IPO ANALYSIS

Research on upcoming IPOs for selected candidate companies.

CNFinance

EnVen Energy

Centrexion Therapeutics

November 2018

VentureDeal

CNFinance Readies Lowered IPO Effort

Quick Take

CNFinance (CNF) intends to raise $52 million from the sale of ADSs representing its common stock in a U.S. IPO, per an amended registration statement.

The company provides individual and small business owners with capital via its home equity loan facilities.

CNF has promising longer-term prospects, but in light of the poor performance of many Chinese IPOs in recent months, the short-term uncertainty on both regulatory and economic fronts, and a pricey IPO valuation expectation from management, my opinion on the IPO is NEUTRAL.

Company & Technology

The Guangzhou, Guangdong-based financial services company was founded in 2006 to provide financial services to small- and micro-enterprises through home equity loan products.

Management is headed by Chairman and CEO Bin Zhai, who has been with the firm since 2010 and was previously the Executive Director of Shenzhen Nanfeng Mortgage Advisory Co., Ltd.

Currently, CNF is focused on Tier 1 and Tier 2 cities where its client base has suitable properties for use as collateral.

Management plans to develop sub-branches around the areas where their existing branches are located for better penetration of the market. They also partner with real estate brokers who help them identify potential clients.

The company's customer base typically cannot get loans from traditional banks which apply stringent requirements and slow processes more appropriate for larger borrowers.

The average revenue per customer has been increasing significantly in recent periods, as the table below indicates:

Average Revenue Per Customer/User

Period	**ARPC/U Variance**
1H 2018	$14,861 37.6%
2017	$10,798 34.2%
2016	$8,047

(Source: Registration statement and IPO Edge)

CNF targets clients with online and offline credit applications and assessments with time-to-disbursement as fast as 48 hours from a completed application.

Interest rates currently range from 0.9% to 1.3% per month and loan terms from one to eight years in length.

Market & Competition

According to a 2016 market research report by China's Central Bank, Chinese bank-issued home loans reached $2.2 trillion in 2015, 6% more than the previous year.

According to a private research report by Oliver Wyman commissioned by CNFinance, the market is expected to grow from $1.05 billion in 2017 to $2.15 billion by 2022.

Major competitive vendors that are operating in China's non-traditional home equity loan service industry include:

- Pingan Puhui (Lufax)
- Lamp Finance

Financial Performance

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

- Strong growth in net interest income although at a decelerating rate
- A significant decrease in net interest margin in Q2 2018
- Low to zero charge-off ratios

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

	Note	2016 RMB	2017 RMB
Interest and fees income			
Interest and financing service fee on loans	18	1,242,128,524	3,406,110,592
Interest on deposits with banks		1,417,305	4,337,177
Total interest and fees income		1,243,545,829	3,410,447,769
Interest expense			
Interest expense on interest-bearing borrowings		(442,661,324)	(1,401,191,685)
Interest expense on amounts due to related parties		—	(8,714,000)
Total interest expense		(442,661,324)	(1,409,905,685)
Net interest and fees income		800,884,505	2,000,542,084
Provision for credit losses		(111,362,044)	(306,752,951)
Net interest and fees income after provision for credit losses		689,522,461	1,693,789,133
Realized gains/(losses) on sales of investments, net	19	66,878,501	(11,527,798)
Other-than-temporary losses on available-for-sale investments	7	(36,692,695)	—
Other revenue, net	20	36,261,933	23,979,610
Total non-interest revenue		66,447,739	12,451,812
Operating expenses			
Employee compensation and benefits		(299,225,819)	(545,956,248)
Share-based compensation expense	24	—	(182,689,766)
Taxes and surcharges		(48,207,495)	(38,835,933)
Rental and property management expenses		(24,404,690)	(47,896,817)
Impairment of goodwill		(20,279,026)	—
Other expenses	21	(75,807,908)	(82,194,556)
Total operating expenses		(467,924,938)	(897,573,320)
Income before income tax		288,045,262	808,667,625
Income tax expense	22	(52,603,423)	(275,994,868)
Net income		235,441,839	532,672,757
Earnings per share	23		
Basic		0.19	0.43
Diluted		0.19	0.40

(Source: CNFinance F-1/A)

Net Interest Income After Provision For Loan Losses

- Q2 2018: $145.2 million, 27.6% increase vs. prior
- 2017: $260.5 million, 145.5% increase vs. prior
- 2016: $106.1 million

Net Interest Margin

- Q2 2018: 5.6%

- 2017: 10.4%
- 2016: 9.5%

Charge-off Ratio

- Q2 2018: 0.005%
- 2017: 0.093%
- 2016: 0.005%

As of June 30, 2018, the company had $372.1 million in cash and $2.7 billion in total liabilities including borrowings.

