IPO ANALYSIS

Research on upcoming IPOs for selected candidate companies.

Karat Packaging

Innate Pharma S.A.

Addentax Group

October 2019

VentureDeal

Karat Packaging Begins U.S. IPO Effort

Quick Take

Karat Packaging (KRAT) has filed to raise $50.0 million in an IPO of its common stock, according to an S-1 registration statement.

The firm is a manufacturer of eco-friendly food packaging and related products.

KRAT is a growing firm with enviable prospects in a growing industry.

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

Company & Technology

Chino, California-based Karat was founded in 2000 to produce a variety of food packaging products that are environmentally friendly and ethically sourced.

The firm's product categories include:

- Food packaging
- Tableware
- Cups and lids
- Cutlery
- Straws

Management is headed by co-founder, Chairman and CEO Alan Yu, and Chief Financial Officer Mr. Peter Lee, CPA, who has more than 20 years experience in accounting and finance.

Co-founders Yu and Marvin Cheng each own 48.47% of company stock

Customer Acquisition

KRAT sells its products through distributors as well as directly to national and smaller restaurant chains.

The firm also sells via its online e-commerce platform, which is typically used by its smaller and medium-sized customers. This platform represented 6% of the firm's revenue in fiscal 2018.

Selling expenses as a percentage of revenue have been rising as revenues have increased, as the figures below indicate:

Selling Expenses vs. Revenue

Period	Percentage
To June 30, 2019	6.9%
2018	5.3%
2017	4.6%

Source: Company registration statement

The selling efficiency rate, defined as how many dollars of additional new revenue are generated by each dollar of selling spend, dropped to a still high 3.4x in the most recent period, as shown in the table below:

Selling	Efficiency Rate
Period	**Multiple**
To June 30, 2019	3.4
2018	3.8

Source: Company registration statement

Market & Competition

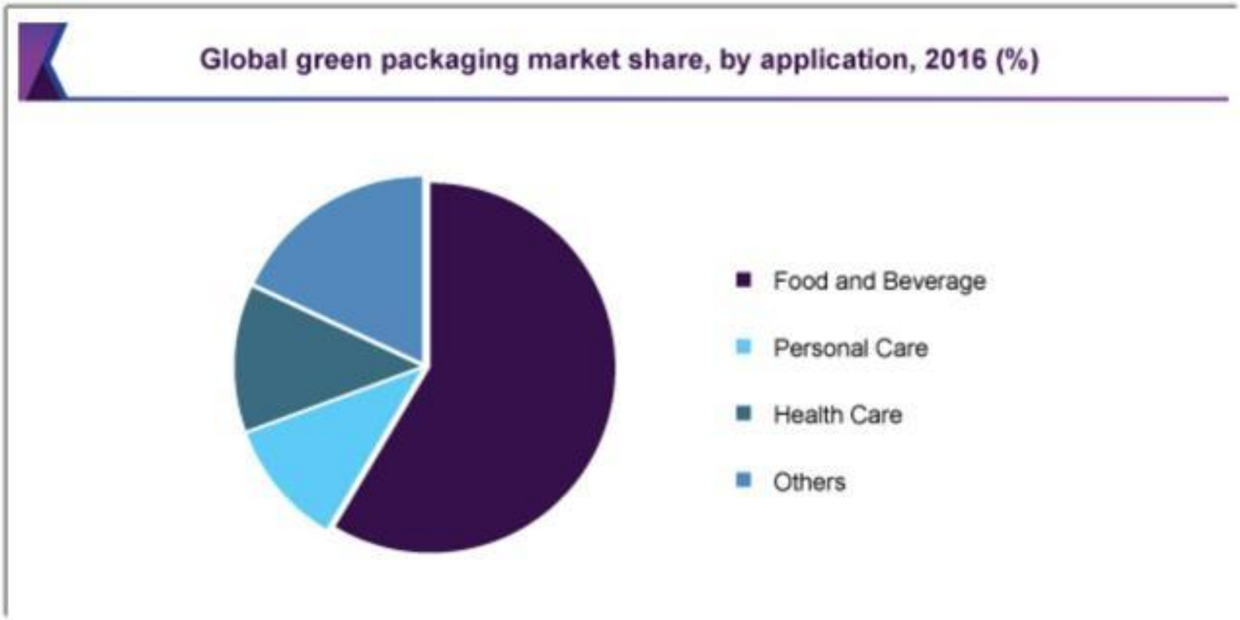
According to a 2018 market research report, the global 'green packaging' market size was estimated to be approximately $152.2 billion in 2016.

