

IPO ANALYSIS

Research on upcoming or recent IPOs for selected companies.

Nkarta Proposes \$150 Million IPO Terms

ACell Files For \$86 Million U.S. IPO

BlueCity Holdings Finalizes IPO Plan

July 2020

VentureDeal

Nkarta Proposes \$150 Million IPO Terms

Quick Take

Nkarta ([NKTX](#)) intends to raise \$150 million in an IPO of its common stock, according to an amended [registration statement](#).

The company is advancing a pipeline of drug candidates for the treatment of blood and other cancer indications.

NKTX is still at preclinical stage of development for its pipeline, so the IPO is likely more relevant to institutional investors with a long-term hold time frame.

My opinion on the IPO is NEUTRAL.



Company & Technology

South San Francisco, California-based Nkarta was founded to engineer what it calls natural killer [NK] cell therapies to treat blood and other cancers.

Management is headed by president and Chief Executive Officer Mr. Paul Hastings, who has been with the firm since 2018 and was previously president, CEO and Chairman of OncoMed Pharmaceuticals ([OMED](#)) and held similar positions at QLT.

The firm's two co-lead candidates, NKX101 and NKX109, are being developed to treat acute myeloid leukemia [AML] and myelodysplastic syndrome [MDS].

Below is the current status of the company's drug development pipeline:

							NEXT ANTICIPATED MILESTONE(S)	
		DISCOVERY / PRECLINICAL	PHASE 1	PHASE 2	PHASE 3	FILE IND	FIRST SUBJECT TREATED	
NKX101 (NKG2D)	AML and higher-risk MDS (systemic i.v.)					2Q20	4Q20	
	HCC/mCRC/ICC (locoregional i.a.)					4Q21	2Q22	
NKX019 (CD19)	B-cell malignancies					1Q21	3Q21	
PROGRAM 3	Oncology					1Q22		
NK + T	Oncology					2023		

Source: Company S-1 Filing

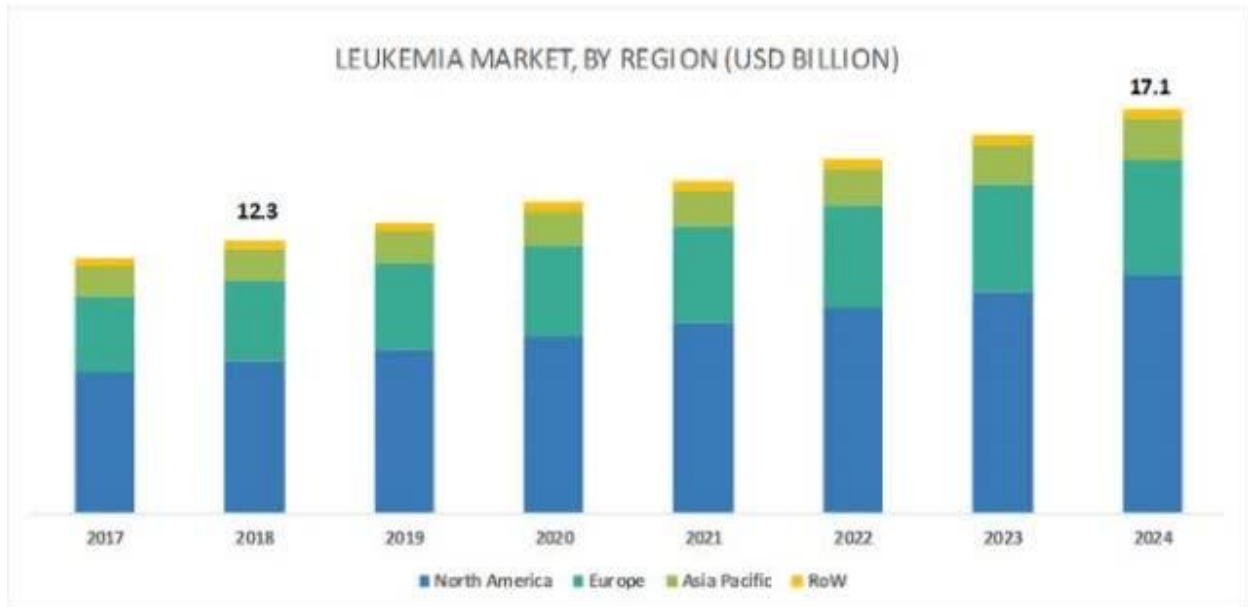
Investors in the firm have invested at least \$60 million and include RA Capital, New Enterprise Associates, Novo Holdings, S.R. One, Samsara BioCapital, Deerfield Management, LSP and others.