IPO Details

CNF intends to sell 6.5 million ADSs at a midpoint price of $8.00 per share for gross proceeds of approximately $52 million, not including the sale of customary underwriter options.

Several investors have indicated an interest to purchase 'up to US$60 million of the ADSs in aggregate, in this offering.' The investors are not existing shareholders of the company, but this is a positive signal to prospective IPO investors.

Assuming a successful IPO at the midpoint of the proposed price range, the company's enterprise value at IPO would approximate $2.7 billion.

Excluding effects of underwriter options and private placement shares or restricted stock, if any, the float to outstanding shares ratio will be approximately *9.56%*.

This is a relatively low float and may presage a follow-on offering in the near future if market conditions improve.

Management plans to use the net proceeds as follows:

We plan to use the net proceeds of this offering for working capital and other general corporate purposes. In utilizing the proceeds from this offering, we are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries only through loans or capital contributions and only if we satisfy the applicable government registration and approval requirements.

Management's presentation of the company roadshow isn't available.

Listed underwriters of the IPO are Roth Capital Partners and Shenwan Hongyuan Securities.

Valuation Metrics

Below is a table of relevant capitalization and valuation metrics:

Measure [TTM]	**Amount**
Market Capitalization at IPO	$544,173,616
Enterprise Value	$2,742,410,960
Price/Sales	1.89
EV / Revenue	9.54
EV / EBITDA	17.46
Earnings Per Share	$1.62
Total Debt To Equity	7.83
Float To Outstanding Shares Ratio	9.56%
Proposed IPO Midpoint Price per Share	$8.00
Net Free Cash Flow	$421,592,076

(Source: Company Prospectus and IPO Edge)

As a reference, CNF's clearest recent public comparable would be X Financial (XYF); shown below is a comparison of their primary valuation metrics:

Metric	**X Financial (XYF)**	**CNFinance (CNF)**	**Variance**
Price/Sales	1.81	1.89	4.6%
EV / Revenue	2.45	9.54	289.5%
EV / EBITDA	5.32	17.46	228.1%
Earnings Per Share	0.71	$1.62	128.5%

(Source: Company Prospectus and IPO Edge)

Commentary

I previously wrote about CNFinance's IPO prospects in my analysis, *First Look | CNFinance Files To Raise $200 Million In U.S. IPO*.

The current proposed amount of $52 million is a major reduction in IPO size from its original $200 million filing and may reflect a more difficult IPO environment as a result of volatility as well as a tougher valuation market for Chinese companies seeking U.S. public capital.

In that piece, I highlighted how CNF has been growing quickly but more recently its topline revenue growth and net interest margin have been moderating.

The long-term market opportunity for companies like CNF is significant, but it is the short-term that appears to be highly variable.

The Chinese government has made several efforts in recent quarters to reign in consumer lenders, especially non-bank lenders and marketplace operators.

However, given the apparent negative effects on the Chinese economy due to recent trade developments with the U.S., that hardline stance may be moderating somewhat.

The situation that consumer lenders in China face is very unpredictable. There may be an opportunity for China and the U.S. to develop a framework to begin resolving their disputes at the upcoming G20 summit beginning November 30, 2018.

In the meantime, interested investors in CNF would need to be willing to withstand potentially volatile stock price fluctuations in the short-term.

Roth Capital Partners is the lead left underwriter for the IPO. IPOs led by the firm over the past 12-month period have generated average returns of *0.8%* since their IPO. This is a lower-tier performance for all major underwriters during the period.

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.

As to valuation, CNF management is asking for a significant premium compared to recent Chinese financial services IPO firm X Financial. However, CNF has much higher earnings per share, more than double that of XYF.

As much as I like CNF's longer-term prospects, given the poor performance of many Chinese IPOs in recent months, the short-term uncertainty on both regulatory and economic fronts, and a pricey IPO valuation expectation from management, my opinion on the IPO is NEUTRAL.

EnVen Energy Files For $100 Million U.S. IPO

Quick Take

EnVen Energy (ENVN) intends to raise gross proceeds of $100 million from a U.S. IPO, according to an S-1 registration statement.

