IPO Analysis | Research on potential upcoming IPOs from selected candidate companies and macro industry research.

ADT

Industry Focus | Financial Services 2017 IPO Review

Cue Biopharma

January, 2018

VentureDeal

Private Equity-Owned ADT Files For U.S. IPO

Quick Take

ADT (ADT) intends to raise $100 million - a placeholder figure that could be up to $1.5 billion - from a U.S. IPO of its common stock, according to an S-1 registration statement.

The firm provides monitored security, interactive home and business automation and related monitoring services in the U.S. and Canada. ADT's mission is to help customers protect and connect with their families, homes, and businesses.

ADT has excellent growth prospects for the near term but faces strong competition from the cable companies who own the pipes to the home and can bundle more services for consumers.

I'll provide a final opinion when we learn more details about IPO pricing and terms.

Company

Boca Raton, FL-based ADT was founded in 1874 and helps homes and businesses stay safe and secure through security systems, home automation, and alarm and surveillance systems. ADT sells its services to over eight million customers in the U.S. and Canada.

Management is headed by Timothy J. Whall, who has been with the firm since 2016. Whall has over 30 years of experience from starting at his family business, Whall Security, to acting as CEO of Protection One in 2010 - 2016. Whall has held additional positions in the security industry including installer, general manager, and COO.

Geographic coverage includes the U.S. and Canada. ADT is the largest company of its kind in both regions. The company offers a variety of products and services such as home health services and interactive home and business solutions. ADT aims to provide solutions for customers with mobile, active lifestyles.

ADT's sole shareholder is Apollo Management, which acquired the firm in 2016 for $6.9 billion in a leveraged buyout.

Technology

ADT has developed a trusted brand in the security industry. The company has remained relevant for over a century, creating innovative security solutions with extensions beyond the home and business.

Below is a brief overview video of customers sharing stories about ADT security services:

(Source: ADT)

Key facts about the company include:

- 10 monitoring systems across North America
- Over 140 years in the security business
- 250 authorized dealers
- A+ BBB rating
- 15 million alarm signals
- 8 million customers
- 200+ branch locations
- Almost 18,000 professionally trained security employees

(Source: ADT)

According to ADT, the firm 'delivers an integrated customer experience by maintaining the industry's largest sales, installation, and service field force, as well as a 24/7 professional monitoring network.'

To complement and extend security products and services, the company is also focusing on connecting devices within the home. The company will soon offer ADT Go commercially. Built in conjunction with Life360, ADT Go is a new family safety service and mobile application.

In addition, ADT believes that there are opportunities to collaborate with third-party technology companies such as Amazon (AMZN) and Samsung (OTC:SSNLF) who offer smart home technologies. These companies may wish to introduce their products/services to ADT's customer base.

Market

ADT is focused on two markets: Home/Consumer Security and Home Internet of Things, aka 'Smart Home.' ADT plans to add connecting devices where it already has a security business connection.

Home Consumer Security Market: According to a 2017 market research report by MarketsandMarkets, the overall security solutions market was valued at $206.7 billion in 2016 and is predicted to grow to $372.9 billion by 2022 at a CAGR of 10.16% from 2017.

The main factors driving market growth are the necessity to safeguard individuals and assets from threats, adoption of IoT-based security systems, growing demand for wireless technology in security systems, increasing consumer awareness & security concerns, and willingness to pay for security systems.

Fire protection is predicted to hold the largest market size during the forecast period. Concerning region, Asia-Pacific is projected to grow at the highest rate due to increased economic development.

Home Internet of Things: According to a 2017 market research report by Gartner, 20.4 billion connected 'things' will be used worldwide by 2020. Business IoT spending represents 57% of overall IoT spending in 2017. IoT endpoint spending is projected to reach $2.9 trillion by 2020.