Market & Competition

According to a 2019 market [research report](#) by MarketsandMarkets, the market for leukemia therapeutics was \$12.3 billion in 2019 and is expected to reach \$17.1 billion by 2024.

This represents a forecast CAGR (Compound Annual Growth Rate) of CAGR of 6.8% from 2019 to 2024.

Key elements driving this expected growth are increasing incidence of disease among an aging global population, wider set of treatment options and growing awareness of treatments. Below is a chart showing the historical activity and forecast growth by year and region:



Major competitive vendors that provide or are developing treatments include:

- Fate Therapeutics ([FATE](#))
- CRISPR Therapeutics ([CRSP](#))
- Allogene ([ALLO](#))
- Cellectis ([CLLS](#))
- Celularity
- Celyad ([CYAD](#))
- Takeda Pharmaceutical ([TAK](#))
- Celgene ([CELG](#))

Below is a company-supplied competitive landscape for allogeneic cell therapies:



Financial Status

Nkarta's recent financial results are typical in recent periods for a biopharma firm in development and trial stages in that they feature little or no revenue and significant R&D and G&A expenses.

Below are the company's financial results for the past two and ¼ years (Audited PCAOB for full years):

	Year Ended December 31,		Three Months Ended March 31,	
	2018	2019	2019	2020
			(Unaudited)	
Statement of Operations Data:				
Collaboration revenue	\$ 6,550,000	\$ 115,385	\$ 113,077	\$ –
Operating expenses:				
Research and development	4,252,210	17,216,955	2,294,117	7,259,838
General and administrative	2,654,239	5,246,960	939,838	2,148,421
Total operating expenses	6,906,449	22,463,915	3,233,955	9,408,259
Loss from operations	(356,449)	(22,348,530)	(3,120,878)	(9,408,259)
Other income (expense):				
Change in fair value of preferred stock purchase right liability	–	1,317,582	–	577,645
Change in fair value of derivative liability	–	858,331	–	–
Loss from extinguishment of debt	–	(752,167)	–	–
Interest expense	–	(472,819)	–	–
Interest income	81,946	304,106	37,899	124,611
Other income, net	–	17,662	–	–
Total other income	81,946	1,272,695	37,899	702,256
Net loss	\$ (274,503)	\$ (21,075,835)	\$ (3,082,979)	\$ (8,706,003)
Comprehensive loss:				
Net loss	\$ (274,503)	\$ (21,075,835)	\$ (3,082,979)	\$ (8,706,003)
Other comprehensive loss	–	(2,139)	–	(1,403)
Comprehensive loss	\$ (274,503)	\$ (21,077,974)	\$ (3,082,979)	\$ (8,707,406)
Net loss per share, basic and diluted	\$ (0.07)	\$ (3.89)	\$ (0.64)	\$ (1.46)
Weighted average shares outstanding, basic and diluted ⁽¹⁾⁽²⁾	3,940,474	5,411,362	4,838,626	5,954,041
Pro forma net loss per share, basic and diluted (unaudited) ⁽¹⁾⁽²⁾		\$ (1.13)		\$ (0.26)
Pro forma weighted average shares outstanding, basic and diluted (unaudited) ⁽¹⁾⁽²⁾		18,599,999		33,225,398

Source: Company registration statement

As of March 31, 2020, the company had \$90.4 million in cash and \$15.0 million in total liabilities. (Unaudited, interim)

IPO Details

NKTX intends to sell 10 million shares of common stock at a midpoint price of \$15.00 per share for gross proceeds of approximately \$150.0 million, not including the sale of customary underwriter options.

No existing shareholders have indicated an interest to purchase shares at the IPO price, a common feature for life science IPOs.

Assuming a successful IPO at the midpoint of the proposed price range, the company's enterprise value at IPO would approximate \$396.4 million.

Excluding effects of underwriter options and private placement shares or restricted stock, if any, the float to outstanding shares ratio will be approximately 37.84%.

