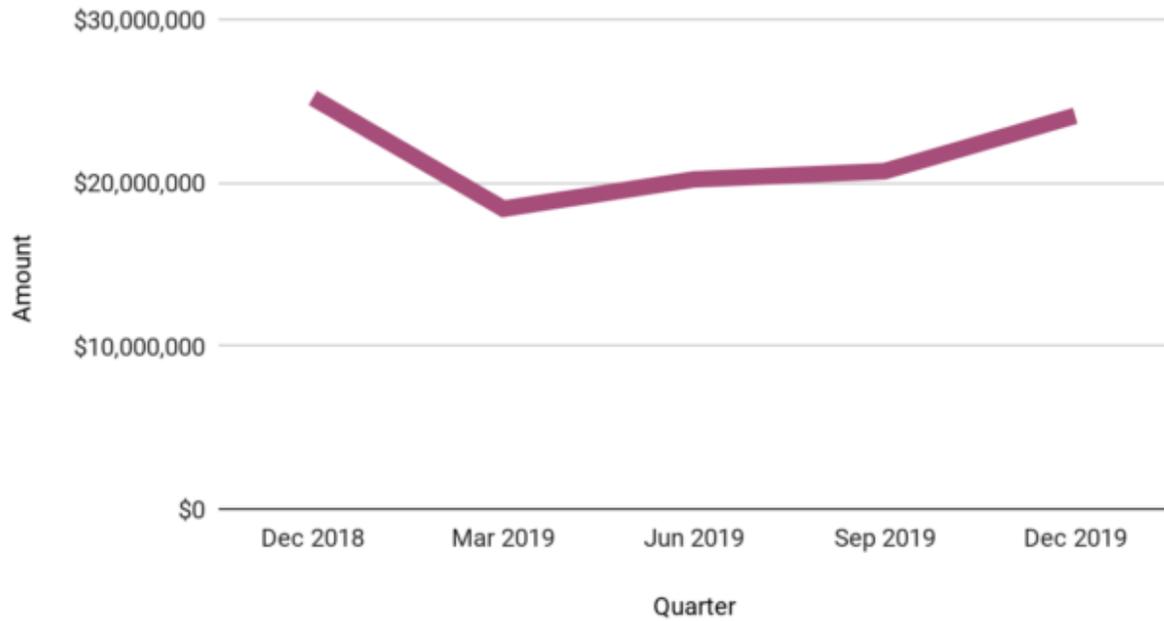
### Revenue By Quarter



(Source: Seeking Alpha)

Gross profit by quarter has been similarly uneven, with Q4 2019 lower than Q4 2018:

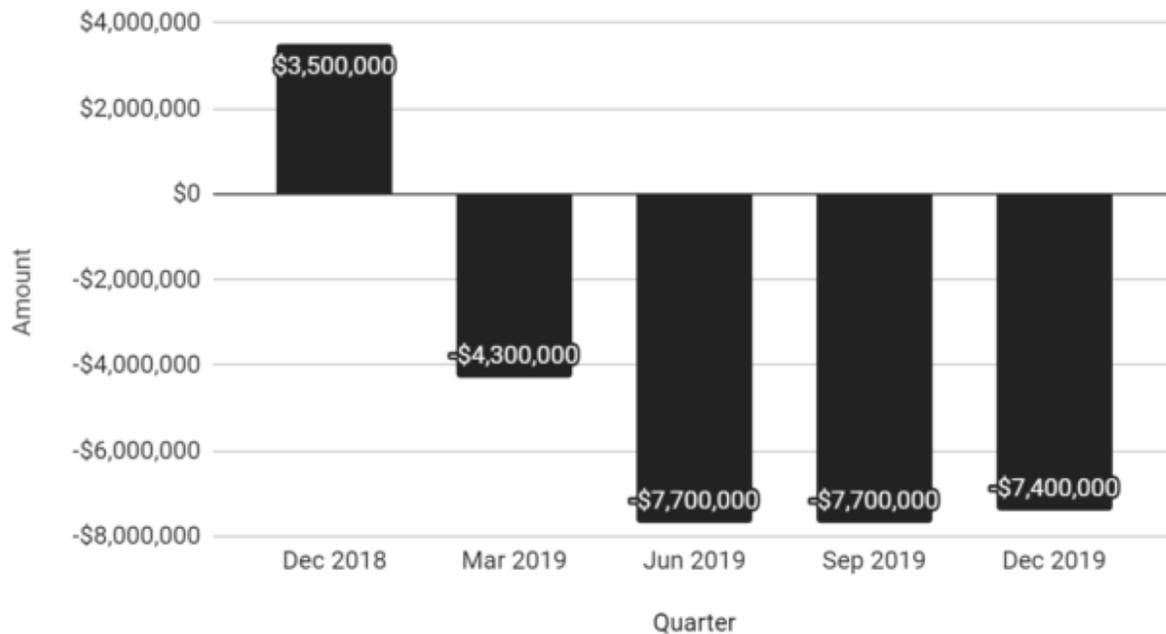
## Gross Profit By Quarter



(Source: Seeking Alpha)

Operating income by quarter has deteriorated significantly since the firm went public in early 2019:

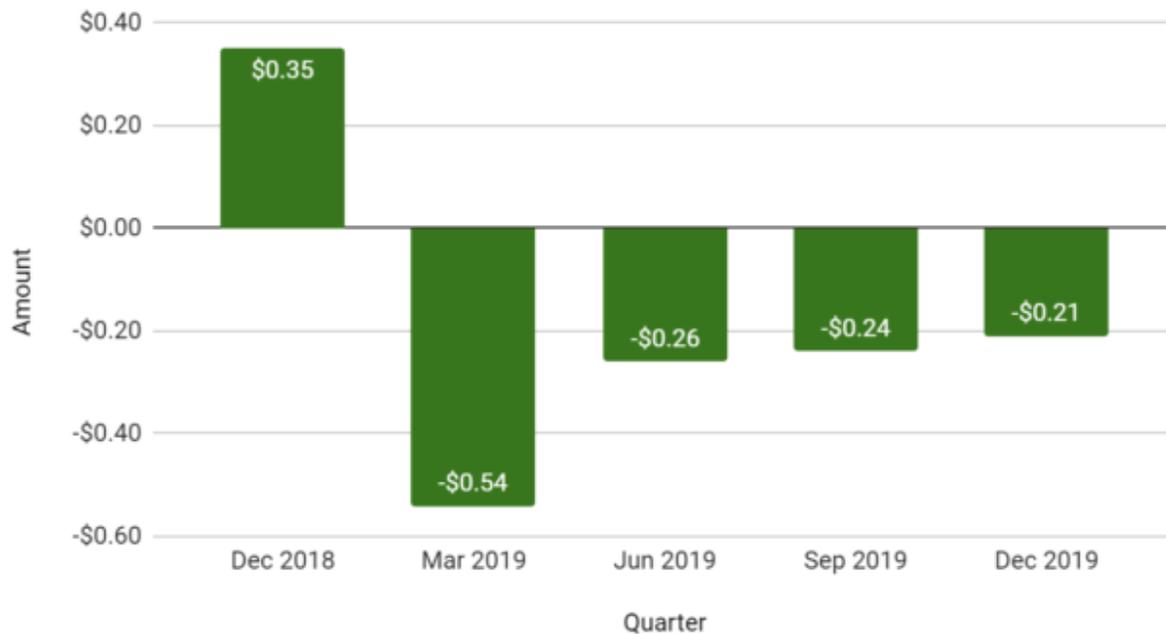
## Operating Income by Quarter



(Source: Seeking Alpha)

Earnings per share (Diluted) have been sharply negative but improving slowly since a nadir in Q1 2019:

## Earnings Per Share (Diluted) By Quarter



(Source: Seeking Alpha)

In the past 12 months, TUFN's stock price has dropped 62.3 percent vs. the U.S. S&P 500 Index' ([SPY](#)) drop of 10.8 percent, as the chart below indicates:

Published on TradingView.com, March 27, 2020 12:51:41 EDT  
BATS:TUFN, D 8.67 ▼ -0.56 (-6.07%) O:9.71 H:9.71 L:8.42 C:8.67



(Source: Seeking Alpha)

## Commentary

In its last earnings call covering Q4 2019 and the full year, management reported full-year revenue up 22% on 'unexpected sales execution challenges' in North America.