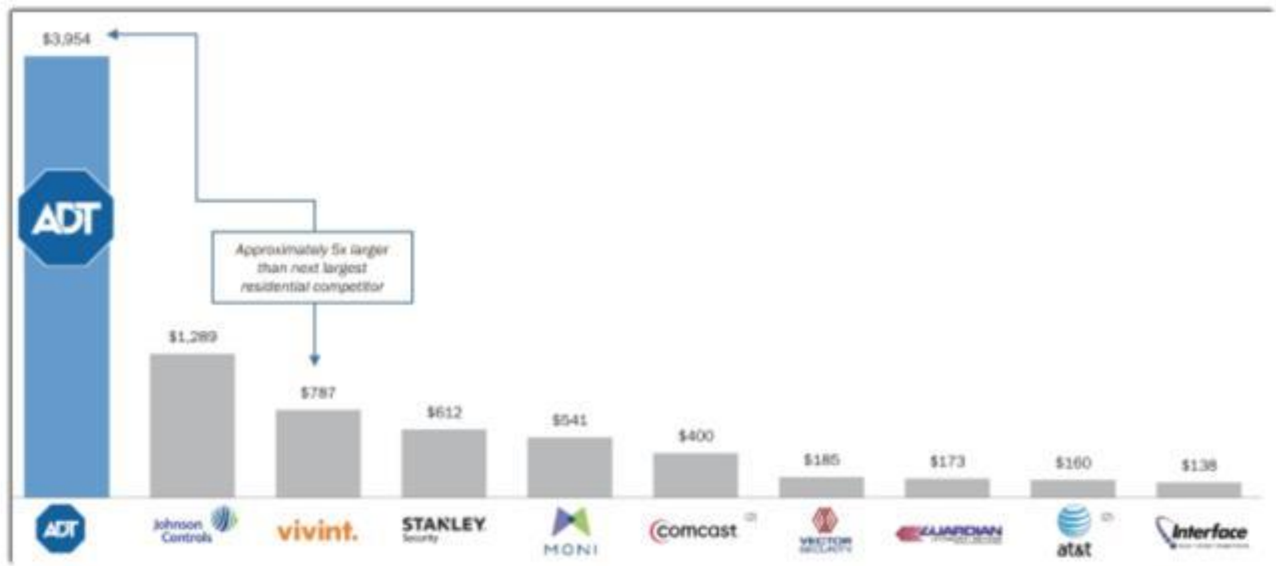
Greater China, North America, and Western Europe are the main regions representing the Internet of Things (IoT) installed base in 2017. The report also outlines that IoT services are central to the rise in IoT devices.

Competition

Major competitive firms include cable and telecommunications companies, mobile device manufacturers, internet firms such as Google (GOOG) and Amazon, as well as other home security firms. Principal competitors within the security systems industry include the following:

- Johnson Controls (JCI)
- Vivint
- Stanley Security Solutions
- MONI
- Comcast Corporation (CMCSA)
- AT&T (T)

However, the company estimates that it is approximately five times larger than the largest residential competitor. ADT owns 30% market share of the residential monitored security industry in Canada and the U.S.



Management believes that ADT’s competitive strengths include highest brand recognition among consumers, the market leader with five times the market share of the next largest competitor in the residential market, a nationwide presence, comprehensive, innovative security platform, significant growth opportunities, and an experienced management team.

Financials

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

- Increasing topline revenue, post-merger with Protection One
- Stable gross margin percentage
- Growing gross margin dollars
- Substantially increasing cash flow from operations

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

ADT INC. AND SUBSIDIARIES (SUCCESSOR) AND
PROTECTION ONE, INC. AND SUBSIDIARIES (PREDECESSOR)
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Successor		Predecessor	
	Year Ended December 31, 2016	From Inception through December 31, 2015	Period from January 1, 2015 through June 30, 2015	Year Ended December 31, 2014
Monitoring and related services	$ 2,748,222	$ 238,257	$ 189,028	$ 358,439
Installation and other	201,544	73,310	48,681	108,118
Total revenue	2,949,766	311,567	237,709	466,557
Cost of revenue (exclusive of depreciation and amortization shown separately below)	693,430	148,521	100,591	200,054
Selling, general and administrative expenses	858,896	84,134	74,977	134,299
Depreciation and intangible asset amortization	1,232,967	83,650	41,548	79,650
Merger, restructuring, integration, and other costs	393,788	35,036	9,361	10,252
Operating (loss) income	(229,315)	(39,774)	11,232	42,302
Interest expense, net	(521,491)	(45,169)	(29,129)	(59,329)
Other (expense) income	(51,932)	325	331	1,087
Loss before income taxes	(802,738)	(84,618)	(17,566)	(15,940)
Income tax benefit (expense)	266,151	30,365	(1,025)	(2,548)
Net loss	$ (536,587)	$ (54,253)	$ (18,591)	$ (18,488)

(Source: S-1 statement)

Revenue ($)

- Through Sept 30, 2017: $3.2 billion, 9% increase vs. prior
- 2016: $2.9 billion
- 2015: $549.3 million, 18% increase vs. prior
- 2014: $466.6 million

Gross Margin (%)

- Through Sept 30, 2017: 79%
- 2016: 76%
- 2015: 55%
- 2014: 57%

Gross Margin ($)

- Through Sept 30, 2017: $2.6 billion, 13% increase vs. prior
- 2016: $2.3 billion
- 2015: $300.2 million, 13% increase vs. prior
- 2014: $266.5 million

Cash Flow from Operations ($)

- Through Sept 30, 2017: $1.26 billion
- 2016: $617.5 million
- 2015: $36.3 million
- 2014: $60.8 million

As of September 30, 2017, the company had $170.7 million in cash and $14.3 billion in total liabilities.