The firm operates as an independent oil and natural gas company in the deepwater region of the U.S. Gulf of Mexico.

ENVN has a number of 'stacked-pay' formations, which when combined with newer drilling technologies, promise to provide a more efficient production model.

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

Company & Operations

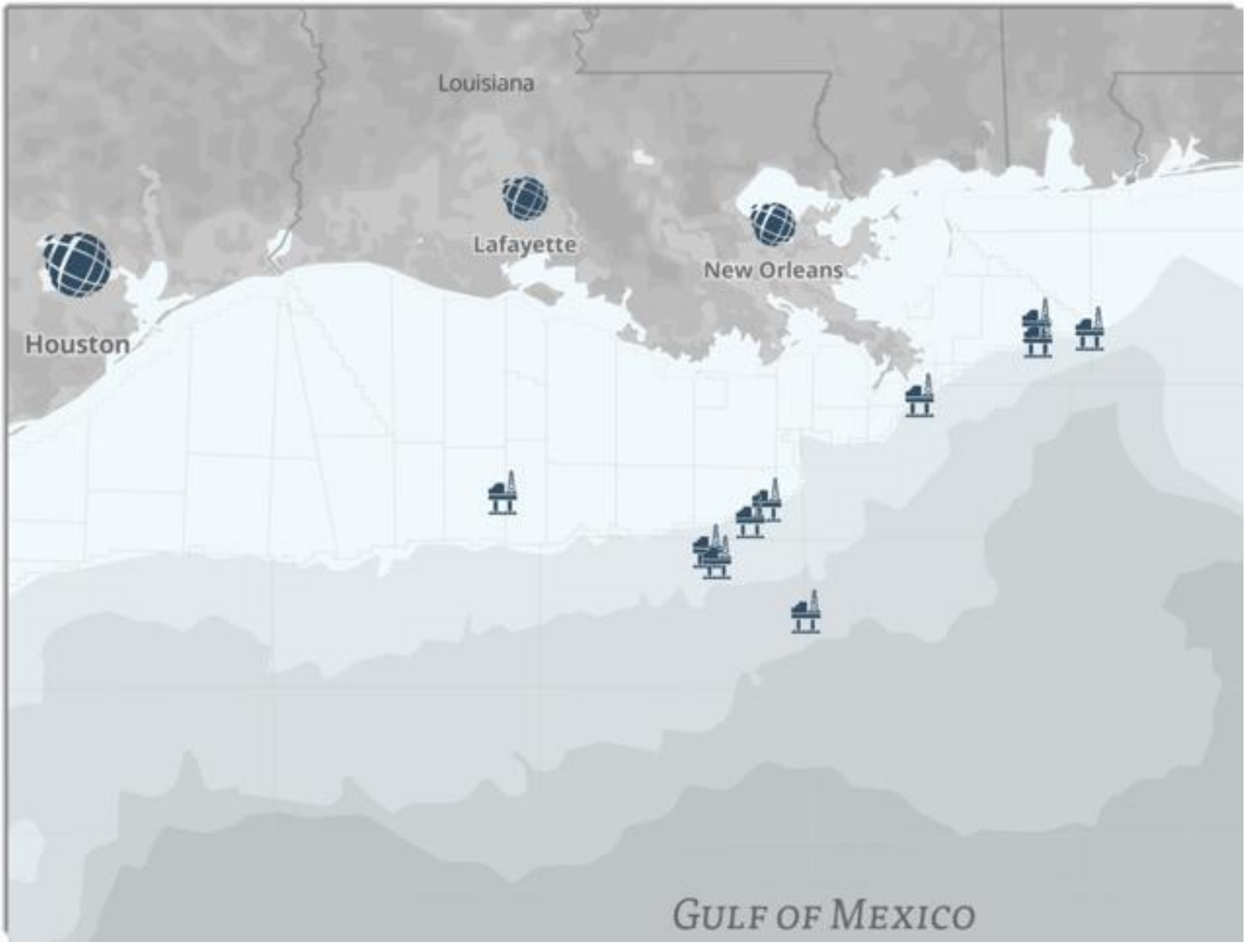
Houston, Texas-based EnVen Energy was founded in 2014 to develop, acquire, and operated crude oil and natural gas properties in the deepwater region of the U.S. Gulf of Mexico that the company believes come with untapped, lower-risk drill bit opportunities and will provide strong cash flow, as well as significant production potential.