The market is forecast to grow at a CAGR of 5.7% from 2016 to 2024.

Key elements driving this expected growth include a trend to downsize or reduce packaging materials, increasing usage of renewable materials and recycled content, and increased efficiencies in logistics.

The Asia Pacific region accounted for the highest growth in 2015 and is expected to continue in first position through 2024 due to the increasing prioritization of government policies.

Food and beverage products represented the largest sector market share by type, as the pie chart shows below:



Major competitive vendors that provide green packaging products include:

- Amcor (AMCR)
- Mondi (OTCPK:MONDF)
- DuPont (DD)
- Sealed Air (SEE)
- Tetra Lava

Management says it intends to increase its manufacturing and distribution capabilities via its Rockwall, Texas plant and expand its geographic footprint and sales & marketing efforts focused on the Eastern U.S. region.

Financial Performance

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

- Growing topline revenue
- Increased gross profit, variable gross margin
- Fluctuating operating profit
- A swing to negative cash flow from operations

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

Total Revenue

Period	Total Revenue	% Variance vs. Prior
To June 30, 2019	$ 108,459,000	30.7%

2018	$ 175,434,000	25.3%
2017	$ 140,058,000	

Gross Profit (Loss)

Period	Gross Profit (Loss)	% Variance vs. Prior
To June 30, 2019	$ 29,635,000	40.9%
2018	$ 43,455,000	5.2%
2017	$ 41,305,000	

Gross Margin

Period	Gross Margin
To June 30, 2019	27.32%
2018	24.77%
2017	29.49%

Operating Profit (Loss)

Period	Operating Profit (Loss)	Operating Margin
To June 30, 2019	$ 3,482,000	3.2%
2018	$ 2,132,000	1.2%
2017	$ 6,008,000	4.3%

Net Income (Loss)

Period	Net Income (Loss)
To June 30, 2019	$ 2,557,000
2018	$ (124,000)
2017	$ 4,549,000

Cash Flow From Operations

Period	Cash Flow From Operations
To June 30, 2019	$ (9,566,000)
2018	$ 2,717,000
2017	$ 1,002,000

Source: Company registration statement

As of June 30, 2019, the company had $4.3 million in cash and $108.9 million in total liabilities.

Free cash flow during the twelve months ended June 30, 2019, was a negative ($29 million).

IPO Details

KRAT intends to raise $50.0 million in gross proceeds from an IPO of its common stock.

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

We intend to use the net proceeds of this offering for working capital and general corporate purposes, including expanding our manufacturing capacity, growing our sales and marketing presence in the U.S. East Coast, Midwest and Southeast regions and research and development for new product offerings.

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

Listed bookrunners of the IPO are National Securities, B. Riley FBR, and Loop Capital Markets.

Commentary

KRAT is seeking $50 million from public investors to fund its expansion plans as the market for eco-friendly disposable products continues its moderate growth trajectory.

The firm's financials show strong growth across most major metrics, but increasing cash used in operations.

Selling expenses as a percentage of revenue have been increasing and the firm's sales efficiency rate has dipped somewhat, although it is still quite high.

The market opportunity for the firm's environmentally conscious disposable products is quite large and growing at a rate that should sustain the firm's growth ambitions.

Competition is significant, with several publicly held firms accounting for significant market share in the industry.

National Securities is the lead left underwriter and the one IPO led by the firm over the last 12-month period has generated a return of 14.5% since its IPO. This is a middle-tier performance for all major underwriters during the period.

KRAT is a growing and profitable firm in a promising industry with positive growth trends in its favor.

When we learn more details about pricing and valuation, I'll provide an update.

Expected IPO Pricing Date: To be announced.

Innate Pharma Files For U.S. IPO

Quick Take

Innate Pharma S.A. (IPHA) has filed to raise gross proceeds of up to $100 million from a U.S. IPO, according to an F-1 registration statement.

The firm is developing cancer therapeutics using antibodies that are designed to harness the body's immune system.