Those challenges apparently included too few sales managers resulting in less-than-optimal oversight of sales processes.

Management hired a new VP Sales in late Q3 that it believes will improve its sales results in 2020.

The firm is generally focused on rolling out its SecureCloud cloud environment visibility service to its customer base and prospects.

In addition, management is focusing on the U.S. Federal market space, which it started in 2018 and said it closed its 'first few deals' on GSA Schedule 70.

As to its financial results, management reported revenue of \$103.3 million, crossing \$100 million for the first time.

Importantly, management guided 2020 revenue to be approximately \$120 million (midpoint of range), for a forecast growth rate of around 16%, markedly less than 2019's growth rate of 22%.

With a negative free cash flow of \$12.1 million [TTM], the firm has plenty of runway due to its current cash balance of \$118.7 million as of December 31, 2019.

TUFN appears to be a company in transition due to its changing focus toward cloud security solutions rather than its legacy on-premises systems.

Additionally, due to the aforementioned sales execution shortfalls, 2020 is a year where the firm will need to reestablish credibility in its sales closing abilities, which should result in meeting its lowered sales growth target.

So that is TUFN's story for 2020 as I see it - proving itself in sales and in its continued transition to cloud solutions for its future growth drivers.

My current bias on the stock is Neutral until I see evidence of sales execution in Q1 and uptake of its SecureCloud system.

## Post-IPO Analysis For PagerDuty

### Short Take

PagerDuty ([PD](#)) went public in April 2019 and recently reported its FYE Q4 2020 financial results.

The firm provides enterprise IT departments with an automated incident response system for their software system deployments.

Management is seeing early signs of customer demand for its monitoring capabilities as a function of the Covid-19 outbreak and its effects on enterprise and middle-market company operations.

Until we learn whether these customer behavior changes are permanent or transitory, my bias on the stock is Neutral.

## Company

San Francisco, California-based PagerDuty was founded in 2009 by three ex-Amazon developers to help businesses enhance operations and mitigate security risk through the use of data analytics, machine learning as well as automation.

Management is headed by Director and CEO [Jennifer G. Tejada](#), who has been with the firm since 2016 and is currently also a board member at Puppet Labs and The Estée Lauder Companies.

PagerDuty has developed an incident response platform that collects, correlates and interprets signals from software-enabled devices or systems to identify events and combines it with human response data to engage the right team members to take action in real time.

PagerDuty has a global customer base consisting of 10,800 organizations and its platform is used by 350,000 paid users, including teams across IT, software developers, security operations, customer support as well as business operations departments and industrial operations.

According to a [2018 market research report](#) by Markets and Markets, the global incident response services market was valued at \$13.4 billion in 2018 and is projected to reach \$33.8 billion by 2023, growing at a very strong CAGR of 20.3% between 2018 and 2023.

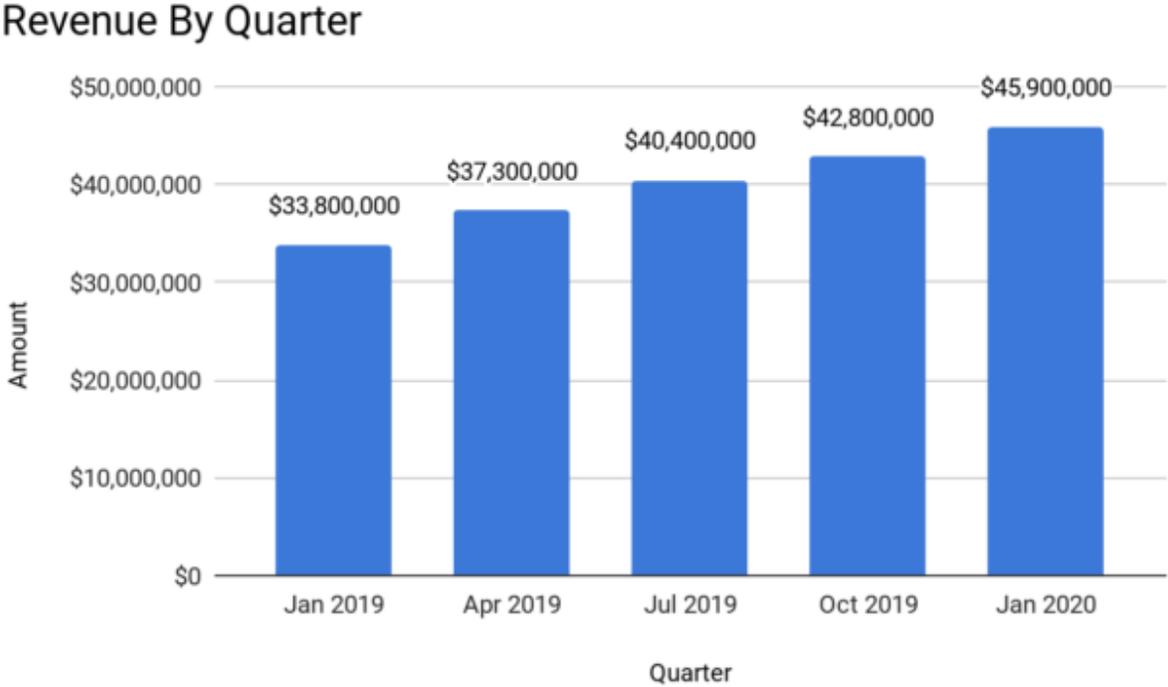
The main factors driving market growth are the weight of financial losses post incident occurrence, the increasing incidence of security breaches as well as the need to adhere to increased regulations.