IPO Details

ADT intends to raise $100 million in gross proceeds from an IPO of its common stock, although the actual amount may be as high as $1.5 billion.

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

We intend to deposit approximately $ million of the proceeds from this offering into a separate account, which amount will be used to redeem the Koch Preferred Securities on a date to be determined following the consummation of this offering.

The Prime Notes, issued on May 2, 2016, mature on May 15, 2023 and bear interest at a rate of 9.250% per annum, payable semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2016.

Listed bookrunners of the IPO are as follows:

- Morgan Stanley (MS)
- Goldman Sachs (GS)
- Barclays (BCS)
- Deutsche Bank Securities (DB)
- RBC Capital Markets (RY)
- Citigroup (C)
- BofA Merrill Lynch (BAC)
- Credit Suisse (CS)

Commentary

ADT is making a pivot from its traditional focus of home security to the home Internet of Things. Management wants to be a provider of devices and interconnectivity within the home and it also wants to develop relationships with third-party device providers, such as Amazon and Samsung, to provide options for consumers.

It's an interesting play because on the one hand, it wants to be an exclusive provider of solutions, but on the other hand, it wants to be a gatekeeper to a marketplace of external solutions.

‘Interesting’ because operating those two value propositions can be difficult, especially when third-party products directly compete with ADTs offerings. Keeping external suppliers happy is always a juggling act and may be difficult to do in some cases.

Nevertheless, ADT is in a strong position due to its high consumer name recognition in the marketplace.

I view its primary competition as the cable providers such as Comcast and AT&T. The cable firms have large existing customer bases and control the pipes to the home. Furthermore, they can afford to compete strongly on price by bundling security and device connectivity services with their existing offerings.

Additionally, the cable firms can consolidate all of these services in one bill and provide a single contact for repair or maintenance, simplifying consumer bill pay and point of contact.

On the financial side, ADT has shown it can grow revenues even after the Protection One merger, so management is proving itself in that regard.

Of concern is the firm’s high debt load, which the IPO would presumably pare down somewhat. We will learn how much when management provides additional details in a future filing.

Gross margin dollars are increasing as is cash flow from operations, so the operational financial metrics appear to be solid. ADT is also free cash flow positive, generating $228.4 million for the nine months ending Sept 30, 2017, for an annual run rate of $304.5 million.

Given the strong growth prospects of the home Internet of Things market over the next five years, especially within the U.S. market, ADT has positioned itself to take advantage of this high-growth opportunity.

I believe ADT will show significant gains in growth in the near term, but the cable companies will compete fiercely and have a fundamental advantage by being able to bundle services more cost-effectively.

When we learn more details about the IPO, including share price range and management’s proposed post-IPO market capitalization, I’ll provide a final opinion.

Expected IPO Pricing Date: Not on Calendar

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IPO Activity

The Financial Services industry experienced a relatively busy year for public share flotations on U.S. markets in 2017.

Through December 22, 2017, 23 firms had successfully floated share issues for total gross proceeds of $3.07 billion.

Below is a table of completed IPOs:

Company	Symbol	Type	IPO Date	IPO Price	Shares	Amount	Price @ 12.22.2017	% Variance vs. IPO
LEXINFINTECH	LX	CONSUMER	12/21/2017	$9.00	12,000,000	$108,000,000	$14.20	57.78%
LUTHER BURBANK	LBC	BANK	12/7/2017	$11.00	12,200,000	$131,150,000	$12.06	9.64%
CURO GROUP	CURO	CONSUMER	12/7/2017	$14.00	6,666,667	$93,333,338	$14.04	0.29%
STERLING BANCORP	SBT	BANK	11/16/2017	$12.00	15,000,000	$180,000,000	$12.62	5.17%
JIANPU TECHNOLOGY	JT	CONSUMER	11/15/2017	$8.00	22,500,000	$180,000,000	$6.67	-16.63%
PPDAI GROUP	PPDF	CONSUMER	11/10/2017	$13.00	17,000,000	$221,000,000	$7.23	-44.38%
METROPOLITAN BANK HOLDING	MCB	BANK	11/8/2017	$35.00	3,100,000	$108,500,000	$43.18	23.37%
CBTX	CBTX	BANK	11/8/2017	$26.00	2,400,000	$62,400,000	$29.52	13.54%
HEXINDAI	HX	CONSUMER	11/3/2017	$10.00	5,000,000	$50,000,000	$11.00	10.00%
MERCHANTS BANCORP	MBIN	BANK	10/27/2017	$16.00	6,250,000	$100,000,000	$19.78	23.63%
DRAGON VICTORY INTERNATIONAL	LYL	CONSUMER	10/20/2017	$6.00	1,421,394	$8,528,364	$5.03	-16.17%
QUDIAN	QD	CONSUMER	10/18/2017	$24.00	37,500,000	$900,000,000	$13.07	-45.54%
CHINA INTERNET NATIONWIDE FINANCIAL SERVICES	CIFS	CONSUMER	8/8/2017	$10.00	2,023,146	$20,231,460	$42.74	327.40%
REDFIN	RDFN	CONSUMER	7/28/2017	$15.00	9,231,000	$138,465,000	$27.00	80.00%
RBB BANCORP	RBB	BANK	7/26/2017	$23.00	3,750,000	$86,250,000	$27.36	18.96%
BYLINE BANCORP	BY	BANK	6/30/2017	$19.00	5,700,000	$108,300,000	$21.58	13.58%
ESQUIRE FINANCIAL HOLDINGS	ESQ	BANK	6/27/2017	$14.00	2,363,873	$33,094,222	$19.10	36.43%
GUARANTY BANCSHARES	GNTY	BANK	5/9/2017	$27.00	2,000,000	$54,000,000	$30.03	11.22%
CHINA RAPID FINANCE	XRF	CONSUMER	4/28/2017	$6.00	10,000,000	$60,000,000	$5.80	-3.33%
CADENCE BANCORPORATION	CADE	BANK	4/13/2017	$20.00	7,500,000	$150,000,000	$26.96	34.80%
ELEVATE CREDIT	ELVT	CONSUMER	4/6/2017	$6.50	12,400,000	$80,600,000	$7.58	16.62%
HAMILTON LANE	HLNE	ADVISORY	3/1/2017	$16.00	11,875,000	$190,000,000	$34.94	118.38%
SACHEM CAPITAL	SACH	R.E. FINANCE	2/10/2017	$5.00	2,600,000	$13,000,000	$3.93	-21.40%
TOTALS				$345.50		$3,076,852,384	$435.42	26.03%

(Source: Nasdaq)

Post-IPO Performance

The post-IPO share price performance of the cohort can be broken down as follows (as of 12/22/2017 market close):

- Share price more than 5% above IPO price: **16** companies (70% of total)
- Share price within 5% of IPO price: **2** companies (9%)
- Share price more than 5% below IPO price: **5** companies (21%)

(Source: Nasdaq)

If an investor had purchased a basket of these stocks at their IPO price, the YTD gain would have been 26.03% for the cohort vs. the S&P 500 YTD return of approximately 19%. A prominent Financial Services ETF, (IYG), returned approximately 25% during the same period.

In terms of the number of IPOs during 2017, Financial Services firms accounted for the third highest number of IPOs at 23. Biopharmaceutical firms completed 45 IPOs through December 22, and 32 Blank Check firms IPOd during the year.

Commentary

In 2017, there was a strong bifurcation in the types of Financial Services firms going public, between Consumer firms and Banks.

Consumer finance firms accounted for 11 IPOs and Banks 10 out of the total 23 IPOs.

Eight of the Consumer firms were Chinese and a major story during the year was the selloff of these stocks in the wake of Chinese government regulators beginning to crack down on high-interest rates charged to consumers and other practices.

The result was a stock rout, with five of six Financial Services firms that performed negatively post-IPO being Chinese Consumer finance companies:

- Jianpu Technology (JT) - 16.63% negative return post-IPO
- PPDAI (PPDF) - 44.38% negative
- Dragon Victory (LYL) - 16.17% negative
- Qudian (QD) - 45.54% negative
- China Rapid Finance (XRF) - 3.33% negative

Although a recent Chinese Consumer finance firm, LexinFintech (LX), has fared well in the few days since its IPO, many of the above-listed firms haven't recovered from the post-IPO swoons. Investors should be extra cautious with Chinese financial services firms, given the uncertain regulatory environment in China for the near-term future.

The other major sector represented in 2017 Financial Services IPOs was that of the Banks.

As a cohort, the Banks returned 19.31% in post-IPO performance as of December 22, 2017. Compared to a U.S. Bank ETF, (KBE), which returned 12.44%, Bank IPO stocks outperformed the sample ETF by a reasonable margin given the typically greater risk associated with the newly-public cohort.