IPHA has received significant milestone revenue from its deep relationship with AstraZeneca and has the potential for royalty payments to begin for its recently-approved Lumoxiti product.

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

Company & Technology

Marseille, France-based Innate Pharma was founded in 1999 to develop treatments based on antibodies for the treatment of oncology indications with unmet medical need.

Management is headed by Chairman and CEO Mondher Mahjoubi, who has been with the firm since 2017 and was previously SVP Therapeutic Area Head-Oncology at MedImmune (AZN).

Innate Pharma is targeting checkpoints expressed on Natural Killer [NK] cells and myeloid cells, rather than solely T-cells, to increase the pool of anti-tumor effector cells and potentially mount a larger anti-tumor response.

The firm also focuses on tumor antigen targeting antibodies in the form of antibody-drug conjugates [ADCs], antibody-dependant cellular cytotoxicity [ADCCs] inducing antibodies, as well as antibody-based multi-specific NK-cell engagers [NKCEs].

The company is also developing drugs targeting suppressive pathways of the tumor microenvironment [TME] in order to relieve the immunosuppression of the innate and adaptive systems.

The firm's lead drug candidate, monalizumab, is a dual-targeting checkpoint inhibitor that is currently in development in collaboration with AstraZeneca (AZN) for the treatment of Squamous Cell Carcinoma of the Head and Neck [SCCHN], Colorectal Cancer [CRC], as well as other solid tumors.

Innate Pharma also has a FDA-approved therapeutic named Lumoxiti for the treatment of hairy cell leukemia [HCL] that was approved in September 2018 under priority review based on positive data in a Phase III clinical trial, in which 75% of patients achieved an overall response, 30% had a complete response, while 34% achieved a complete durable response with a negative minimal residual disease.

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

	Program	Target	Indication	PC	Ph. I	Ph. II	Ph. III	Commercial	Partner	Upcoming Milestone(s)
Immune Checkpoint Inhibitors (ICI)	Monalizumab	NKG2A	SCCHN	Phase Ib/II					AstraZeneca	• 2H 2019: Follow up data from expansion Cohort 1 • 1H 2020: Preliminary data from expansion Cohort 2 • 2H 2020: Preliminary data from expansion Cohort 3
			Advanced Solid Tumors, including CRC	Phase I/II						• Safety data from CRC expansion cohorts
	Anti-Siglec-9	Siglec-9	Cancer	PC					AstraZeneca	
	IPH25	Undisclosed	Cancer	PC					AstraZeneca	
Tumor Antigen Targeting (TAG)	Lumoxiti	CD22	Hairy Cell Leukemia	FDA Approved					–	• 2H 2019: EU regulatory submission
	IPH4102	KIR3DL2	Sézary Syndrome	Ph. II (Fast Track Designation)					–	• Potential for Phase II trial to be pivotal • Efficacy data starting in 2021
			MF / PTCL	Phase II					–	• 2H 2020: Update from first stage of PTCL and MF • Efficacy data starting in 2021
	IPH61 (NKp46 NKCE)	Undisclosed	Cancer	PC					SANOFI	
	IPH43	MICA/B	Cancer	PC					AstraZeneca	
	NKp46 NKCE	Undisclosed	Cancer	PC					AstraZeneca	
Tumor Micro-environment (TME)	IPH5401	C5aR	Solid Tumors, NSCLC, HCC	Phase I/II					–	• 2H 2019: Phase I preliminary safety data
	IPH5201	CD39	Cancer	PC					AstraZeneca	• 2H 2019: IND filing
	IPH5301	CD73	Cancer	PC					–	• 1H 2020: IND filing

“SCCHN” denotes Squamous Cell Carcinoma of the Head and Neck; “CRC” denotes Colorectal Cancer; “MF” denotes Mycosis Fungoides; “PTCL” denotes Peripheral T-cell Lymphomas; “NSCLC” denotes Non-Small Cell Lung Cancer; and “HCC” denotes Hepatocellular Carcinoma.

