Interactive Brokers

in conjunction with

Drawing Capital

present:

IPOs and SPACs – The Next Evolution in Going Public

Sean van der Wal, Managing Partner

Sagar Joshi, Managing Partner

Jugal Lodaya, Managing Partner

IBKR

January 25, 2021

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IPOs & SPACs: THE NEXT EVOLUTION IN GOING PUBLIC

Presented by:
Sean van der Wal, Sagar Joshi, and Jugal Lodaya

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ABOUT

At Drawing Capital, our mission is to help investors capture the expansion of a technology-forward world while maintaining total alignment of goals and incentives. In doing so, we believe we can broaden the economic foundation of our Limited Partners and empower them to further support the causes and relationships that are most important to them.

We leverage our expertise in finance, technology, and data science to create a robust framework for decision-making, and introduce opportunities in public markets not captured by passive investing.

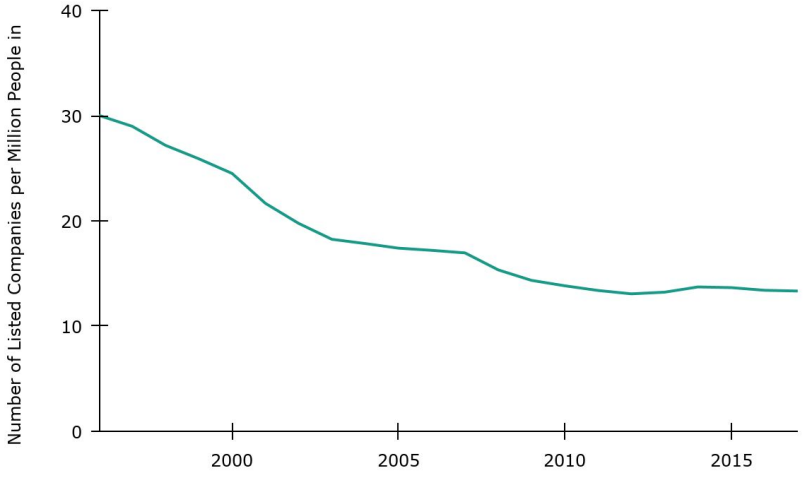
Topics Covered

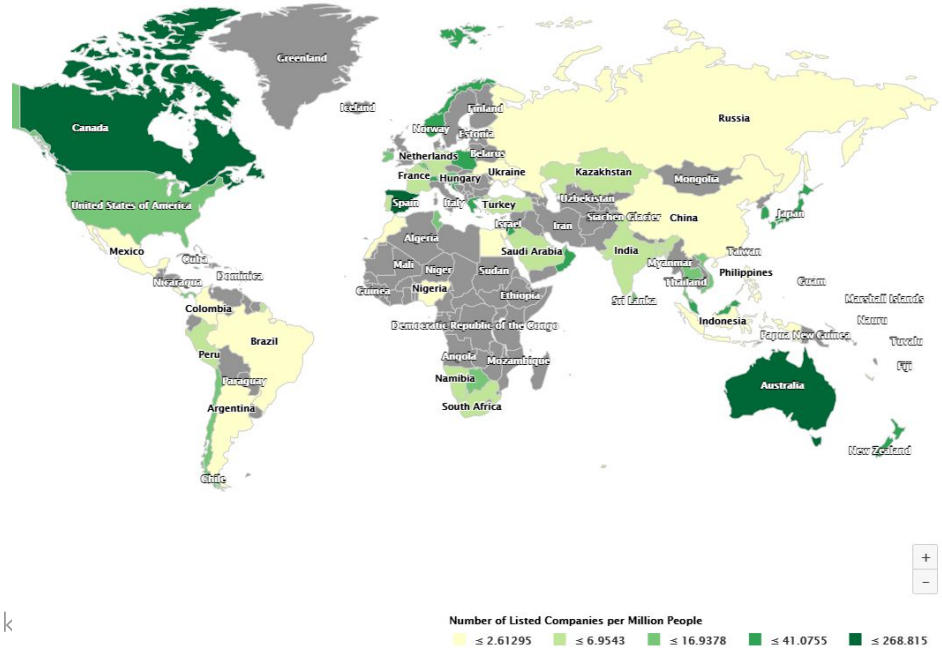
1. Historical Context for Public Companies
2. Current IPO Landscape and Issues
3. Understanding Financing Processes
4. Opportunities in the SPAC Market