Major companies that provide incident response services include:

- IBM ([IBM](#))
- Symantec ([SYMC](#))
- Verizon ([VZ](#))
- BAE Systems ([OTCPK:BAESY](#))
- NTT Security
- Trustwave
- Cisco ([CSCO](#))
- Check Point Software Technologies ([CHKP](#))

## Recent Performance

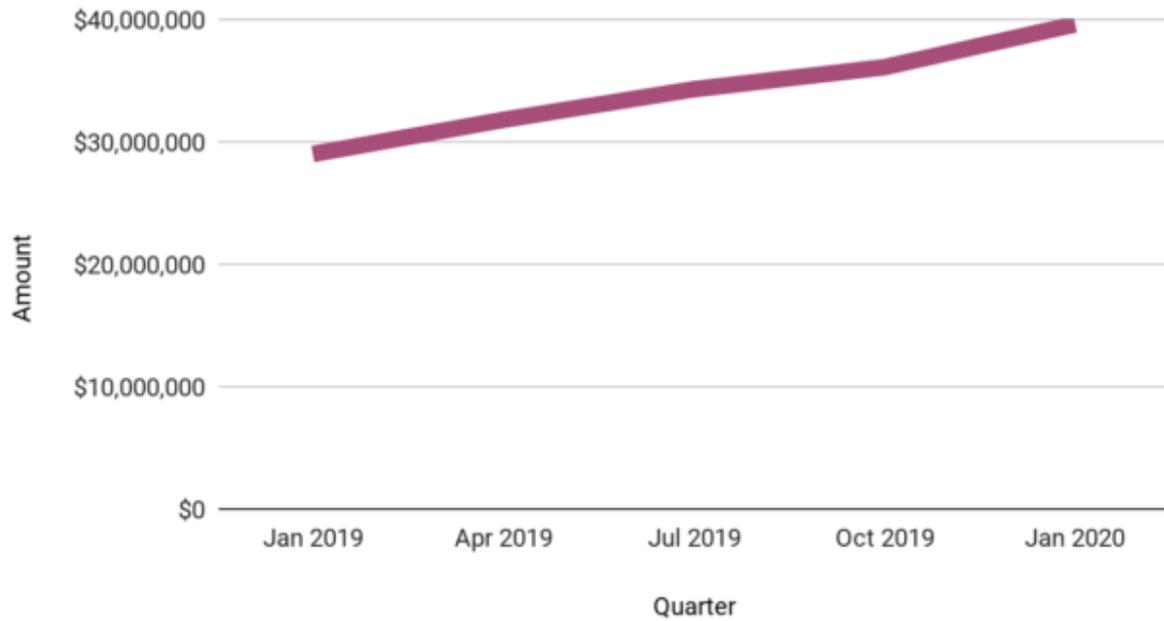
PD's topline revenue by quarter has steadily risen since the firm went public in early 2019, as the chart shows here:



(Source: Seeking Alpha)

Gross profit by quarter has steadily trended upward along with revenue growth:

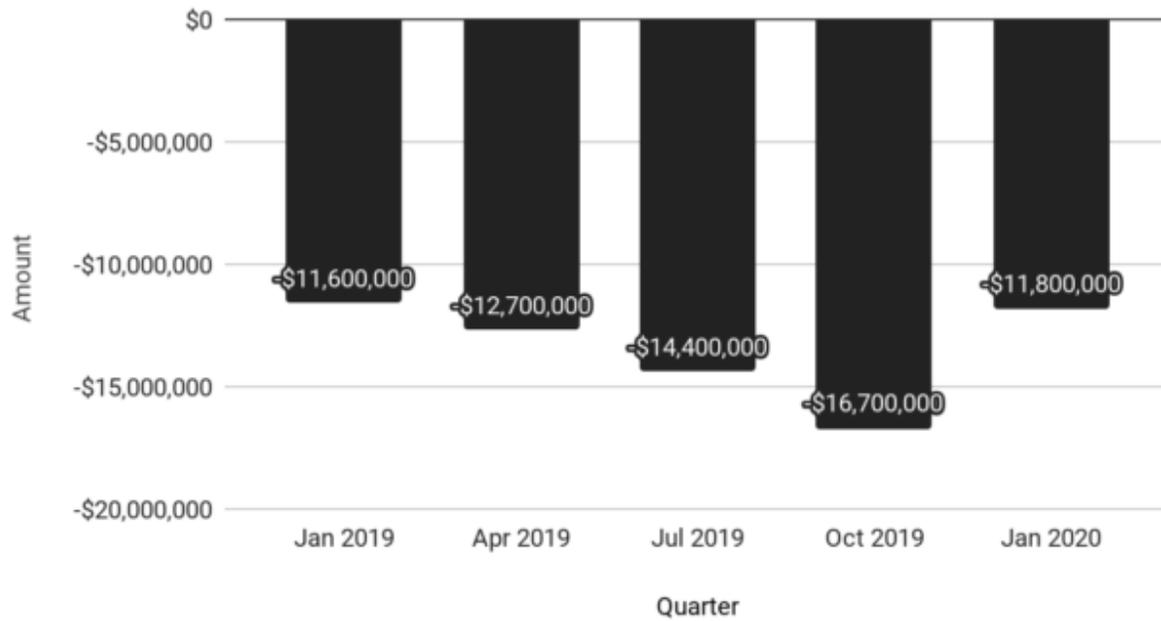
## Gross Profit By Quarter



(Source: Seeking Alpha)

Operating losses by quarter has worsened, with the exception of the most recent quarter ended January 31, 2020, which was still slightly worse than the same quarter in 2018:

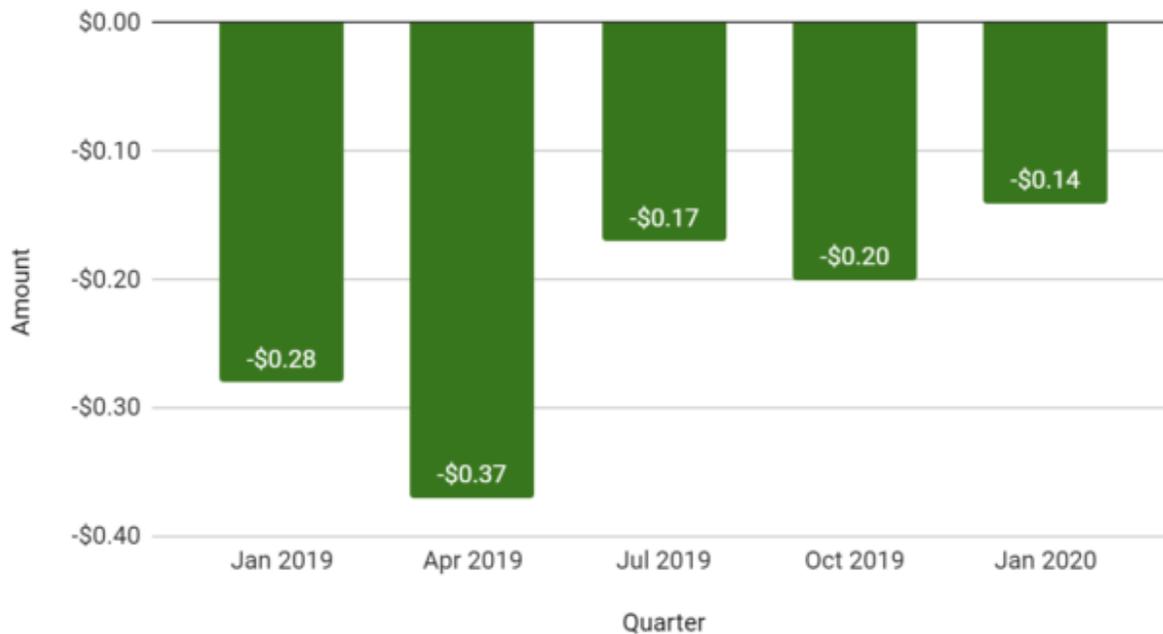
## Operating Income by Quarter



(Source: Seeking Alpha)

Earnings per share (Diluted) have improved, with the firm's best result in the most recent reporting quarter:

## Earnings Per Share (Diluted) By Quarter



(Source: Seeking Alpha)

Since its IPO, PD's stock price has fallen 52.62 percent vs. the U.S. Software market's rise of 6.9 percent and the overall U.S. market's drop of 14.6 percent, as the chart below indicates:



(Source: Simply Wall Street)

## Commentary

In its last earnings call, management highlighted the challenges the business faces as a result of the Covid-19 outbreak and its effects on their operations, with many employees working from home amid other effects.

CEO Tejada also mentioned that they've 'seen examples of customer self-serving licenses to expand new teams rapidly,' although it is too early to determine if this is a significant trend or merely transitory.

As to its financial results, the company grew revenue at 41% for the fiscal year. This was less than the previous fiscal year's revenue growth rate of 48%, although the firm is increasing its average revenue per user.

Its dollar based net retention rate for the most recent quarter was 122%, a drop from its pre-IPO level of 140% but still a strong figure, resulting in negative net churn on a revenue basis.

The firm's international revenue grew by 52% for the fiscal year, a promising result based largely on its European operation as management continues to invest resources in sales and marketing there.

For fiscal 2021, management seeks to increase its business in large enterprises and middle-market companies (read: no focus on small customers) as well as expanding its product suite beyond DevOps and IT.

Notably, Tejada referred to 'rapid growth in retention in the high 90's as industry leaders tightly integrate to and standardize on the PagerDuty platform.'

The company will also focus on 'becoming the de facto platform for real-time work' for companies needing to monitor processes at an increasing level and in more complex environments.

PD's stock performance since its IPO was initially quite positive but turned to dismal since June 2019.

I suppose it isn't surprising as operating losses continued to worsen throughout the middle and end of 2019.

What is perhaps most remarkable is the lack of significant stock selloff in the past few weeks as the overall market has sold off sharply.

It's difficult to know why, but my guess is that investors may believe PD may fare better in a more distributed operating environment going forward as a result of the Covid-19 outbreak.

If so, it is hard to quantify that possible upside catalyst at this point. It's simply too early to tell if there will be 'new normal' that will benefit firms such as PD in the quarters ahead.

Until we can get more color from management and see the results show up in the financials, my bias on the stock is Neutral at its current level.

## First Look | GAN Limited Files For U.S. IPO

### Quick Take

GAN Limited ([GAN](#)) has filed to raise \$35 million in an IPO of its common stock, according to an F-1 [registration statement](#).

The firm sells software to companies operating online casino gaming and sports betting applications.

GAN is growing revenue sharply, producing net profits and growing cash flow from operations.

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

### Company & Technology

London, UK-based GAN was founded to develop a software-as-a-service enterprise solution for casino operators to run their online casino and sports book service offerings.

Management is headed by Chief Executive Officer Mr. Dermot Smurfit, who has been with the firm since 2003 as a director and was previously in the European Investment Banking unit of SoundView Technology Group.