Standout performers in the Bank group were:

- Esquire Financial Holdings (ESQ) - 36.43% YTD return

- Cadence Bancorporation (CADE) - 34.80%

2018 will present an interesting mix of cross-currents to the Financial Services industry.

Many economists are predicting between two and four Fed Funds interest rate increases in 2018, which may negatively impact margins and funding availability to Financials.

The recent tax legislation enacted in the U.S. will likely provide at least an initial increase in economic activity, which may help financial services positioned to take advantage of the potentially increased demand for loans.

This expected economic activity increase will also likely increase demands for imports, helping to drive the Chinese and other Asian economies in response, potentially increasing demand for financial services from those locales.

Furthermore, tax considerations from the legislation may be favorable to the banking sector.

While there is much that is unknown as to the effects of the tax legislation and the Federal Reserve's response to it, I believe that we will see an improved economic climate along with increased interest rates.

Accordingly, those Financial Services firms will perform the best post-IPO will likely have the following three characteristics:

- Well positioned to take advantage of increased loan demand
- Minimize funding cost increases in a rising interest rate environment
- Maintain loan book quality

In 2018, I will be analyzing Financial Services firm IPO prospects with a focus on these three factors and will provide timely research on this busy IPO sector.

Cue Biopharma Readies $60 Million U.S. IPO

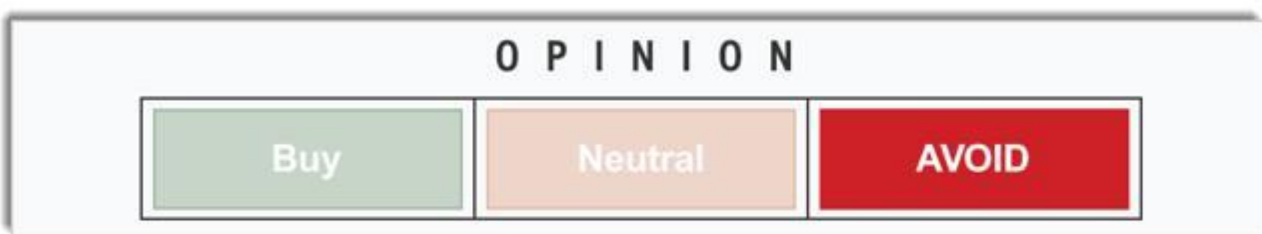
Quick Take

Cue Biopharma (CUE) intends to sell up to $60 million in common stock in a 'best efforts' U.S. IPO, according to an amended S-1/A registration statement.

The firm is developing a pipeline of biologics that selectively modulate the immune system to potentially treat a variety of cancers and autoimmune diseases.

Cue has finalized an important collaboration agreement with Merck (MRK) but still has to enter Phase 1 trials for its lead candidate.

My opinion on the ultra-early-stage biopharma IPO is to AVOID it. It’s fine if institutions with long-term financial horizons wish to invest in this early stage funding round masquerading as an IPO, but retail investors should steer clear.



Company

Cambridge, Massachusetts-based Cue Biopharma was founded to develop biologics for the treatment of cancer and autoimmune diseases.

For cancer, biologics utilize the body’s immune system, T-cells, to destroy cancer cells.