SECTION I

Historical Context

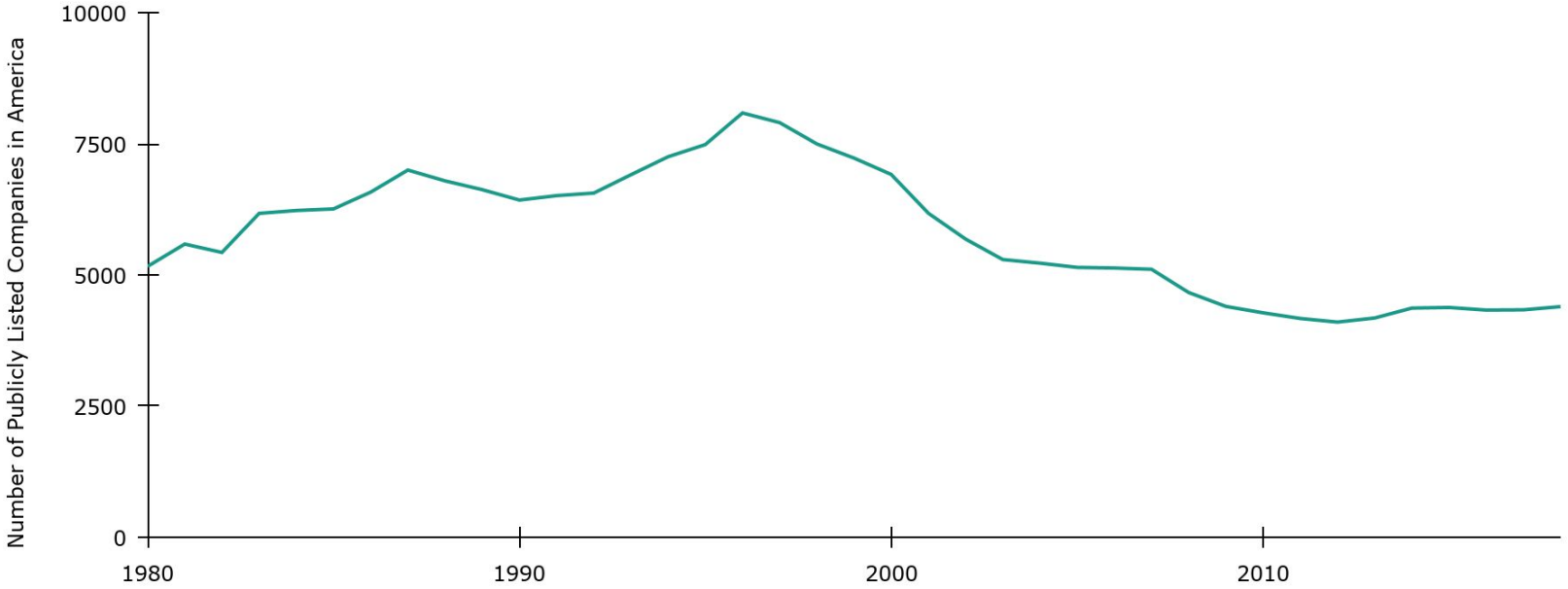
Publicly listed companies per capita in America has steadily declined over the past 25 years.





Data Source: Federal Reserve Economic Database and World Bank

The total number of publicly listed companies has declined since 1998.