Management is headed by Chairman and CEO Steve Weyel, who has been with the firm since and is currently also the Founder and Chairman of Equigen.

As of June 30, 2018, EnVen Energy has a portfolio of 59 leases in the Gulf of Mexico, spanning approximately 282,789 gross acres (213,914 net). Of those, 18 have owned and operated offshore platforms, and 7 have non-operated offshore platforms.

During the first half of 2018, 90% of the company's revenue was generated by oil production, which represents 78% of the total production. EnVen's average daily production has grown with 9% as compared to that of 2017, from 27,100 to 29,500 barrels, each with the capacity of 42 U.S. gallons.

Below is a map of the company's offshore rig locations and onshore facilities:



(Source: EnVen)

Market

According to a 2017 market research report by Orbis Research, the global offshore drilling market is projected to grow from $78.9 billion in 2017 to $103.1 billion by 2023, representing a CAGR of 4.54% during the period between 2018 and 2023.

The main factors expected to drive market growth are more efficient drilling technologies for offshore-specific environments, enabling E&P firms to compete with other, onshore methods of extraction.

Major companies that conduct Gulf of Mexico offshore drilling operations include:

- Chevron U.S.A. (CVX)
- Shell Offshore (RDS.A)

- Total E&P USA (TOT)
- LLOG Exploration
- Anadarko Petroleum (APC)
- Equinor (EQNR)
- BP (BP)

Financial Performance

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

- Strong growth in topline revenue, but at a decelerating rate
- A significant increase in operating profit
- Moderately high operating margin
- Strong growth in cash flow from operations

Below are the company's financial results for the past two and ½ years (Audited PCAOB for full years):

(In thousands, except for the number of shares outstanding and per share amounts)	Six months ended June 30, 2018	Six months ended June 30, 2017	Year ended December 31, 2017	Year ended December 31, 2016
Statement of operations				
Total revenues(1)	$ 306,094	$216,373	$434,411	$203,319
Operating expenses(1):				
Lease operating expenses	41,967	54,510	97,560	67,918
Workover, repair, and maintenance expenses	11,985	8,829	18,642	12,754
Transportation, gathering, and processing costs(2)	5,265	—	—	—
Depreciation, depletion, and amortization	96,473	88,911	170,372	104,584
General and administrative expenses	24,820	19,617	42,397	35,078
Accretion of asset retirement obligations	17,136	15,198	31,392	21,669
Total operating expenses	**$ 197,646**	**$187,065**	**$360,363**	**$242,003**
Operating income (loss)	**$ 108,448**	**$ 29,308**	**$ 74,048**	**$ (38,684)**
Other (expense) income:				
Interest expense	(37,551)	(29,835)	(60,307)	(31,545)
(Loss) gain on derivatives, net	(37,649)	41,141	5,020	(9,153)
Interest income	2,473	2,111	4,370	3,916
Loss on extinguishment of long-term debt	(4,012)	—	—	—
Loss on fair value of 11.00% Senior notes due 2023	(27,830)	—	—	—
Total other (expense) income	**$(104,569)**	**$ 13,417**	**$ (50,917)**	**$ (36,782)**
Income tax expense	416	11,504	14,095	—
Net income (loss)	**$ 3,463**	**$ 31,221**	**$ 9,036**	**$ (75,466)**
Net income (loss) attributable to non-controlling interest	**$ 338**	**$ 4,767**	**$ 2,581**	**$ (14,371)**
Net income (loss) attributable to EnVen Energy Corporation	**$ 3,125**	**$ 26,454**	**$ 6,455**	**$ (61,095)**
Series A preferred stock dividends	(15,794)	(8,898)	(21,590)	(49)
Net (loss) income attributable to EnVen Energy Corporation common stockholders	**$ (12,669)**	**$ 17,556**	**$ (15,135)**	**$ (61,144)**

(Source: EnVen S-1)

Total Revenue

- 1H 2018: $306.1 million, 41.5% increase vs. prior
- 2017: $434.4 million, 113.7% increase vs. prior
- 2016: $203.3 million

Operating Profit

- 1H 2018: $108.5 million
- 2017: $74.0 million
- 2016: ($38.7 million) loss

Operating Margin

- 1H 2018: 35.4%
- 2017: 17.0%
- 2016: Negative

Cash Flow from Operations

- 1H 2018: $168.8 million
- 2017: $191.5 million
- 2016: $27.0 million

As of June 30, 2018, the company had $100.9 million in cash and $794.3 million in total liabilities. (Unaudited, interim)

Free cash flow during the six months ended June 30, 2018, was $93.4 million.

