IPO ANALYSIS

Research on potential upcoming IPOs from selected candidate companies.

Redfin

Clementia Pharmaceuticals

Venator Materials

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VentureDeal

Redfin Finalizes Terms For $120 Million IPO

Quick Take

Online real estate broker Redfin (RDFN) is putting the final touches on an IPO of $120 million, as it intends to sell 9.23 million shares at a midpoint price of $13.00 per share

Redfin has developed a technology-enabled residential real estate brokerage firm that provides buyers and sellers with a range of lower-priced, online-centric services.

I view the IPO as reasonably valued, given Redfin's hybrid brokerage-technology position in the market, its growth rate and future prospects for continued growth.

Company

Seattle, Washington-based Redfin was founded in 2004 and launched in 2006 to develop a technology-powered platform that assists consumers in buying and selling homes.

Management is headed by CEO Glenn Kelman, who has been with the firm since 2006 and was previously a co-founder and VP Marketing and Product Management of Plumtree Software.

The company has raised in excess of $165 million from private investors in several rounds of funding. Investors include venture capital firms in the Northwest U.S. as well as private equity firms and corporate investors.

It's most recent funding round was in December, 2014, a $71 million Series G round at an undisclosed valuation.

Interestingly, Redfin hires its 'lead agents as employees, rather than as independent contractors, and there [it] incurs related costs that [its] brokerage competitors do not, such as base pay, employee benefits, expense reimbursement, training, and employee transactional support staff.'

Market and Competition

According to a July 2017 IBISWorld market research report, the market for real estate brokerage services in the U.S. is approximately $158 billion across all sectors (including leasing) and grew at a 9.1% annual growth rate from 2012 to 2017.

In the aftermath of the 2008 financial crisis, the residential housing industry has rebounded strongly.

Additionally, a rise in the number of younger demographic, Millennial, first-time buyers and sellers has dramatically increased the propensity of that market segment to consider using a more convenient, lower cost, technology-enabled service such as that of Redfin.

Major competitive online vendors that provide similar or adjacent services include:

- Opendoor
- Compass
- Xome
- Real

The company says that 'delivering a better customer experience at a lower cost than [its] competitor is a fundamental tenet of [its] strategy.' So, Redfin competes to a significant extent on price.

Financials & Commentary

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

- Rapidly growing topline revenue – 2016 at $267.2 million, 43% increase vs. prior
- Growing gross margin – 2016 at 31% vs 2014 – 2015 at 26%
- Uneven negative cash flow – 2016 at $9.3 million cash used in operations

As of March 31, 2017, the company had $46.65 million in cash, equivalents and restricted cash; it had $50 million in total liabilities. (Interim, unaudited)

Redfin intends to raise $120 million in gross proceeds from an IPO of its common stock.

Management didn't provide specifics on how it will use the net proceeds from the IPO, other than to say as follows,

We currently have no specific plans for the use of the net proceeds that we receive from this offering. Accordingly, we will have broad discretion in using these proceeds, and investors will be relying on the judgment of our management regarding the application of the proceeds.

Listed managers of the IPO are Goldman Sachs, Allen & Company and others.

Redfin operates in the valuation gray area between a real estate brokerage and a technology company, since it brings a technology approach to the real estate brokerage function.

Assuming 81 million shares are outstanding following the IPO, at the proposed midpoint price of $13.00 per share, management wants the market to pay at a valuation of just over $1 billion, which would entail a Price/Sales multiple of 3.7x.

Comparing that multiple to a basket of publicly held Brokerage & Investment Banking stocks as compiled by the NYU Stern school in January 2017 which showed a multiple of 2.58x, it would indicate a pricey valuation on that comparison alone.

However, given that Redfin is a technology-enabled brokerage which allows the firm to drive growth and achieve greater scale at a faster pace than traditional brokerages, while competing more effectively on price, my view is that the proposed valuation is in line with what I would consider a reasonable price to pay for that growth.

So, at the proposed price of $13.00 per share, my opinion is that the IPO is a BUY.

My opinion on the IPO is neutral.