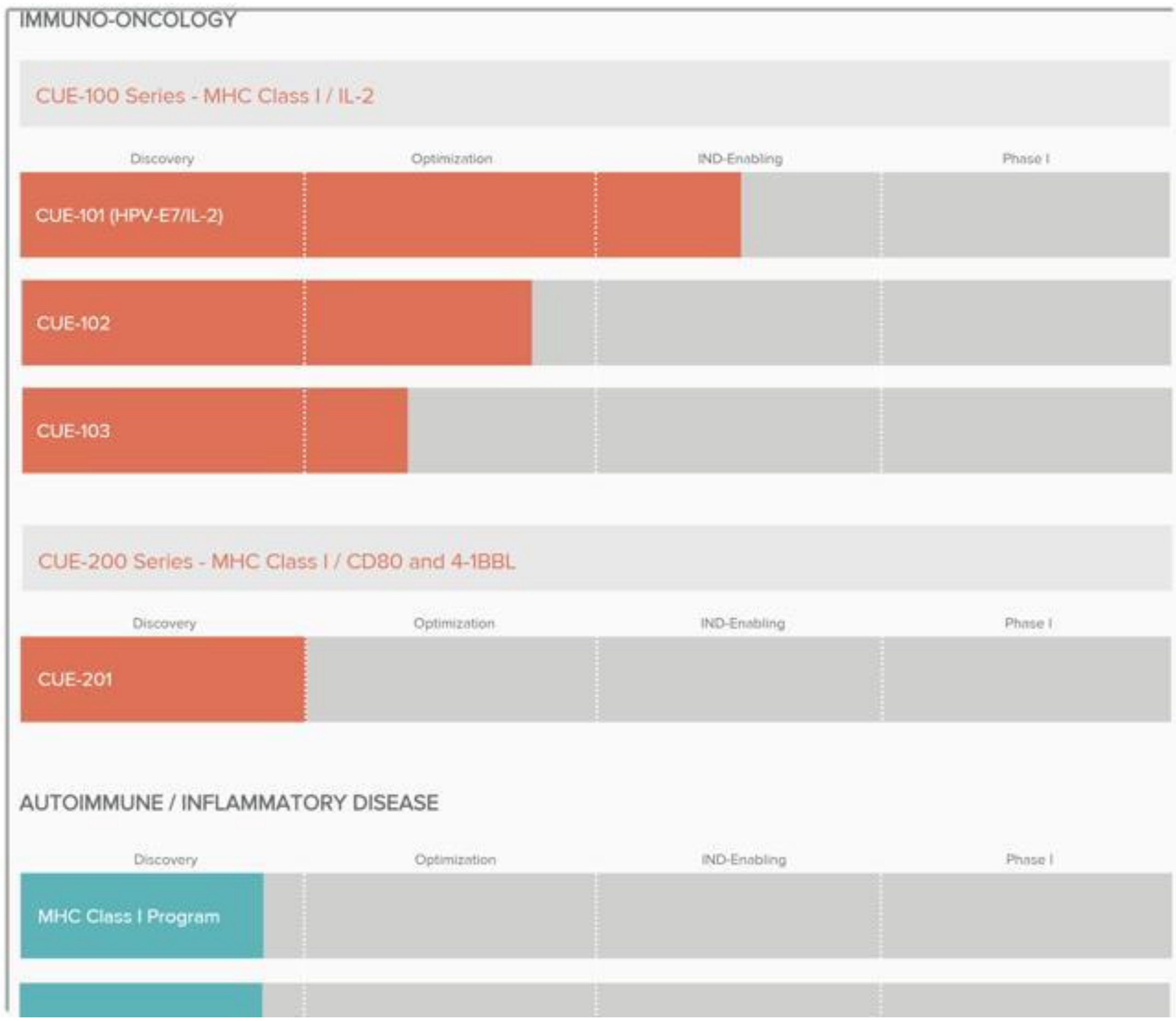
Management is headed by Daniel Passeri, who has been with the firm since September 2016 and was previously President and CEO of Curis (CRIS), an oncology drug development company.

The firm's primary investors have provided $26.7 million in invested capital and include MDB Capital and associated persons (21.0% pre-IPO), Albert Einstein College (6.3%) and various other individuals.

Technology

Cue is developing a pipeline of biologic drugs with its lead candidate, CUE-101, targeting HPV-driven (Human Papilloma Virus) cancers.

Below is a chart showing the current status of the firm's drug pipeline:



(Source: Cue Biopharma)

The firm has inked an important collaboration agreement it describes as follows:

In November 2017 we entered into a Collaboration Agreement with Merck Sharp & Dohme Corp. ("Merck") (MRK) for a partnership to research and develop certain of our proprietary biologics that target certain autoimmune diseases.

I view biopharma collaboration agreements as a positive IPO signal for three reasons:

1. It indicates a major pharma firm has researched the firm's technology and deemed it promising
2. It provides potential 'deep pockets' for future development cost sharing
3. It brings development and commercialization expertise

