IPO ANALYSIS

Research on potential upcoming IPOs from selected candidate companies.

Advantage Insurance

Hancock Jaffe Laboratories

Casa Systems

December, 2017

VentureDeal

Advantage Insurance Files Proposed Terms For $100 Million IPO

Quick Take

Advantage Insurance (Pending:AVI) has filed proposed terms to sell 10 million shares of common stock at a midpoint price of $10.00 per share for gross proceeds of $100 million.

The company provides specialty insurance products and related services to high net worth individuals [HNWIs] and business owners throughout the United States and elsewhere.

Advantage is a small insurer that is growing revenues at a decreasing rate and is pursuing a higher risk premium surplus investment strategy that may work well in a good economic environment but has potentially excessively negative consequences in the event of a downturn.

Company

San Juan, Puerto Rico-based Advantage was founded in 1993 as a Cayman Islands-based captive insurance manager and has since launched several product and service lines in the life and property & casualty markets.

Management is headed by CEO Walter Keenan, who has been with the firm since 2013 and was previously Executive Chairman of Medicus Insurance Holdings.

Mr. Keenan organized the recapitalization and re-purposing of Advantage in 2013 as well as its CLO-focused investment strategy.

The company had 43 employees as of Sept 30, 2017, and 329 life insurance policies in force.

Institutional investors in the firm include Copper Beech Capital (16% pre-IPO), BlackRock (9.6%), MVC Capital (9.6%), BKB Growth Investments (6.3%) and Amzak Capital Management (6.1%).

Business

Advantage sells insurance products across primarily two lines:

- Life - Private Placement Life Insurance for HNWIs
- Business - Captive insurance products for businesses wishing to self-insure

For its life insurance business, Advantage underwrites PPLI or private placement life insurance policies that enable high net worth individual to tailor their insurance plan by choosing the underlying investments from a range of asset classes. Additionally, the firm provides cash management, investment custody and funds transfer services through its Advantage International Bank Corp subsidiary. The life insurance business has tripled in size in separate account assets in 2016 vs. 2015.

For its business segment, Advantage provides captive (self-insurance) insurance and property & casualty products to small and medium-sized business in the U.S. The firm says its business segment doubled its total revenues in 2016 vs. 2015.

Market

According to a 2017 World Wealth Report by CapGemini [PDF], the HNWI population and wealth is expanding on all fronts with growth markets around the world.

The report states its growth forecast as follows:

> In the 2016 World Wealth Report, Capgemini estimated that global High Net Worth Individual [HNWI] wealth would surpass a stunning US$100 trillion (from US$16.6 trillion in 1996) by 2025. At the time, it seemed a bold prediction. In the 2017 WWR, *we confirm that global HNWI wealth expansion is on track as projected, with faster growth in North America and Europe helping to offset a deceleration in Asia-Pacific.* This is just one of many positive factors giving lift to the wealth management industry today. [*Italics* mine]

Advantage's primary geographic market focus is the U.S. and sells its various insurance products, both life insurances and business insurances to high net worth individuals [HNWIs] located there.

The chart below illustrates CapGemini's forecast for HNWI financial wealth growth over the next eight years:

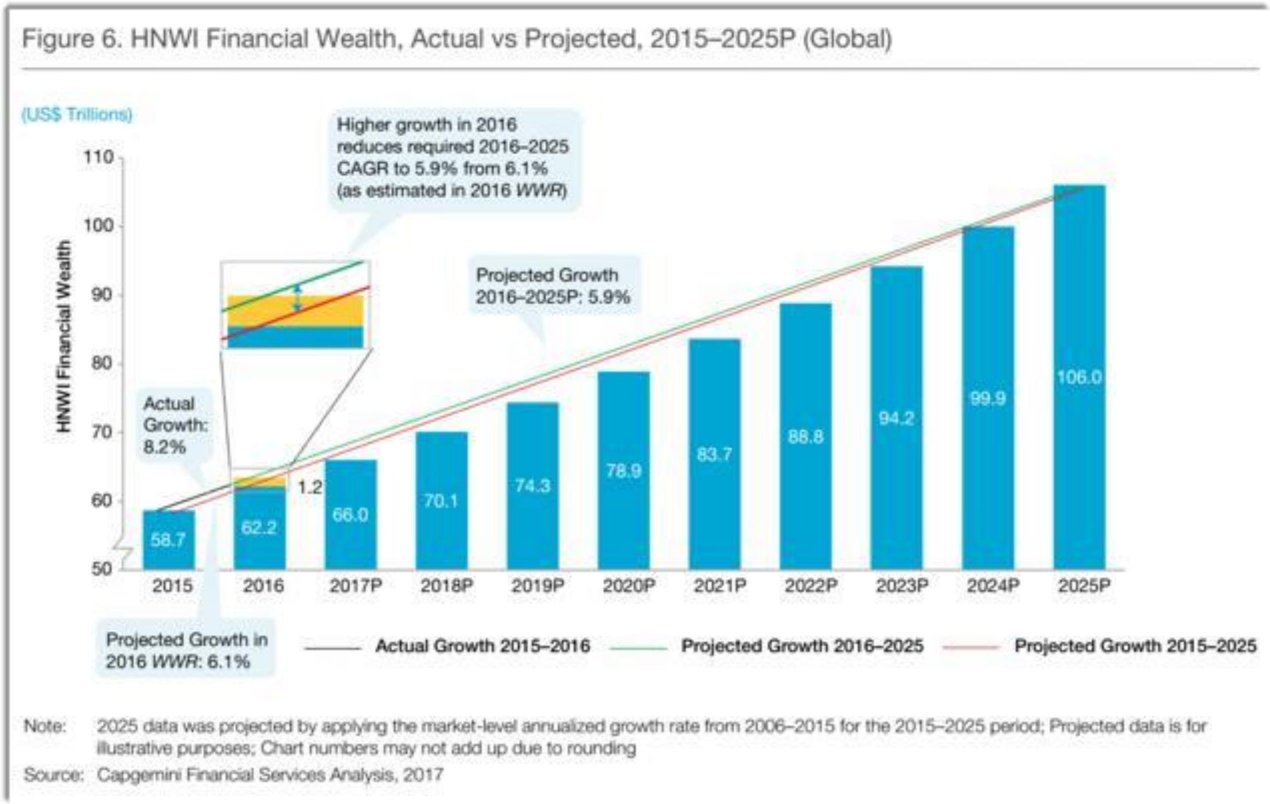

Figure 6. HNWI Financial Wealth, Actual vs Projected, 2015–2025P (Global)

Note: 2025 data was projected by applying the market-level annualized growth rate from 2006–2015 for the 2015–2025 period; Projected data is for illustrative purposes; Chart numbers may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2017

(Source: CapGemini 2017 World Wealth Report)

That is quite a rosy picture for the wealthiest strata of global society and represents a CAGR of 5.9% in wealth from 2016 to 2025.

So, AVI's focus on the HNWI strata would seem to be a well-timed bet, assuming management can effectively execute.

The firm invests its premium revenue surplus primarily in CLOs, or collateralized loan obligations. Management note that its CLO holdings are in a 'first-loss' position and that 'Because the non-rated, junior CLO interests that we hold are in a first-loss position with respect to defaults and realized losses from the bank loans held by the CLO, it is possible that we would experience a complete loss for some of all of our CLO investments in the event of a prolonged economic recession…'

The majority of its CLO investments are managed by GSO / Blackstone Debt Funds Management. The firm intends to 'contribute most of the proceeds of this offering to our insurance subsidiaries for further deployment into loan funds and CLOs managed by GSO.'

The firm's captive insurance operations are subject to potentially negative IRS actions based on its potentially abusive tax shelter capabilities by virtue of its possible ‘passive foreign investment company’ status. It has already seen new compliance requirements as a result of the initial action in 2015 and 2016 and forecasts the need for further technology investment to remain current with compliance burdens.

Competition

Major competitive vendors that provide PPLI insurance products include:

- Crown Global
- Lombard International

Captive business insurance competitors include:

- Ryan
- Strategic Risk Services
- USA Risk

The firm also competes against major insurance firms and intermediaries as indirect competitors.