Clementia Pharmaceuticals Readies $100 Million IPO

Quick Take

Clementia Pharmaceuticals (CMTA) aims to sell 7.15 million shares of common stock at a midpoint price of $14.00 per share to raise $100 million in an IPO.

Clementia is a mid-stage biopharmaceutical company developing RARγ-based treatments for abnormal growth and maintenance of human cartilage and tissue.

The company has a promising pipeline of treatments with potentially broad applications, but the lack of statistically significant results in trial to date leads me to suggest investors AVOID the IPO and watch the company for its 2019 initial Phase 3 results.

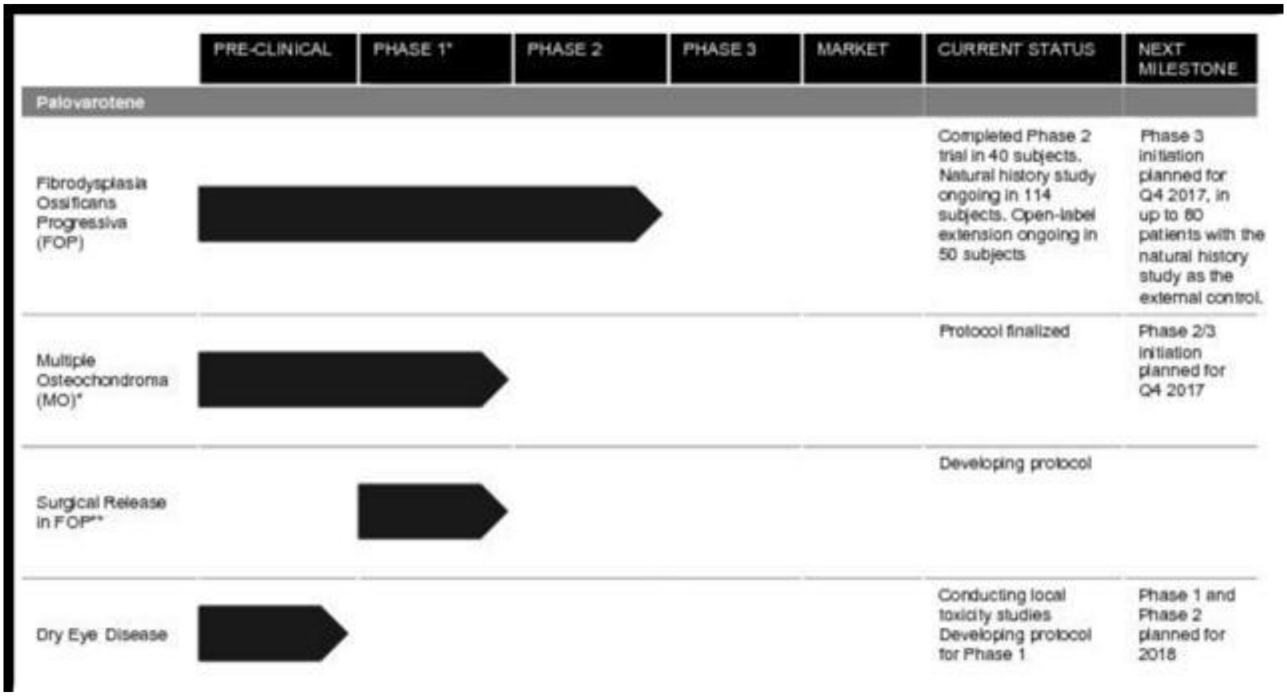
Company and Technology

Montreal, Canada-based Clementia was founded in 2011 to develop treatments for bone diseases such as Fibrodysplasia Ossificans Progressiva [FOP] using retinoic acid receptor gamma agonists.

Management is headed by founder and CEO Clarissa Desjardins, Ph.D., who was previously CEO at the Centre d'excellence en medicine personnalisee (CEPMED), a personalized medicine non-profit and, before that, founded Advanced Bioconcept.

The company is also developing a potential treatment for multiple osteochondromas [MO], which is the formation of benign tumors that are covered by cartilage, typically on the growing end of long bones such as arms, legs, and digits.