The company has developed numerous partnerships in the following categories:

- Simulated Gaming

- Real Money Gaming
- Integrated Partners

The company has created GameSTACK, a platform that provides back-office tools such as:

- Player account activation
- Payment services
- Geolocation
- Marketing
- Loyalty management
- Real-time analytics and reporting

The service is primarily aimed at U.S. casino operators, although GAN has sold versions of it to operators in the U.K., Italy and Australia. Management estimates that about 'half of all online sports wagers in the states of New Jersey and Pennsylvania, the two largest and fastest growing U.S. markets for online sports betting, are presently processed using [its] platform.'

## Customer Acquisition

GAN markets its software suite directly to casino or simulated money operators via a direct sales force and the firm had 25 total customers as of March 17, 2020.

Sports betting activity has enjoyed strong growth since May 2018 when the U.S. Supreme Court overturned the Professional and Amateur Sports Protection Act [PASPA] which had prevented most U.S. states from regulating sports betting at the intrastate level.

Administrative expenses as a percentage of total revenue have been dropping as revenues have increased, as the figures below indicate:

### Administrative Expenses vs. Revenue

Period	Percentage
2019	50.4%
2018	73.0%

Source: Company registration statement

The Administrative efficiency rate, defined as how many dollars of additional new revenue are generated by each dollar of Administrative spend, was 1.1x in the most recent reporting period.

## Market & Competition

According to a 2019 market [research report](#) by Grand View Research, the market for online gambling was \$48.5 billion in 2018.

This represents a forecast CAGR of 11.5% from 2019 to 2025.

The main drivers for this expected growth are continued increase in internet penetration, a growing use of smartphones for playing online games, wider legalization and acceptance, corporate sponsorships and celebrity endorsements.

Major competitive vendors include:

- Retail casinos that create their own in-house systems
- Online casinos that develop competing content

Management says its ability to modify its system for the highly variable regulatory environments between U.S. states is a strong competitive advantage.

## Financial Performance

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

- Sharp growth in topline revenue
- Strong growth in gross profit and gross margin
- A swing to operating profit
- Sharp increase in cash flow from operations

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

### Total Revenue

Period	Total Revenue	% Variance vs. Prior
2019	\$ 29,971,000	113.7%
2018	\$ 14,023,000	

### Gross Profit (Loss)

Period	Gross Profit (Loss)	% Variance vs. Prior
2019	\$ 17,989,000	745.0%
2018	\$ 2,129,000	

### Gross Margin

Period	Gross Margin
2019	60.02%
2018	15.18%

### **Operating Profit (Loss)**

<b>Period</b>	<b>Operating Profit (Loss)</b>	<b>Operating Margin</b>
2019	\$ 2,474,000	8.3%
2018	\$ (8,196,000)	-58.4%

### **Comprehensive Income (Loss)**

<b>Period</b>	<b>Comprehensive Income (Loss)</b>
2019	\$ 2,173,000
2018	\$ (6,885,000)

### **Cash Flow From Operations**

<b>Period</b>	<b>Cash Flow From Operations</b>
2019	\$ 6,253,000
2018	\$ 2,244,000

Source: Company registration statement

As of December 31, 2019, GAN had \$10.1 million in cash and \$11.0 million in total liabilities.

Free cash flow during the twelve months ended December 31, 2019, was \$6.1 million.

## **IPO Details**

GAN intends to raise \$35 million in gross proceeds from an IPO of its common stock, although the final amount may differ.

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

We currently intend to use the net proceeds from this offering for working capital and general corporate purposes, including sales and marketing activities, product development and capital expenditures.

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

The sole listed bookrunner of the IPO is B. Riley FBR.

## **Commentary**

GAN is seeking to go public on U.S. markets as it shows the beginnings of an impressive revenue ramp.

The firm's financials indicate strong revenue growth, a swing to net profits and growing cash flow from operations.

Administrative expenses are dropping as a percentage of revenue as revenues rise, a good signal.

The market opportunity for selling online betting software in the U.S. appears to be bright, especially in the aftermath of a favorable Supreme Court ruling for the industry in 2018.

B. Riley FBR is the sole underwriter and there is no return data for the firm's IPOs involvement over the last 12-month period.

GAN represents an interesting opportunity as it is selling the 'picks and shovels' to casino operators via a SaaS software bundle.

I look forward to learning management's IPO assumptions on pricing and valuation and will provide a final opinion at that time.

Expected IPO Pricing Date: To be announced.