Financials

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

- Growing topline revenue, although at a decreasing rate
- Stable net loss, adjustments & G&A expenses
- Uneven but positive cash flow from operations

Below are the company’s operational results for the past three and ¾ years (Audited GAAP for full years):

ADVANTAGE INSURANCE INC.

Unaudited Interim Consolidated Statements of Total Comprehensive Income/(Loss)
Three and Nine Months Ended September 30, 2017 and 2016
(Stated in thousands of United States dollars, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues				
Policy charges and fee income	$ 2,673	$ 2,017	$ 8,196	$ 5,042
Reinsurance ceded	(417)	(373)	(1,550)	(1,105)
Change in reinsurance recoverable	(39)	412	(133)	383
Net premiums earned (Note 22)	870	247	2,483	2,280
Management and administration fees	689	583	1,993	1,827
Net investment income (Note 4)	2,096	2,281	6,608	7,383
Total other-than-temporary impairment losses (Note 4)	(1,701)	—	(1,701)	—
Portion of other-than-temporary impairment losses recognized in other comprehensive (loss)/income	779	—	779	—
Total revenues	4,950	5,167	16,675	15,810
Expenses				
Net loss and loss adjustment expenses	1,123	94	2,976	1,256
Amortization of deferred policy acquisition costs (Note 9)	301	68	1,134	150
Amortization of value of business acquired	28	—	83	—
Finance charge	153	—	536	—
Underwriting, general and administrative expenses	4,046	3,459	10,333	10,589
Total expenses	5,651	3,621	15,062	11,995
Income before income tax	(701)	1,546	1,613	3,815
Current income tax (expense)/benefit	(7)	35	(21)	44
Deferred income tax (expense)/benefit	(384)	—	(400)	65
Net income	(1,092)	1,581	1,192	3,924

(Source: Advantage Insurance S-1/A)

Revenue (Policy charges & fee income, net premiums and net investment income) ($)

- Through Sept 30, 2017: $17.3 million, 17.7% increase vs. prior
- 2016: $21.5 million, 28% increase vs. prior
- 2015: $16.8 million

Net loss and adjustments, underwriting and G&A (%)

- Through Sept 30, 2017: 77%
- 2016: 77%
- 2015: 66%

Cash Flow from Operations ($)

- Through Sept 30, 2017: $1.56 million cash flow from operations
- 2016: $4.6 million cash flow from operations
- 2015: $1.8 million cash flow from operations

As of Sept 30, 2017, the company had $8.5 million in cash and $22.5 million in other liabilities.

IPO Details

Advantage intends to raise $100 million in gross proceeds from an IPO of its common stock.

Assuming a successful IPO and the underwriters exercising the over-allotment options in full, the firm will have a post-IPO market capitalization of approximately $240 million.

The estimated market cap includes the firm's preferred shares which total 7.56 million issued and outstanding shares.

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

We intend to contribute substantially all of the net proceeds from this offering to our Life Insurance and Business Insurance operating subsidiaries. We intend to use any remaining net proceeds for general corporate purposes, which may include the payment of dividends on shares of our common stock.

Management also says it plans to continue seeking acquisitions, as follows:

We plan to continue to seek out acquisitions of complementary life insurance businesses to profitably grow our business. We believe that our demonstrated ability to identify, negotiate and complete complex acquisition transactions provides us with distinct advantages relative to other potential acquirers of PPLI and specialty life insurance businesses.

Listed bookrunners of the IPO are Raymond James (RJF), JMP Securities (JMP) and B. Riley | FBR (RILY).

Commentary

An expanded version of this analysis including my commentary is available on my in-depth IPO research service, IPO Edge.

*I write in-depth research about IPOs at **IPO Edge**, where members learn the latest IPO research, market trends, and industry analysis. **Visit to learn more >>.***

Expected IPO Date: Tuesday, December 19, 2017.

Hancock Jaffe Laboratories Files To Raise $13 Million In U.S. IPO

HANCOCK JAFFE LABORATORIES

Quick Take

Hancock Jaffe Laboratories (Pending:HJLI) intends to sell 1.875 million shares at a midpoint price of $7.00 per share for gross proceeds of $13.1 million from a U.S. IPO, according to an S-1 registration statement.