Source: Company registration statement

Investors in Innate Pharma include AstraZeneca, QVT Financial, Redmile Group, Ardian, ACE Management, NIF SMBC Ventures, Novo Nordisk, Akka Venture, Sofinnova Partners, and Gimv among others. Source: Crunchbase

Market & Competition

According to a 2019 market research report by Mordor Intelligence, the Hairy Cell Leukemia market, while accounting for only about 2% of all leukemia cases, is projected to grow at a CAGR of 5% between 2018 and 2023.

The main factors driving forecasted market growth are the rise in geriatric population as well as an increase in diagnosis rate of the disease during the past two to three decades.

The disease can be treated if caught early, although there is a lack of awareness of symptoms due to insignificant research which limits the diagnosis of the diseases.

The North American region dominated the market in 2017 due to a high incidence of HCL, rise in aging population as well as advancements in treatment options.

According to another 2018 market research report by Research and Markets, the global head and neck cancer [HNC] market is projected to reach $2.8 billion by 2026.

HNC is the sixth most-common cancer worldwide and includes malignancies that originate in the oral cavity, salivary glands, sinuses, and throat.

Cigarette smoking, alcohol consumption, as well as other environmental factors greatly increase the risk of developing HNC.

Major competitors that provide or are developing treatments for HCL include:

- AbbVie (ABBV)
- Astellas Pharma (TYO:4503)
- BioGenomics
- Roche (SWX:ROG)

Other major competitors that provide or are developing treatments for HNC include:

- Eli Lilly (LLY)
- Bristol-Myers Squibb (BMY)
- Merck (MRK)
- Bayer (OTCPK:BAYRY)
- Taiho Oncology

Source: Sentieo

Financial Status

Innate's recent financial results are atypical of biopharma firms going public in that the company has earned significant revenues to offset its R&D and G&A costs.

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

Total Revenue

Period	**Total Revenue**	**% Variance vs. Prior**
To June 30, 2019	$ 65,070,500	157.2%
2018	$ 103,347,200	113.4%
2017	$ 48,436,300	

Operating Profit (Loss)

Period	**Operating Profit (Loss)**	**Operating Margin**
To June 30, 2019	$ 10,401,600	16.0%

2018	$ 5,660,600	5.5%
2017	$ (43,981,300)	-90.8%

Net Income (Loss)

Period	**Net Income (Loss)**
To June 30, 2019	$ 14,564,000
2018	$ 3,353,900
2017	$ (53,223,500)

Source: Company registration statement

As of June 30, 2019, the company had $181.4 million in cash and $188.4 million in total liabilities. (Unaudited, interim)

IPO Details

IPHA intends to raise $100 million in gross proceeds from an IPO of its common stock via American Depositary Shares. The firm also intends to raise funding from a European private placement.

No existing shareholders have indicated an interest to purchase shares at the IPO price. The firm's shares are currently listed on the Euronext Paris stock market under the ticker symbol 'IPH.'

Per the firm's latest filing, it plans to use the net proceeds from the IPO as follows:

to advance the clinical development of our lead product candidate, monalizumab, in collaboration with AstraZeneca, which is currently being evaluated for the treatment of patients with R/M SCCHN and in patients with advanced solid tumors, including CRC;

to advance the clinical development of IPH4102 for the treatment of patients with Sézary syndrome, MF and PTCL;

to advance the clinical development of IPH5401 in patients with solid tumors, including NSCLC and HCC;

to build our commercial capabilities for Lumoxiti in the United States and, if approved, in the European Union; and

to expand and advance our preclinical pipeline, including transitioning IPH5301 into clinical development.

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

Listed underwriters of the IPO are Citigroup, SVB Leerink, and Evercore ISI.

Commentary

Innate is seeking U.S. public investment during another robust year for biopharma IPOs.

Its lead candidate is being developed in collaboration with partner and investor AstraZeneca.

The market opportunities for its lead products are reasonably large and expected to grow at moderate rates over the coming years.

Innate is atypical in the sense that the firm has received significant revenue in the form of milestone payments from AstraZeneca for its US FDA approved Lumoxiti product and others.

In additional to its deep relationship with AstraZeneca, the firm also has a collaboration partnership with Sanofi (SNY) for one of its programs.

Citigroup is the lead left underwriter and IPOs led by the firm over the last 12-month period have generated an average return of a negative (23.7%) since their IPO. This is a bottom-tier performance for all major underwriters during the period.