Data Source: Federal Reserve Economic Database and World Bank

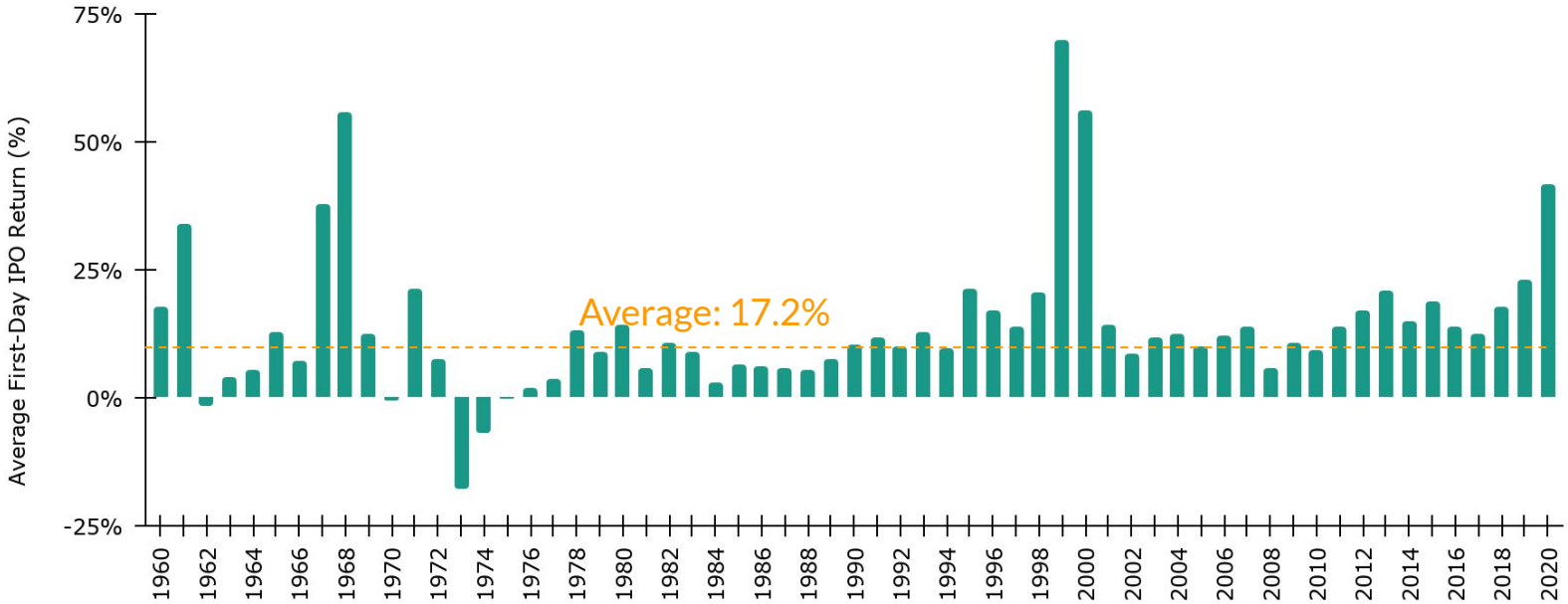
4 Common Methods of Going Public

1. Initial Public Offering (“IPO”)
2. Direct Listing
3. Reverse Merger
4. Special Purpose Acquisition Company (“SPAC”)

SECTION II

IPO Landscape & Issues

Except for the tech bubble and in 2020, the average first-day IPO return (%) has been in a steady range since 1978.



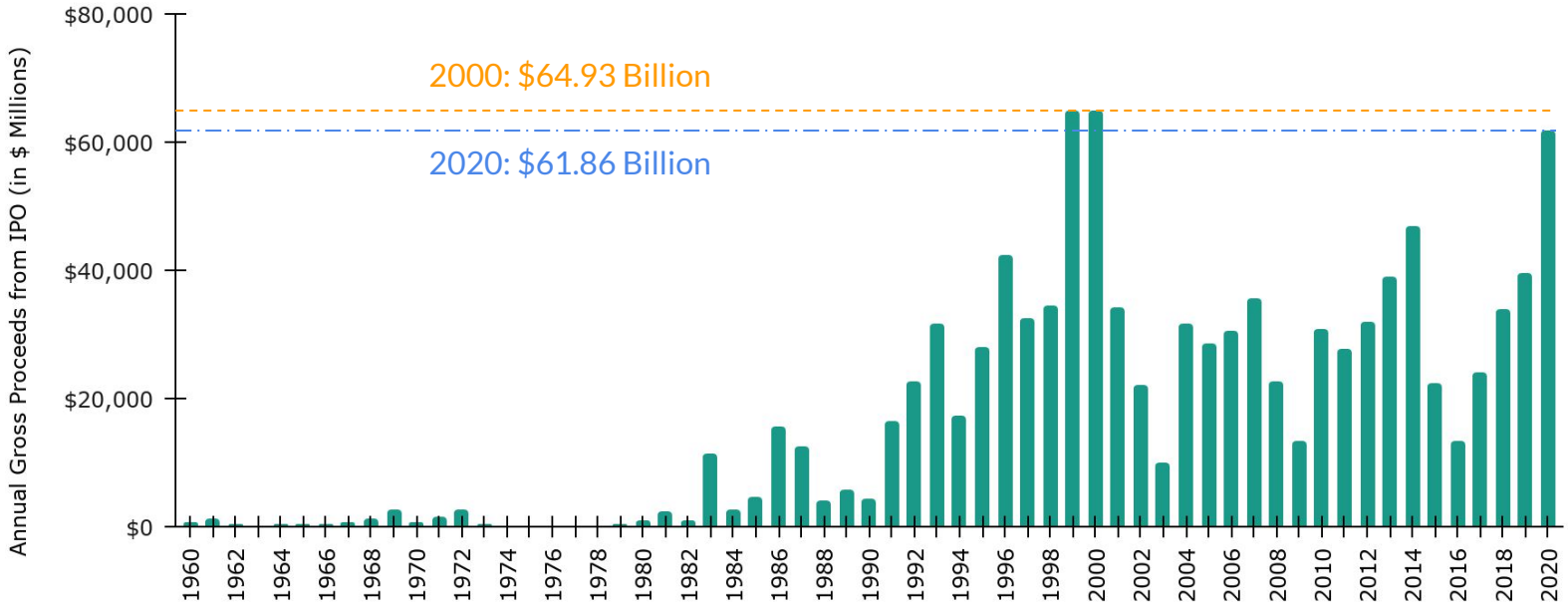
Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

Large IPOs in 2020 experienced large first-day price increases.