Management has developed a pipeline of Palovarotene-focused treatments for FOP and MO, as follows,



(Source: Clementia Pharma F-1/A)

Clementia's program uses retinoic acid receptors [RARs] that 'are involved in the growth, shape and maintenance of tissues.'

Market and Competition

FOP is an extremely rare disease which the company estimates as having a current prevalence of 9,000 globally.

While the market size is small, management believes that RARy agonists may affect a larger group of other indications, including fibrosis and scarring (dry eye disease).

Competitive vendors that are involved in therapeutic development include:

- AstraZeneca (AZN)
- Blueprint Medicines (BPMC)
- Daiichi Sankyo Company (OTCPK:DSNKY)
- La Jolla Pharmaceutical (LJPC)
- Oncodesign (ALONC.PA)
- Pfizer (PFE)
- Regeneron Pharmaceuticals (REGN)

Financials and IPO Details

Clementia's recent financial results are typical of development stage biopharmaceutical firms and are characterized by no revenues to date and significant R&D and G&A expenses associated with its clinical research pipeline efforts.

Below are the company's operational results for the past three and ¼ years (Audited IFRS):

Consolidated Statements of Net Loss and Comprehensive Loss Data	Three-months Ended March 31, 2017	Three-months Ended March 31, 2016	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	(in thousands, except share and per share data)				
Expenses					
Research and development	$ 3,408	$ 3,669	$ 16,852	$ 14,396	$ 7,797
Investment tax credits	(50)	(47)	(139)	(165)	(214)
	3,358	3,622	16,713	14,231	7,583
General and administrative	1,668	1,080	3,406	5,479	2,266
Interest income	(81)	(103)	(399)	(109)	(19)
Financial expenses	36,347	1,432	37,646	56,140	2,364
Income tax expense	45	33	146	156	95
Net loss and comprehensive loss	$ (41,337)	$ (6,064)	$ (57,512)	$ (75,897)	$ (12,289)
Net loss per share applicable to common shareholders—basic and diluted	$ (17.48)	$ (2.58)	$ (24.46)	$ (33.07)	$ (5.70)
Weighted average number of common shares used in net loss per share applicable to common shareholders—basic and diluted	2,364,200	2,351,347	2,351,347	2,295,402	2,156,689

(Source: Clementia Pharma F-1/A)

As of March 31, 2017, the company had $43.7 million in cash and short-term investments and $236.6 million in total liabilities of which $231.9 million were preferred shares and embedded derivative.

Clementia intends to raise $100 million in gross proceeds from an IPO of its common stock and says it will use the net proceeds from the IPO as follows:

Approximately $65.0 million to fund expenses incurred in pursuing the registration of palovarotene in FOP, including conducting the Phase 3 MOVE clinical trial and additional clinical trials of palovarotene for the treatment of FOP;

Approximately $25.0 million to fund expenses incurred in conducting the Phase 2/3 clinical trial of palovarotene for the treatment of MO;

Approximately $10.0 million to fund expenses incurred in conducting the Phase 1 and Phase 2 clinical trials of palovarotene for the treatment of dry eye disease; and

The remainder for working capital, general and administrative expenses, pre-commercial activities, research and development expenses, and other general corporate purposes

Listed managers of the IPO are Morgan Stanley, Leerink Partners, Wedbush PacGrow, and BTIG.

Commentary

Clementia wants to raise $100 million in its IPO and proposes a post-IPO valuation of $430 million for its pipeline of osteo- and tissue-focused treatments.

Existing investors OrbiMed, New Enterprise Associates, BDC, FTQ, and RA Capital have 'indicated an interest in purchasing up to an aggregate of $30.0 million in common shares,' which is a significant signal of support for the IPO.

OrbiMed in particular has a successful track record of developing life science companies that go on to have success in the marketplace, and other investors are highly skilled at allocating capital toward valuable enterprises.