Innate is not your typical biopharma firm, so the IPO will likely not be cheap due to the firm's connections with major pharmas, it recently approved Lumoxiti treatment, and prospects for further treatment developments.

I'll provide a final opinion when we learn more details about management's pricing and valuation assumptions.

Expected IPO Pricing Date: To be announced.

Addentax Group Files For Mini-IPO

Quick Take

Addentax Group (OTCQB:ATXG) has filed to raise gross proceeds of $10 million from a U.S. IPO, according to an S-1/A registration statement.

The firm operates as a garment manufacturer and logistics service provider in China.

ATXG has produced poor recent topline revenue performance, has an unfocused approach, RMB-denominated financials which are subject to devaluation, and an excessively-priced IPO, so my opinion is to AVOID the IPO.

Company & Technology

Shenzhen, China-based Addentax was founded in 2014 to manufacture garments and provide related logistics services, primarily marketed to wholesalers in China.

Management is headed by CEO, President, and Secretary Hong Zhida, who has been with the firm since 2017 and was previously Head of Membership Department of the Guangzhou Haifeng Chamber of Commerce.

Addentax conducts its manufacturing and logistics businesses through four wholly-owned subsidiaries, namely Dongguan Heng Sheng Wei Garments [HSW] and Shantou Chenghai Dai Tou Garments [DT] for manufacturing, as well as Shenzhen Xin Kuai Jie Transportation [XKJ] and Shenzhen Hua Peng Fa Logistic [HPF] - all located in Guangdong province, China.

The firm's logistics services consist of delivery and courier services that cover seven provinces in China, although the firm outsources some of the business to contractors as management believes it maximizes the firm's capacity and helps maintain flexibility while reducing capital expenditures and the costs associated with keeping drivers during slow seasons.

Management intends to enter into exclusive agreements with textile and garment suppliers in the Southeast region of China to be their 'exclusive agent' and supply their products and raw materials to the company's customers, for which, they plan on setting up several retailers for the sales of textiles and garments to retail customers and exclusively to various high-end fashion brands.

They also intend to develop their brands that focus on fast fashion and teenagers as their primary target customers, which management plans on distributing in different channels, including its own retailers, co-operative retailers, as well as franchisees.

Addentax will also expand its delivery network, which, as of the end of June 2019, provided service in more than 66 cities in seven provinces as well as two municipalities in China with 20 more logistics points planned for the second half of 2019.

If a customer is located at a location where the firm's logistics service isn't covering, Addentax outsources the delivery to contractors.

The firm sells its garments to high-end brands through a customer relationship team that is tasked with developing and maintaining the firm's relationship with customers.

Selling, G&A expenses as a percentage of revenue have increased in the most recent fiscal year, per the table below:

Selling, G&A Period	Expenses vs. Revenue Percentage
FYE Mar 31, 2019	18.5%
FYE Mar 31, 2018	11.8%

Source: Company registration statement

Market & Competition

According to a 2019 market research report by the Hong Kong Trade Development Council [HKTDC], citing data from Euromonitor, the garments market in China reached RMB1.57 trillion (about $220 billion) in 2018 and is projected to grow to RMB1.73 trillion (about $240 billion) by 2020.

This represents a CAGR of 7.8% between 2018 and 2020.

The women's garment market reached about RMB999.1 billion in 2018, an increase of 7.6% year-over-year, while the men's garment segment grew to RMB572.6 billion in 2018, a year-over-year increase of 6.5%.

Major firms that sell garments in China include:

- Youngor (SHA:600177)
- THREEGUN
- Bosideng (HKG:3998)
- Septwolves (SHE:002029)
- Erdos Group (SHA:600295)
- Zara (BME:ITX)
- Hennes & Mauritz (STO:HM-B)
- Gap (GPS)
- Uniqlo (TYO:9983)

Source: Sentieo

Financial Performance

Addentax' recent financial results can be summarized as follows:

- A sharp drop in topline revenue
- Reduced gross profit but increased gross margin

- Increased operating loss
- Reduced cash flow from operations

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

Total Revenue

Period	Total Revenue	% Variance vs. Prior
FYE Mar 31, 2019	$ 10,026,920	-25.4%
FYE Mar 31, 2018	$ 13,437,569	

Gross Profit (Loss)