Per the firm's most recent regulatory filing, it plans to use the net proceeds as follows:

Approximately \$65 million to fund our internal discovery research, process development, manufacturing and clinical activities during this time;

Approximately \$15 million to fund the external costs for the development of NKX101 through the completion of dose finding for NKX101 in hematological malignancies;

Approximately \$10 million to fund the external costs for the development of NKX019 through the completion of dose finding for NKX019 in B-cell malignancies;

Approximately \$5 million to fund the external costs for the development of Program 3 to the filing of an IND with the FDA;

Approximately \$10 million to fund the initial buildout and qualification of our commercial cGMP facility; and

The remainder for our other pipeline candidates and general corporate purposes.

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

Listed underwriters of the IPO are Cowen, Evercore ISI, Stifel and Mizuho Securities.

Commentary

Nkarta is seeking an above-average IPO transaction size for a life science firm, although recently biopharma companies have been taking advantage of stronger than usual shareholder demand by completing larger transactions.

For its lead candidate, the firm expects to begin dosing the first patient in Phase 1 safety trials by Q4 2020.

So, the company is still an extremely early stage biopharma and thus a high risk investment opportunity.

The market size for hematological malignancy treatments is large and expected to grow at a moderate rate in the years ahead as populations age and develop these types of cancer conditions at a higher rate due to lower immune system function.

The company has no current collaborations; its previous collaboration with GlaxoSmithKline concluded in December 2018.

Cowen is the lead left underwriter and IPOs led by the firm over the last 12-month period have generated an average return of negative (17.9%) since their IPO. This is a bottom-tier performance for all major underwriters during the period.

As to valuation, the IPO is valued within a typical range for most life science firms.

However, NKTX is still at pre-clinical stage, so the IPO is more of a venture capital funding round more suited to institutional investors with long hold time frames rather than individual investors.

My opinion on the IPO is therefore NEUTRAL.



Expected IPO Pricing Date: Week of July 6, 2020.

ACell Files For \$86 Million IPO

Quick Take

ACell ([ACLL](#)) has filed to raise \$86.25 million in an IPO of its common stock, according to an [S-1 registration statement](#).

The firm develops and sells various wound care products for post-surgical applications.

ACLL has experienced a drop in sales as the Covid19 pandemic has reduced elective surgeries.

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

Company & Technology

Columbia, Maryland-based ACell was founded to develop proprietary porcine urinary bladder matrix technologies to assist in the reinforcement of soft tissue that has been damaged.

Management is headed by Mr. Patrick McBrayer, who has been with the firm since 2016 and was previously president and Chief Executive Officer of AxioMed Spine until the company's acquisition in 2014. The company's primary offerings include:

- MicroMatrix
- Cytal
- Gentrix
- ABRA Abdominal

ACell has received at least \$42 million from investors.

Customer Acquisition

Since the firm's commercial launch in 2009, it has sold more than 500,000 units of its urinary bladder matrix products in the U.S. ACell also has marketing approval in Canada and Saudi Arabia and is pursuing approvals in China, South Korea and the EU.

The company sells its products through a 160-strong direct sales force that sells to hospital operating rooms and intensive care units.

ACell also sells through group purchasing organizations, integrated delivery networks and to the federal government.

Total customer count in 2019 was 1,900 customers.

Selling, G&A expenses as a percentage of total revenue have been trending upward as revenues have increased, as the figures below indicate:

Selling, G&A Period	Expenses vs. Revenue Percentage
Three Mos. Ended March 31, 2020	84.6%
2019	71.8%
2018	75.1%

Source: Company registration statement

The Selling, G&A efficiency rate, defined as how many dollars of additional new revenue are generated by each dollar of Selling, G&A spend, was 0.0x in the most recent reporting period, as shown in the table below:

Selling, G&A Period	Efficiency Rate Multiple
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Three Mos. Ended March 31, 2020 0.0
2019 0.2