IPO Details

ENVN has filed to raise $100 million in gross proceeds from an IPO of its Class A common stock, not including customary underwriter options.

Class B shares will be held by EnVen Equity Holdings and contain no economic rights. The only rights Class B holders will have will be to require ENVN to buy their shares for either an equivalent number of Class A shares or with cash at the fair value.

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

We intend to use the net proceeds from this offering to purchase LLC Units directly from EnVen GoM at a price per unit equal to the initial public offering price per share of Class A common stock in this offering less the underwriting discounts and commissions.

EnVen GoM anticipates that it will use the [...] net proceeds it receives from the sale of LLC Units to us (together with any additional proceeds we may receive if the underwriters exercise their option to purchase additional shares of Class A common stock, which will be used to purchase additional LLC Units from EnVen GoM) to redeem up to 35% of the aggregate principal amount of the 2023 Notes at a redemption price equal to 111.0% of the 2023 Notes to be redeemed plus accrued and unpaid interest, pursuant to the terms of the indenture governing the 2023 Notes. As of June 30, 2018, $325 million of the 2023 Notes were outstanding. The 2023 Notes have a stated maturity of February 15, 2023 and accrue interest at a rate equal to 11.0% per annum.

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

Listed underwriters of the IPO are Citigroup, J.P. Morgan, Stifel, and BMO Capital Markets.

Commentary

EnVen seeks to raise capital at a time of challenging volatility in public markets.

The firm wants to use the IPO proceeds to pay down debt.

ENVN's financials show the results of a material upturn in the price of oil and its ability to produce from its offshore wells.

The market opportunity for offshore has waned in recent years as the price of oil dropped precipitously from 2014 - 2016, and as the boom in various onshore basins located in the Midwest U.S. has taken attention and capital due to improved efficiencies from fracking technologies.

The ability to drill horizontally has recently improved as a result, and those technologies are starting to be adapted for offshore fracking use.

As a result, the cost and yield assumptions for offshore drilling have changed, resulting in a reduction of the breakeven price for oil produced from offshore operations that employ these improved technologies.

Citigroup is the lead underwriter for the IPO. IPOs led by the firm over the last 12-month period have generated an average return of -17% since their IPO. This is a lower-tier performance for all major underwriters during the period.

EnVen appears well-positioned to take advantage of production efficiencies due to many of its locations being 'stacked-pay' formations that may be amenable to improved well production technologies.

Centrexion Therapeutics Files For $86 Million IPO

Quick Take

Centrexion Therapeutics (CNTX) intends to raise gross proceeds of $86.25 million from a U.S. IPO, according to an S-1 registration statement.

The firm is developing medication for moderate to severe chronic pain.

CNTX is in Phase 3 trials for three programs for its lead candidate. The firm has had promising results so far but faces a difficult and expensive road ahead.

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

Company & Technology

Boston, Massachusetts-based Centrexion was founded in 2013 to develop therapeutics designed to overcome the limitations of current treatment options for chronic pain and to present patients and physicians with better treatment alternatives.

Management is headed by CEO and Director Jeffrey B. Kindler, who has been with the firm since its inception and is currently also a Venture Partner at Lux Capital Management.

Centrexion has developed the Synthetic TRans cApsaicin ulTra-pure Injection, or STRATI, a technology that represents a selective, ultra-pure, synthetic form of trans-capsaicin that is injected directly into the site of pain.

CNTX is developing CNTX-4975 currently in Phase 3 trials, a drug designed to selectively and locally target and disrupt the signaling of pain-sensing nerve fibers in patients with moderate to severe pain due to knee OA.

The company's secondary drug candidate is CNTX-0290, a selective somatostatin receptor type 4 (SSTR4) agonist designed to treat pain and to be applied to a broad range of chronic pain types.

(Source: [Centrexion])

Investors in Centrexion include New Enterprise Associates, InterWest Partners, Quan Capital, ArrowMark Partners, and others. (Source: CNTX S-1 and VentureDeal Database)

Market & Competition

According to a 2018 market research report by Market Research Engine, the global pain management market is projected to reach $83 billion by 2024, growing at a CAGR of 3.6% during the period between 2018 and 2024.

The main factors driving market growth are health care reforms, increasing acceptance of pain management medication between users, increase in geriatric population with high risk of different diseases, and the growing frequency of chronic pain disorders.