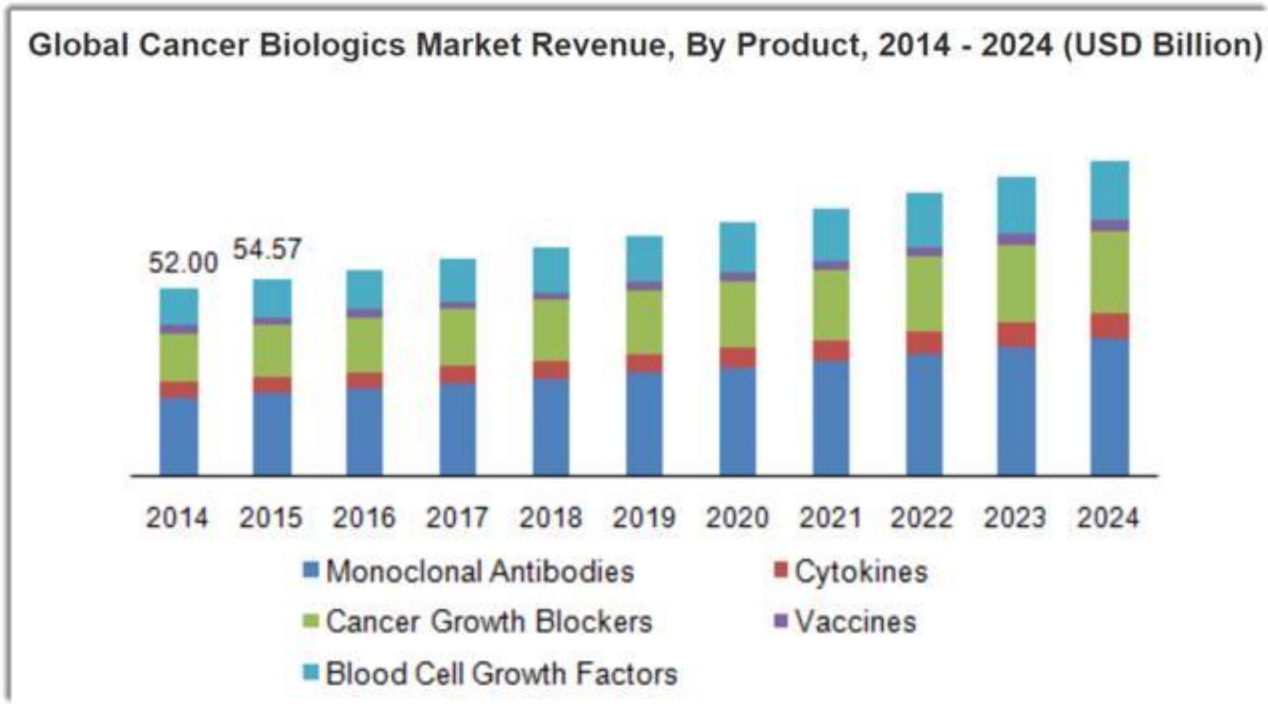
Market

According to a 2017 market research report by Hexa Research, the global market for cancer biologics is expected to reach $87.6 billion by 2024.

North America has dominated the biologics market, with 42.1% of overall market share in 2016. High tech healthcare infrastructure combined with steady policy regulations are features of continued high levels of research activity.

In the Asia Pacific region, Japan accounted for the high revenues for cancer biologics, while China was forecasted to improve due to increased healthcare infrastructure and 'supportive government initiatives' that encourages industry participants 'to invest in R&D activities and develop novel oncology biologics.'

Below is a chart showing the Global Cancer Biologics Market by Product Revenue:



(Source: Hexa Research)

Most of the current market revenue is created by monoclonal antibodies, although cancer growth blockers will grow appreciably through 2024.

Competition

Major pharmas that provide competitive therapies for cancer include:

- Amgen (AMGN)
- Hoffman La Roche (RJJBY)
- Sutro Biopharma
- Novartis (NVS)
- Juno Therapeutics (JUNO)
- Kite Pharma
- Bristol-Myers Squibb (BMY)
- Merck (MRK)
- Pfizer (PFE)
- Seattle Genetics (SGEN)
- ImmunoGen (IMGN)
- Sorrento Therapeutics (SRNE)

Management says that the 'relative effectiveness of immunotherapies depends on whether a relevant or optimal therapeutic mechanism to engage the immune system has been addressed by the therapy, and it is likely that different immune stimulatory mechanisms will be required to optimally address certain cancers over others.'

As such, it is likely the firm would have to develop specific immunotherapies for each disease indication, or license its technologies to other firms outside its primary areas of expertise and focus.

Financials

Cue's recent financial results are typical of a development stage biopharma in that they feature no revenues and significant R&D and G&A expenses associated with drug pipeline development.

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

CUE BIOPHARMA, INC.

STATEMENTS OF OPERATIONS

	Years Ended December 31, 2016	Years Ended December 31, 2015
Revenue	$ —	$ —
Operating expenses:		
General and administrative	1,970,488	425,081
Research and development	5,687,847	1,503,649
Total operating expenses	7,658,335	1,928,730
Loss from operations	(7,658,335)	(1,928,730)
Interest income	52	—
Net loss	$(7,658,283)	$(1,928,730)
Net loss per common share – basic and diluted	$ (1.03)	$ (0.34)
Weighted average common shares outstanding – basic and diluted	7,433,433	5,658,282

(Source: Cue Biopharma S-1/A)

As of Sept 30, 2017, the company had $3.4 million in cash.

IPO Details

CUE intends to raise up to $60 million in gross proceeds from an IPO of its common stock.