Source: Company registration statement

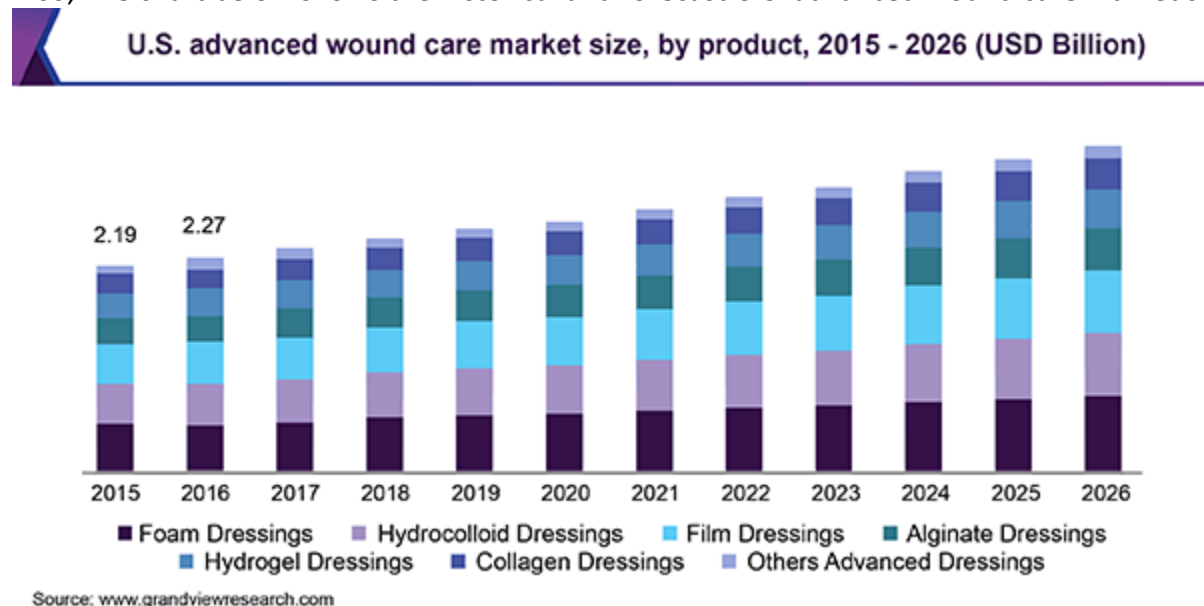
Market & Competition

According to a 2018 market [research report](#) by Grand View Research, the U.S. market for advanced wound care was \$2.46 billion in 2018.

This represents a forecast 4.2% from 2018 to 2026.

The main drivers for this expected growth are a growing incidence of chronic wounds, increasing demand for shorter hospital stays and more surgeries in the U.S.

Also, The chart below shows the historical and forecast U.S. advanced wound care market size:



Major competitive or other industry participants include:

- Avita Medical
- Integra LifeSciences ([IART](#))
- MiMedx Group ([MDXG](#))
- Organogenesis ([ORGO](#))
- Osiris Therapeutics ([OSIR](#))
- Vericel ([VCEL](#))
- Others

Financial Performance

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

- Slight contraction in topline revenue
- Reduced gross profit
- Uneven operating losses and margin
- Variable cash flow from or used in operations

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

Total Revenue

Period	Total Revenue	% Variance vs. Prior
Three Mos. Ended March 31, 2020	\$ 23,684,000	-1.9%
2019	\$ 100,794,000	13.0%
2018	\$ 89,221,000	

Gross Profit (Loss)

Period	Gross Profit (Loss)	% Variance vs. Prior
Three Mos. Ended March 31, 2020	\$ 19,038,000	-3.4%
2019	\$ 72,932,000	-10.7%
2018	\$ 81,684,000	

Gross Margin

Period	Gross Margin
Three Mos. Ended March 31, 2020	80.38%
2019	72.36%
2018	91.55%

Operating Profit (Loss)

Period	Operating Profit (Loss)	Operating Margin
Three Mos. Ended March 31, 2020	\$ (2,741,000)	-11.6%
2019	\$ 1,376,000	1.4%
2018	\$ (3,065,000)	-3.4%

Net Income (Loss)

Period	Net Income (Loss)
Three Mos. Ended March 31, 2020	\$ (2,671,000)
2019	\$ 1,449,000
2018	\$ (3,131,000)

Cash Flow From Operations

Period	Cash Flow From Operations
Three Mos. Ended March 31, 2020	\$ (2,283,025)

2019	\$ 606,611
2018	\$ (2,615,348)

[\(Glossary Of Terms\)](#)

Source: Company registration statement

As of March 31, 2020, ACell had \$4.6 million in cash and \$22.3 million in total liabilities.

Free cash flow during the twelve months ended March 31, 2020, was negative (\$1.4 million).

IPO Details

ACell intends to raise \$86.25 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:

to increase awareness of our differentiated technology, products and brand in the markets in which we compete;

to fund research, including clinical trials and post-market studies, for our products;

to grow our sales force and continue to invest in training to further enhance the experience and skills of our sales and marketing personnel;

to invest in upgrades to our Lafayette, Indiana facility;

to expand our international sales opportunity;

to expand and enhance our product portfolio; and

the remainder for working capital and general corporate purposes.