Clementia says its lead palovarotene trial results to date have 'reduced the incidence of new HO [heterotopic ossification] by approximately 50% as determined by CT scan at 12 weeks. In those subjects who formed new HO, the mean volumes of new HO were reduced by approximately 70% as compared to the placebo-treated subjects. Palovarotene was well-tolerated in this study and no patient discontinued drug or dose de-escalated.'

However, management goes on to say that trial results also 'have not demonstrated statistically significant results.' The phrase 'statistically significant' means that the results have a 5% or less chance of being random.

So, management is saying that the trial results to date have a greater than 5% (one in twenty) chance of being random and not related to their compounds.

This statement is important to investors considering participating in the IPO.

In my view, although the company will likely go public due to the promising results of post-treatment incidence reduction and the support of existing investors, my suggestion is for investors to wait until management can demonstrate results in a 'statistically significant' manner, likely by further Phase 3 trial results that will not be available until 2019.

My opinion the IPO is to AVOID it and watch the company until the initial Phase 3 trial results read out in 2019.

Venator Materials Sets Terms For $477 Million IPO

Quick Take

Huntsman Corporation (HUN) is spinning off its Venator Materials (VNTR) subsidiary in a $477 million IPO.

Venator is the pigments and additives division of Huntsman and will remain majority owned and controlled by Huntsman post-IPO.

I'm concerned about Venator's stagnating topline revenue growth, high debt load, and uncertain plans by controlling shareholder Huntsman, so my opinion is to AVOID the IPO.

Company & Technology

Woodlands, Texas-based Venator was incorporated in 2017 to receive the intellectual property, assets and liabilities of the titanium dioxide business from parent company Huntsman, an organic and inorganic chemical products manufacturer.

Venator's business is focused on titanium dioxide pigments and performance additives, timber treatment and water treatment products.

Venator management is headed by President and CEO Simon Turner, who has been Division President of the same group since 2008 and held lower management positions in the group since 1999.

The company has customers in more than 110 countries and has more than 4,500 employees operating out of 27 facilities.

Applications of Venator's chemicals range from agriculture to coatings, fibers, industrial, films, paper, pharmaceuticals, inks, food, plastics, and water.

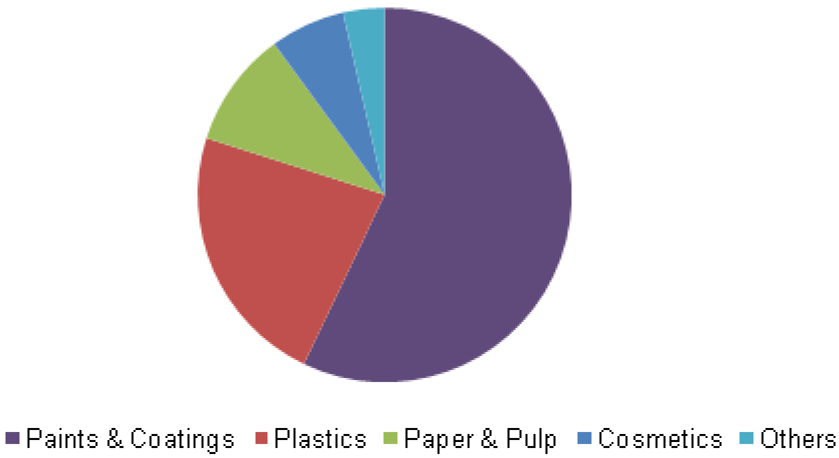
Market and Competition

According to a 2016 report by market research firm Grand View Research, the global titanium dioxide market was $17.7 billion in 2015.

It expects demand to grow at a CAGR of 14% through 2025, which is a significant growth rate over a rather long period.

The report cites 'increasing disposable income along with growing consumption of paints & coatings particularly in the automotive and construction industry will augment growth in Asia Pacific. Furthermore, surging use of cosmetic products in Latin America and the Middle East will increase consumption of titanium dioxide over the forecast period.'