This IPO is a 'best efforts' transaction with a minimum floor of $40 million. Per the current S-1/A, the company 'does not intend to close this offering until we sell at least $40,000,000 of common stock... This offer will terminate on January 13, 2018 (the "Initial Offering Termination Date"), which date may be extended to a date up to and including March 14, 2018 (the

“Offering Termination Date”), unless we sell the maximum amount of common stock set forth below before that date or we decide to terminate this offering prior to that date.’

Assuming a successful IPO of 6.7 million shares sold at $7.50 per share and excluding the effects of underwriters exercising over-allotment options and employee incentive plan options, the firm would have a post-IPO market capitalization of approximately $130 million.

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

$27 million to $29 million, if we sell the minimum of $40,000,000 of common stock, or $44 million to $46 million, if we sell the maximum of $60,000,000 of common stock, of ongoing research and development of our drug candidates and platform technologies including, but not limited to, investigational new drug application (“IND”) enabling studies, CMC drug manufacturing, IND filing, initiating clinical studies, purchasing necessary equipment and other research-related purchases, salaries for current and new personnel; and

$5 million to $7 million, if we sell the minimum of $40,000,000 of common stock, or $8 million to $10 million, if we sell the maximum of $60,000,000 of common stock, of general corporate purposes, including patent portfolio development and maintenance costs, working capital, business development, administrative support services, hiring of additional personnel and the costs of operating as a public company.

We believe that the net proceeds from this offering will be sufficient to allow us to:

complete IND-enabling studies for our lead product candidate, file such IND and initiate the Phase I trial for that candidate;

identify, optimize and nominate one additional drug candidate for immuno-oncology;

optimize drug scaffold for the treatment of autoimmune indications through the generation of T regulatory cells in vivo; and

continue to advance our drug discovery platform technologies, including funding to proof of concept of viraTope, our T cell epitope discovery platform.

Listed bookrunners of the IPO are MDB Capital Group and Feltl and Company. MDB is the largest single shareholder in the company and it along with associated persons owns 21.0% of company stock pre-IPO. MDB also owns a warrant for the purchase of 370,370 shares at an exercise price of $2.70 per share. The firm owns one-half of the warrant and divided the other half (185,185 worth of shares) among eight employees of the firm.

Commentary

Cue is an extremely early stage firm, with its lead candidate CUE101 not even in Phase 1 safety trials yet.

Furthermore, management hasn't indicated when those trials will begin and plans to outsource the trial process.

Most biopharma firms that go public are at least in early Phase 2 trial stage, with very few exceptions. Denali Therapeutics (DNLI) was a recent one.

On the plus side, the firm has a promising collaboration with Merck (MRK) and has disclosed the following terms related to that agreement, [bold mine]

In exchange for the licenses and other rights granted to Merck under the Collaboration Agreement, we will receive a**$2.5 million nonrefundable up-front payment** and may be eligible to receive additional funding in developmental milestone payments, as well as tiered royalties if all research, development, regulatory and commercial milestones agreed upon by both parties are successfully achieved. Excluding the upfront payment described above, we are eligible to earn **up to $101 million** for the achievement of certain research and development milestones,**$120 million** for the achievement of certain regulatory milestones and **$150 million** for the achievement of certain commercial milestones, in addition to tiered royalties on sales, if all pre-specified milestones associated with multiple products across the primary disease indication areas are achieved. The Collaboration Agreement requires us to use the first $2.7 million of milestone payments we receive under the agreement to fund contract research. The amount of the royalty payments is a percentage of product sales ranging in the single digits based on the amount of such sales.

So, the firm will receive $2.5 million upfront and may receive payments for R&D, regulatory and commercial milestones, most of which are significantly far into the future. Royalty payments would be in the single digits, although I have seen other royalty payment agreements in the high single digits to low double digits.

The IPO itself is a 'best efforts' IPO, which isn't the most confidence-inspiring, although it does have a $40 million minimum floor. If CUE doesn't raise at least $40 million, it won't close the IPO, but it is an unusual approach to an IPO. I don't understand why they don't just set out for a $50 million IPO and upsize it if they get more interest or downsize it if they don't.

In any event, the post-IPO market capitalization of $130 million for a pre-Phase 1 stage company is probably on the high end of reasonable since many early Phase 2 biopharmas go out with market caps in the $250M -- $350M range.

However, given the firm's ultra-early-stage of development, that of pre-Phase 1, my opinion on the IPO is that it really is an institutional financing round, so retail investors should AVOID it.

Expected IPO Pricing Date: Week starting December 18, 2017.