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

Listed bookrunners of the IPO are UBS Investment Bank, Barclays, RBC Capital Markets and SunTrust Robinson Humphrey.

Commentary

ACell is seeking funding for its continued development and growth initiatives.

The firm's financials have seen the negative impact of the Covid19 pandemic on orders for its products, as healthcare systems have prioritized pandemic response over elective surgeries.

This sales softness will likely continue into Q2 2020 and perhaps later in the year.

Selling, G&A expenses as a percentage of total revenue has been trending upward; its Selling, G&A efficiency rate was reduced to 0.0x in the most recent reporting period.

The market opportunity for wound care products in the U.S. is expected to grow at a moderate rate.

Management hopes to expand internationally to grow its addressable market although such expansion is likely to bring additional costs related to it.

UBS Investment Bank is the lead left underwriter and IPOs led by the firm over the last 12-month period have generated an average return of negative (71.7%) since their IPO. This is a bottom tier performance for all major underwriters during the period.

Prior to the negative effects of the Covid19 pandemic on its sales, ACell was growing revenue moderately and had become profitable and operating cash flow positive in 2019.

I suspect the Covid19 pandemic's effects on its business will be temporary.

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

Expected IPO Pricing Date: To be announced.

BlueCity Holdings Finalizes IPO Plan

Quick Take

BlueCity Holdings ([BLCT](#)) has filed to raise \$85 million in an IPO of ADSs representing underlying Class A stock, according to an amended [registration statement](#).

The company has developed a website for LGBTQ communities in China and other Asian countries.

BLCT has achieved a strong revenue growth trajectory, increasing gross margin and has made a turn toward operating breakeven (which may change in the future), so the IPO appears to be reasonably valued.

My opinion on the IPO is a BUY at up to \$16.00 per ADS.



Company & Technology

Beijing, China-based BlueCity was founded to provide LGBTQ persons with an online destination for community, connection and related information.

Management is headed by founder, Chairman and CEO Mr. Baoli Ma, who was previously deputy director of information research at Qinhuangdao Public Security Bureau. The firm says it has more than 49 million registered users and its average MAUs (Monthly Active Users) was 6.0 million users for the three months ended March 31, 2020.

The company's primary offerings include:

- Community
- Health & Wellness Services
- Live Streaming
- Assisted Reproduction Services

The firm generates most of its revenues from its live streaming service.

BlueCity has received at least \$251 million from investors including Sunwei Ventures, CDH entities, Liberty Hero, Crystal Stream and NewQuest Asia Investments.

User Acquisition & Market

The firm acquires users through word of mouth and online social media and paid marketing efforts.

Selling & Marketing expenses as a percentage of total revenue have been stable as revenues have increased, as the figures below indicate:

Selling & Marketing Period	Expenses vs. Revenue Percentage
Three Mos. Ended March 31, 2020	18.6%
2019	17.1%
2018	18.7%

Source: Company registration statement

The Selling & Marketing efficiency rate, defined as how many dollars of additional new revenue are generated by each dollar of Selling & Marketing spend, dropped to 1.5x in the most recent reporting period, as shown in the table below:

Selling & Marketing Period	Efficiency Rate Multiple
Three Mos. Ended March 31, 2020	1.5
2019	1.8

Source: Company registration statement

According to a 2016 market [research report](#) by OutNow Global, the market for LGBTQ travel and related services was valued at \$211 billion in 2016.

This represents an historical average annual growth rate of 2.0% per year.

Management says its intention is to further deepen its offerings as well as broaden them to include new services. Additionally, the firm intends to expand into new geographies it believes are underserved.