Period	Gross Profit (Loss)	% Variance vs. Prior
FYE Mar 31, 2019	$ 1,282,694	-11.0%
FYE Mar 31, 2018	$ 1,441,622	

Gross Margin

Period	Gross Margin
FYE Mar 31, 2019	12.79%
FYE Mar 31, 2018	10.73%

Operating Profit (Loss)

Period	Operating Profit (Loss)	Operating Margin
FYE Mar 31, 2019	$ (683,127)	-6.8%
FYE Mar 31, 2018	$ (255,954)	-1.9%

Net Income (Loss)

Period	Net Income (Loss)
FYE Mar 31, 2019	$ (694,329)
FYE Mar 31, 2018	$ (709,396)

Cash Flow From Operations

Period	Cash Flow From Operations
FYE Mar 31, 2019	$ 1,193,161
FYE Mar 31, 2018	$ 1,880,166

Source: Company registration statement

As of June 30, 2019, the company had $299,000 in cash and $6.4 million in total liabilities. (Unaudited, interim)

Free cash flow during the twelve months ended June 30, 2019, was $964,000.

IPO Details & Valuation Metrics

ATXG intends to raise $10.0 million in gross proceeds from an IPO of two million shares of its common stock at a price of $5.00 per share, not including customary underwriter options.

Notably, the shares are not American Depositary Shares, which is the typical form of selling foreign shares to U.S. investors.

Assuming a successful IPO, the company's enterprise value at IPO would approximate $136.4 million.

Per the firm's latest filing, it plans to use the net proceeds from the IPO as follows:

Planned Actions	Amount (US$)
Working capital and general corporate purposes	3,151,672
Fund existing businesses operation (garment manufacturing and logistic)	700,000
Expansion of garment manufacturing business	-
Branding and marketing	787,900
Retailer set-up	787,900
Research and development	787,900
Expansion of logistic business	-
Expand delivery network	1,181,800
Establish warehouse	1,181,800
Offering expenses	521,028
Underwriting commissions and expenses	900,000
TOTAL	10,000,000

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

The sole listed underwriter of the IPO is Network 1 Financial.

Below is a table of relevant capitalization and valuation metrics for the firm:

Measure [TTM]	**Amount**
Market Capitalization at IPO	$136,730,020
Enterprise Value	$136,431,451
Price / Sales	13.64
EV / Revenue	13.61
EV / EBITDA	-199.72
Earnings Per Share	-$0.03
Total Debt To Equity	-3.14
Float To Outstanding Shares Ratio	7.31%
Proposed IPO Midpoint Price per Share	$5.00
Net Free Cash Flow	$963,921

Free Cash Flow Yield	0.70%
Revenue Growth Rate	-25.38%

Source: Company registration statement

Commentary

ATXG is another Chinese company seeking public investment capital on U.S. markets after a string of mostly disappointing performance post-IPO.

The company's financials show a sharp drop in total revenue, which is generally a negative signal for an IPO.

Selling, G&A expenses as a percentage of total revenue have risen markedly, likely a function of the revenue contraction.

Management says it intends to develop a business line of supply chain consulting focused on the textile and garments industry.

While that is a related business, it is all-too-common for Chinese firms to seek to 'diversify' their operations due to operating weakness in their primary business.

As a result, many firms operate a number of tangentially-related businesses with mediocre outcomes.

The market opportunity for garment manufacturing is large and expected to grow at a reasonably robust rate over the next several years.

Competition in the garment industry is highly fragmented, with low barriers to entry. Additionally, the firm faces lower cost countries in Southeast Asia where labor rates can be as much as 50% cheaper than in China.

Network 1 Financial is the sole underwriter and there is no available data the firm's involvement in U.S. IPOs, if any, over the last 12-month period.

As to valuation, management is asking IPO investors to pay a Price / Sales multiple of 13.6x for a company with sharply contracting revenue.

According to an NYU Stern list of revenue multiples, a basket of publicly held U.S. firms in the apparel industry commanded a Price / Sales of just 1.27x in January 2019.

Given the firm's poor recent topline revenue performance, unfocused approach, RMB-denominated financials which are subject to currency devaluation, and an excessively-priced IPO, my opinion is to AVOID the IPO.

Expected IPO Pricing Date: To be announced.