The firm is developing life-enhancing bioprosthetic devices and technologies for patients with debilitating cardiovascular diseases.

Hancock is an early stage medical device firm, and I provide commentary on the IPO in my expanded analysis on Seeking Alpha Marketplace IPO Edge. **Visit to learn more >>**.

Company

Irvine, CA-based Hancock Jaffe Laboratories was founded in 1999 to pioneer and develop bioprosthetic devices for cardiothoracic and vascular surgery.

Management is headed by CEO Benedict Broennimann, MD, who has been with the firm since August 2017. Broennimann also serves as CEO and CMO at OstomyCure AS and was CMO at Waegener International AG from 2011 to 2012.

The company has created the VenoValve, Bioprosthetic Heart Valve, and the CoreoGraft - Bypass Graft.

In 2017, Hancock Jaffe's major customer included LeMaitre Vascular where a small sum of royalties have been earned from the sale of devices by LeMaitre.

To date, the company has raised $32.8 million from investors including Biodyne Holding, S.A., Rosewall Ventures Ltd. and others.

Technology

Hancock has developed three main products: the VenoValve, Bioprosthetic Heart Valve, and the CoreoGraft - Bypass Graft.

The VenoValve was developed to combat Lower Limb Chronic Deep Vein Insufficiency, a debilitating disease affecting millions in the U.S. alone. Damaged venous valves allow for backward flow, which causes itching, pain, swelling, etc.

The VenoValve reduces or corrects the venous influx within the deep venous system. Preclinical prototype testing demonstrated that the product is similar to normal venous valve function.

The Bioprosthetic Heart Valve is designed to assist pediatric patients undergoing valve replacement for congenital and/or acquired cardiac valve disease. The product has successfully demonstrated an increase of the volume of blood per heartbeat in preclinical studies.

The CoreoGraft is being developed for coronary artery bypass procedures (there is not currently FDA approved grafts on the market). The product is similar to saphenous vein grafts. In the human clinical studies, the CoreoGraft showed to sustain effective "coronary" hemodynamics and cardiac function.

Market

According to a 2016 market research report by MarketsandMarkets, the prosthetic heart valve market is projected to reach $8.85 billion by 2022 from $4.84 billion in 2017, a CAGR of 12.9% during the forecast period.

The main factors driving market growth include rising awareness about HVD, favorable reimbursement scenario for prosthetic heart valves, increasing government funding for heart valve research, a rising geriatric population, and regulatory approvals for new and advanced prosthetic heart valves.

The prosthetic heart valves market is divided into three main segments: mechanical heart valves, tissue heart valves, and transcatheter heart valves. The transcatheter heart valves segment is predicted to account for the largest share in the market due to technological advancements, increasing pool of patients and so on.

North America is projected to account for the largest share of the global prosthetic heart valve market.

The main factors driving growth in this region are rapid growth in the aging population and prevalence of valvular heart diseases, favorable reimbursement scenario, and rising product approvals for heart valves.

Competition

Major competitive vendors in the prosthetic heart valves market include the following:

- Medtronic (MDT)
- Edwards Lifesciences Corporation (EW)
- Boston Scientific Corporation (BSX)
- St. Jude Medical (STJ)
- LivaNova (LIVN)
- Symetis SA
- Jenavalve Technologies
- CryoLife (CRY)
- TTK Healthcare (TTKHEALTH.BO)
- Colibri Heart Valve
- Lepu Medical Technology
- Braile Biomedica

Although management acknowledges that the company operates in a highly competitive industry, they believe that the company's product candidates face limited direct competition.

The BHV market is mature, and competitors in the market include Johnson & Johnson (JNJ), St. Jude Medical, and Medtronic. However, Hancock Jaffe's approach differs in that natural physiology with a proprietary tissue processing technology, design and geometry are utilized.

The CoreoGraft is exclusive to Hancock Jaffe, although competitors have made attempts to "tissue engineer" small diameter grafts. Similar products should not be able to enter the market for possibly a decade due to FDA regulations and the complexity of the device.

Finally, the VenoValve has no direct competition according to management as there are "no known FDA approved effective drugs, practical, effective surgical or nonsurgical treatments, or a single treatment strategy for CVI."