Financial Performance

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

- Growing topline revenue
- High gross profit and growing gross margin
- Lowered negative operating margin
- Uneven cash used in operations

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

Total Revenue

Period	Total Revenue	% Variance vs. Prior
Three Mos. Ended March 31, 2020	\$ 29,301,000	37.1%
2019	\$ 107,175,000	45.4%
2018	\$ 73,719,412	

Gross Profit (Loss)

Period	Gross Profit (Loss)	% Variance vs. Prior
Three Mos. Ended March 31, 2020	\$ 9,641,000	87.0%

2019	\$ 30,035,000	80.9%
2018	\$ 16,603,971	

Gross Margin

Period	Gross Margin
Three Mos. Ended March 31, 2020	32.90%
2019	28.02%
2018	22.52%

Operating Profit (Loss)

Period	Operating Profit (Loss)	Operating Margin
Three Mos. Ended March 31, 2020	\$ (1,472,000)	-5.0%
2019	\$ (8,594,000)	-8.0%
2018	\$ (21,935,441)	-29.8%

Net Income (Loss)

Period	Net Income (Loss)
Three Mos. Ended March 31, 2020	\$ (1,075,000)
2019	\$ (7,344,000)
2018	\$ (21,258,824)

Cash Flow From Operations

Period	Cash Flow From Operations
Three Mos. Ended March 31, 2020	\$ (2,099,622)
2019	\$ (4,468,677)
2018	\$ (15,210,000)

Source: Company registration statement

As of March 31, 2020, BlueCity had \$39.4 million in cash and \$17.6 million in total liabilities.

Free cash flow during the twelve months ended March 31, 2020, was negative (\$3.4 million).

IPO Details

BLCT intends to sell 5.3 million ADSs representing underlying Class A shares at a midpoint price of \$16.00 per ADS for gross proceeds of approximately \$85.0 million, not including the sale of customary underwriter options.

Each 2 ADSs represent one Class A ordinary share.

The company's founder has indicated an interest to purchase shares of up to \$5.0 million in the IPO as a show of 'support' for the IPO.

Class A stockholders will be entitled to one vote per share and the company founder, as the holder of the Class B shares, will be entitled to five votes per share.

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

Assuming a successful IPO at the midpoint of the proposed price range, the company's enterprise value at IPO would approximate \$782.1 million.

Excluding effects of underwriter options and private placement shares or restricted stock, if any, the float to outstanding shares ratio will be approximately 14.87%.

Per the firm's most recent regulatory filing, the firm plans to use the net proceeds as follows:

We plan to use the net proceeds we receive from this offering for [i] geographic expansion, [ii] investment in technology and development, artificial intelligent technology and big data capacity in particular, and [iii] general corporate purposes.

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

Listed underwriters of the IPO are AMTD Global Markets, Loop Capital Markets, Tiger Brokers, Prime Number Capital and R.F. Lafferty & Co. A number of these underwriters are active in Chinese company listings on U.S. markets.

Valuation Metrics

Below is a table of the firm's relevant capitalization and valuation metrics at IPO:

Measure [TTM]	Amount
Market Capitalization at IPO	\$570,421,440
Enterprise Value	\$782,056,440
Price / Sales	4.96
EV / Revenue	6.79
EV / EBITDA	-123.73
Earnings Per Share	-\$0.12
Total Debt To Equity	-0.09
Float To Outstanding Shares Ratio	14.87%
Proposed IPO Midpoint Price per Share	\$16.00
Net Free Cash Flow	-\$3,418,695
Free Cash Flow Yield	-0.60%
Revenue Growth Rate	37.09%

Source: Company Prospectus

Commentary

BLCT is seeking U.S. public capital for its expansion plans within Asia.

The company's financials show strong revenue growth and a turn toward operating and net breakeven. Cash used in operations has fluctuated but is at a manageable level given the proposed IPO amount and the firm's solid balance sheet with ample cash and little in the way of liabilities.

Selling and marketing expenses as a percentage of total revenue have been uneven and the firm's selling & marketing efficiency multiple has dropped as revenues have increased.

The market opportunity for providing an online destination for the LGBTQ communities in Asia is potentially significant as these groups have purchasing power that can be aggregated efficiently and monetized.

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

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

AMTD is the lead left underwriter and IPOs led by the firm over the last 12-month period have generated an average return of negative (32.0%) since their IPO. This is a bottom-tier performance for all major underwriters during the period.

As a comparable-based valuation compared to a basket of Information Services firms in the NYU Stern School's [index](#) of publicly held stocks in January 2020, the index indicated an EV / Sales multiple of 9.17x versus BLCT's proposed multiple of 6.79x.

While the comparison is inexact, given BLCT's strong revenue growth trajectory, increasing gross margin and turn toward operating breakeven, the IPO appears to be reasonably valued.

My opinion on the IPO is a BUY at up to \$16.00 per ADS.



Expected IPO Pricing Date: July 7, 2020.