The chart below shows the segment breakdown by application, as of 2015,



(Source: Grand View Research Major competitive vendors in the titanium dioxide industry include:

- DowDuPont (DOW)
- Kronos Worldwide (KRO)
- Tronox (TROX)
- Cristal Global
- Argex Titanium (OTCPK:ARGEF)
- Evonik (OTCPK:EVKIF)

Management says that its focus on quality is what differentiates it from Chinese competitors that are more focused on low price. It foresees the most growth in coming decades from emerging markets across all functional segments.

Financials & Commentary

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

- Stagnant topline revenues – 2016 at **$2.3 billion**
- Steadily increasing gross margin – 2016 at **7.6%**
- Improving cash flow from operations – 2016 at **$97 million positive** cash flow

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

	Year ended December 31, 2016	2015	2014
Revenues:			
Trade sales, services and fees, net	$ 2,249	$ 2,270	$ 1,654
Related party sales	60	60	75
Total revenues	2,309	2,330	1,729
Cost of goods sold	2,134	2,192	1,637
Operating expenses:			
Selling, general, and administrative (includes corporate allocations of $111, $96 and $86, respectively)	240	271	199
Restructuring, impairment and plant closing costs	35	223	62
Other (income) expense, net	(46)	(3)	7
Total expenses	229	491	268
Operating loss	(54)	(353)	(176)
Interest expense	(59)	(52)	(25)
Interest income	15	22	23
Other expense	(1)	—	(1)
Loss before income taxes	(99)	(383)	(179)
Income tax benefit	22	31	17
Net loss	(77)	(352)	(162)
Net income attributable to noncontrolling interests	(10)	(7)	(2)
Net loss attributable to Venator	$ (87)	$ (359)	$ (164)

(Source: Venator S-1/A)

As of December 31, 2016, the company had $30 million in cash and $2.48 billion in total liabilities.

Just after filing Venator's initial S-1 registration, Huntsman announced a merger with Switzerland-based Clariant to create a leading specialty chemical company while spinning off its Pigments and Additives division through Venator.

Venator also issued or intends to issue up to $1.05 billion in new debt to repay the intercompany debt it owes to parent Huntsman and to pay a dividend to Huntsman as well.

Once the debt is issued, Venator will have approximately $3.5 billion in total liabilities.

After the IPO is consummated, parent company Huntsman will own 78.6% of Venator's ordinary shares. Venator will be valued at $2.2 billion post-IPO.

Venator parent Huntsman intends to sell $477 million in gross proceeds from an IPO of its ordinary shares.

Huntsman will use the IPO proceeds and the issuance of up to $1.05 billion in new debt from Venator to 'repay borrowings under certain Huntsman credit facilities.'

Listed managers of the IPO include Goldman Sachs, Citigroup, BofA Merrill Lynch, J.P. Morgan and numerous others.

Commentary

Global chemicals markets are experiencing a growth period, and the forecast is for continued robust growth.

So, in that sense, Venator has the wind at its back as it promises to become a nimbler operating group after the IPO.

Huntsman will still be the controlling shareholder, but it appears that it needed to monetize Venator as part of the larger merger transaction with Clariant. I imagine it needed the approximately $1.5 billion in total IPO and debt issuance proceeds to make the Clariant merger happen while retaining a 48%holding of the new merged parent HuntsmanClariant.

I have three concerns about Venator.

1. First is the dramatically increased debt ($3.5 billion post-IPO) and related minimal cash flow from operations available to service this significant debt load.
2. Second is the firm's lack of topline revenue growth in 2016 vs. 2015. Additionally, its 1Q 2017 comparison to 1Q 2016 is also below prior, so I'm not exactly impressed with Venator's 'growth' story based on recent financial results. Some of this may be due to its restructuring begun in 2014 and which apparently continues today.
3. Third is the uncertainty from parent Huntsman's intentions and time frame regarding Venator. Will Huntsman dump more millions of shares onto the market in quick succession, or will it proceed with a long-term and orderly transition?

In sum, I'm moderately optimistic about the future for the industry, and for Venator's promise as a newly invigorated major participant.

However, given my concerns on its recent results, debt load and uncertain parent company approach, my opinion is to AVOID the IPO and continue to watch Venator's performance in the coming quarters for a potentially better entry point or outlook in the near future.