Hancock Jaffe is in the process of developing and obtaining FDA approval for its three product candidates.

Financials

Hancock Jaffe Laboratories' recent financial results can be summarized as follows:

- Strong topline revenue drop: 49% decrease through Sept 30, 2017 vs. prior
- Negative gross margin percentage
- Increasingly negative gross margin dollars: ($74,687) through Sept 30, 2017 vs. prior
- Increased cash used in operations: $2.9 million for the nine months ended Sept 30, 2017

Below are the company's comparative operational results for the first nine months of 2017 (Unaudited GAAP):

HANCOCK JAFFE LABORATORIES, INC.
CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	For The Nine Months Ended September 30, 2017	2016
Revenues:		
Product sales	$ 152,400	$ 412,400
Royalty income	94,588	68,653
	246,988	481,053
Cost of goods sold	321,675	598,295
Gross Loss	(74,687)	(117,242)
Selling, general and administrative expenses	3,799,211	3,406,367
Research and development expenses	300,648	-
Loss from Operations	(4,174,546)	(3,523,609)
Other Expense (Income):		
Allowance on advances to related party	-	487,900
Interest expense, net	100,523	50,471
Amortization of debt discount	394,789	-
Change in fair value of derivative liabilities	(2,428)	(13,976)
Total Other Expense	492,884	524,395
Loss from Continuing Operations	(4,667,430)	(4,048,004)
Discontinued Operations:		
Loss from discontinued operations, net of tax	-	(298,286)
Gain on sale of discontinued operations, net of tax	-	2,499,054
Income from Discontinued Operations, net of tax	-	2,200,768
Net Loss	(4,667,430)	(1,847,236)
Deemed dividend to preferred stockholders	(331,607)	(243,938)
Net Loss Attributable to Common Stockholders	$ (4,999,037)	$ (2,091,174)

(Source: S-1 Statement)

Revenue ($)

- Through Sept 30, 2017: $246,988, 49% decrease vs. prior
- 2016: $785,912
- 2015: $0

Gross Margin (%)

- Through Sept 30, 2017: Negative
- 2016: Negative
- 2015: N/A

Gross Margin ($)

- Through Sept 30, 2017: ($74,687)
- 2016: ($24,382)
- 2015: N/A

Cash Flow from Operations ($)

- Through Sept 30, 2017: $2.9 million cash used in operations
- 2016: $3.1 million cash used in operations
- 2015: $2.0 million cash used in operations

As of 2017, the company had $311,000 in cash and $5.5 million in total liabilities.

IPO Details

Hancock Jaffe Laboratories intends to raise $13.1 million in gross proceeds from an IPO of its common stock and related warrants.

In addition, selling shareholders intend to sell $6.8 million in proceeds from the sale of 972,000 shares of their stock.

Assuming a successful IPO, the firm will have a post-IPO market capitalization of $68 million, not including customary overallotment options exercises by the underwriters.

No existing investors have expressed an interest to support the IPO by purchasing shares at the offering price.

Notably, management stated a significant upside limitation for public investors with the following disclosure:

Our current charter documents require us to make a cash distribution of $65,000,000 to certain holders of our capital stock upon the sale and/or license of our U.S. Patent No. 7,815,677 or any of our product candidates resulting in aggregate gross cash proceeds to us of at least $130,000,000.

That is a sizeable distribution preference to existing shareholders and is unusual.

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

- approximately $2.0 million to fund our research and development activities;
- approximately $7.25 million to fund the regulatory review process for all three of our product candidates; and

- the remainder for working capital and other general corporate purposes, including the additional costs associated with being a public company.

Listed bookrunners of the IPO are WallachBeth Capital, WestPark Capital, Network1 Financial Securities, and ViewTrade Securities.

Commentary

An expanded version of this analysis including my commentary is available on my in-depth IPO research service, IPO Edge.

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*I write in-depth research about IPOs at **IPO Edge**, where members learn the latest IPO research, market trends, and industry analysis. **Visit to learn more >>.***

Casa Systems Files Updated Terms For $134 Million U.S. IPO

Quick Take

Cable telecom technology vendor Casa Systems (CASA) has proposed terms for a $134 million U.S. IPO of its common stock.