Major competitors that provide or are developing pain management medication include:

- Acorda Therapeutics (ACOR)
- Assertio Therapeutics (ASRT)
- Biogen (BIIB)
- Cara Therapeutics (CARA)
- Eli Lilly and Company (LLY)
- Endo Pharmaceuticals (ENDP)
- Flexion Therapeutics (FLXN)
- Xenon Pharmaceuticals (XENE)

Financial Performance

CNTX' recent financial results are typical of a clinical-stage biopharma firm in that they feature no revenues and significant R&D and G&A expenses associated with advancing a pipeline of drug treatments through the regulatory approval process.

Below are the company's financial results for the past two and ¾ years (Audited PCAOB for full years):

	Year Ended December 31, 2016	Year Ended December 31, 2017	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2018
	(in thousands, except share data)		(unaudited)	
Revenue	$ —	$ —	$ —	$ —
Operating expenses:				
Research and development	27,788	17,622	14,077	17,420
General and administrative	5,443	6,433	5,119	6,612
Total operating expenses	33,231	24,055	19,196	24,032
Loss from operations	(33,231)	(24,055)	(19,196)	(24,032)
Other income (expense), net:				
Interest income	22	43	19	564
Interest expense	(2,126)	(983)	(617)	(205)
Loss on conversion of convertible notes payable	(2,412)	(497)	—	—
Loss on disposal of property and equipment	—	(38)	(38)	—
Loss on forgiveness of notes receivable from stockholders	—	—	—	(599)
Loss on extinguishment of long-term debt	—	—	—	(298)
Revaluation of stock warrant liabilities	75	475	339	(763)
Total other income (expense), net	(4,441)	(1,000)	(297)	(1,301)
Net loss before income tax benefit	(37,672)	(25,055)	(19,493)	(25,333)
Income tax benefit	—	441	—	—
Net loss	(37,672)	(24,614)	(19,493)	(25,333)
Plus: Cumulative dividends on convertible preferred stock	—	(128)	—	(2,791)
Net loss attributable to common stockholders	$ (37,672)	$ (24,742)	$ (19,493)	$ (28,124)

(Source: CNTX S-1)

As of September 30, 2018, the company had $42.1 million in cash and $17.1 million in total liabilities. (Unaudited, interim)

IPO Details

CNTX intends to raise $86.25 million in gross proceeds from an IPO of its common stock, not including customary underwriter options.

No existing shareholders have indicated an interest to purchase shares of the IPO, although I would expect to see some investor support for the IPO since this is typical in the current IPO environment for life science firms.

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

to fund the Phase 3 program and pre-commercialization expenses for CNTX-4975 through topline results in the first pivotal Phase 3 registration trial;

to fund the development of CNTX-0290 to complete Phase 1 development and initiate a Phase 2 trial for chronic pain;

to fund the development of CNTX-6970 to complete Phase 1 development and initiate a Phase 2 trial for chronic pain;

to fund the development of CNTX-6016 to complete Phase 1 development; and

the remainder, if any, for other research and development expenses for our pipeline, including unallocated expenses and expenses for CNTX-2022, and for working capital and other general corporate purposes.

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

Listed underwriters of the IPO are BofA Merrill Lynch, Leerink Partners, and Evercore ISI.

Commentary

Centrexion is attempting to tap public capital markets in a highly volatile environment, which increases the difficulty level for management.

The firm's trial results to-date have been very encouraging.

However, two other pain treatment programs, those of Biogen (BIIB) / Convergence and Genentech / Xenon (XENE), are believed to have failed their mid-stage trials. They were both focused on NaV 1.7 pathway treatments, so may not be directly applicable to CNTX's approach.

However, their failures illustrate just how difficult it has become to create the next generation of non-opioid pain treatments. These treatments require an understanding of the nervous system that appears to be elusive.

The market opportunities for pain treatments is extremely large and forecasted to grow substantially, especially as the world population ages and chronic pain becomes more prevalent.

BofA Merrill Lynch is the lead underwriter for the IPO. IPOs led by the firm over the last 12-month period have generated an average return of 17.5% since their IPO. This is a top-tier performance for all major underwriters during the period.

CNTX is researching a number of important pain treatment avenues, and the potential upside cannot be exaggerated.

With three versions of its lead candidate just entering expensive Phase 3 trials, CNTX will need all the capital it can find to help it achieve its next milestones.