The firm sells both hardware and software-centric bandwidth products to cable system operators for fixed, mobile, optical and Wi-Fi networking environments.

Casa is proposing a high valuation for its IPO while topline revenue growth has dwindled. Although management has a promising strategy for returning to higher sales growth, I find the current valuation as a major negative.

You can read an expanded version of this analysis with commentary on my IPO research service, IPO Edge. **Visit to learn more >>**.

Company Recap

Andover, Massachusetts-based Casa has developed a range of products that help cable, IP and mobile networks provide faster bandwidth within integrated platforms based on CCAP (Converged Cable Access Platform).

Management is headed by founder and CEO Jerry Guo, who was previously VP Broadband Engineering at RiverDelta Networks and a Technical Manager at Bell Labs Research.

The firm has also recently developed its Axyom Ultra Broadband Software Framework [vCCAP] which promises to enable mobile operators to provide 'ultra-broadband' speed and services to the network edge.

IPO Details

Casa intends to sell 8.4 million shares of common stock at a midpoint price of $16.00 per share for gross proceeds of $134.4 million before fees.

Assuming a successful IPO, the company's post-IPO market capitalization would be approximately $1.3 billion, excluding the effects of the underwriters purchasing all their over-allotment options.

Proceeds purposes were not defined by management. Instead they provided standard boilerplate language about using the proceeds for 'general corporate purposes.'

However, management stated how it *won't* use the proceeds,

> We do not intend to use any of the net proceeds from this offering to pay the special dividend of $43.0 million declared by our board of directors that is contingent upon, and payable following, the closing of this offering to the holders of record of our stock as of November 30, 2017, or the further cash payments of $7.0 million to be made to holders of our stock options, stock appreciation rights and restricted stock units as equitable adjustments approved by our board of directors for payment in connection with this dividend in the event that it is paid.

I'm not sure how you *not* pay a declared dividend from the IPO proceeds, since all revenues or financings go into cash and the dividend will be paid from cash, so this is a strange statement.

Looking at the Balance Sheet, we see that the Pro Forma Sept 30, 2017 figures for 'Accrued expenses and other current liabilities' include a $50 million increase, likely due to the dividend and further cash payments that will be due to its existing, pre-IPO shareholders:

CASA SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share amounts)
(Unaudited)

	December 31, 2016	September 30, 2017	Pro Forma September 30, 2017
Assets			
Current assets:			
Cash and cash equivalents	$ 329,554	$ 183,519	$ 183,519
Marketable securities	14,392	—	—
Accounts receivable, net of provision for doubtful accounts of $690 and $702 as of December 31, 2016 and September 30, 2017, respectively	110,234	97,544	97,544
Inventory	65,975	49,443	49,443
Prepaid expenses and other current assets	7,178	5,725	5,725
Prepaid income taxes	39	—	—
Total current assets	527,372	336,231	336,231
Property and equipment, net	25,682	27,928	27,928
Accounts receivable, net of current portion	6,629	5,528	5,528
Deferred tax assets	21,140	19,839	19,839
Deferred offering costs	1,464	2,112	2,112
Other assets	748	597	597
Total assets	$ 583,035	$ 392,235	$ 392,235
Liabilities, Convertible Preferred Stock and Stockholders' Deficit			
Current liabilities:			
Accounts payable	$ 21,704	$ 3,820	$ 3,820
Accrued expenses and other current liabilities	149,184	34,047	84,045
Accrued income taxes	11,823	5,679	5,679
Deferred revenue	55,876	43,353	43,353
Current portion of long-term debt, net of unamortized debt issuance costs	2,133	2,150	2,150
Total current liabilities	240,720	89,049	139,047
Accrued income taxes, net of current portion	463	2,064	2,064
Deferred revenue, net of current portion	18,458	15,852	15,852
Long-term debt, net of current portion and unamortized debt issuance costs	297,618	295,997	295,997
Total liabilities	557,259	402,962	452,960

(Source: Casa Systems S-1/A)

Listed bookrunners for the IPO are Morgan Stanley (MS), Barclays, Raymond James (RJF), Stifel (SF), Macquarie Capital, Northland Capital Markets and William Blair.

Commentary

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