Company (Ticker Symbol)	IPO Offering Price Per Share	First Day Market Closing Price	Difference
Snowflake (SNOW)	$120	$253.93	+111.60%
DoorDash (DASH)	$102	$189.51	+85.79%
AirBnB (ABNB)	$68	$144.71	+112.80%
Unity Software (U)	$52	$68.35	+31.44%
JFrog (FROG)	$44	$64.79	+47.25%
C3.ai (AI)	$42	$92.49	+120.21%
Sumo Logic (SUMO)	$22	$26.88	+22.18%
Average	-	-	+75.90%

Data Source: Corporate Press Releases and Koyfin

Annual gross proceeds from IPOs peaked in the tech bubble and roared back in 2020.



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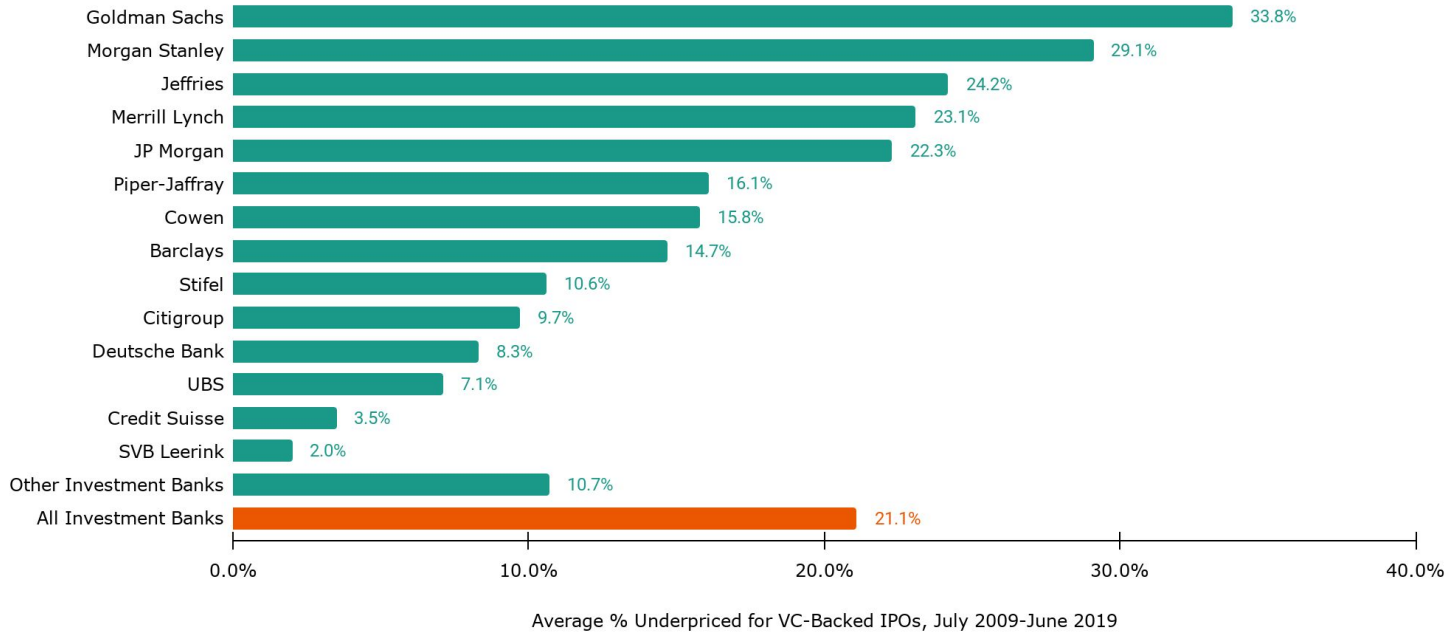
IPO data suggests a persistent IPO underpricing issue.

Time Horizon	Number of IPOs	Net Underpriced Value	Average First Day Return on IPOs (Equal Weighted)
2020	165	$29.66B	41.60%
1980-1989	2047	$3.30B	7.20%
1990-1998	3614	$30.07B	14.80%
1999-2000	856	$66.79B	64.60%
2001-2020	2258	$101.57B	16.70%
1980-2020	8775	$201.73B	18.40%

Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

Leading investment banks have the biggest underpricing issues.



Source: Professor Jay Ritter and Bill Gurley, July 2009-June 2019,
https://site.warrington.ufl.edu/ritter/files/WhyDont_Ritter2019_Sept25.pdf

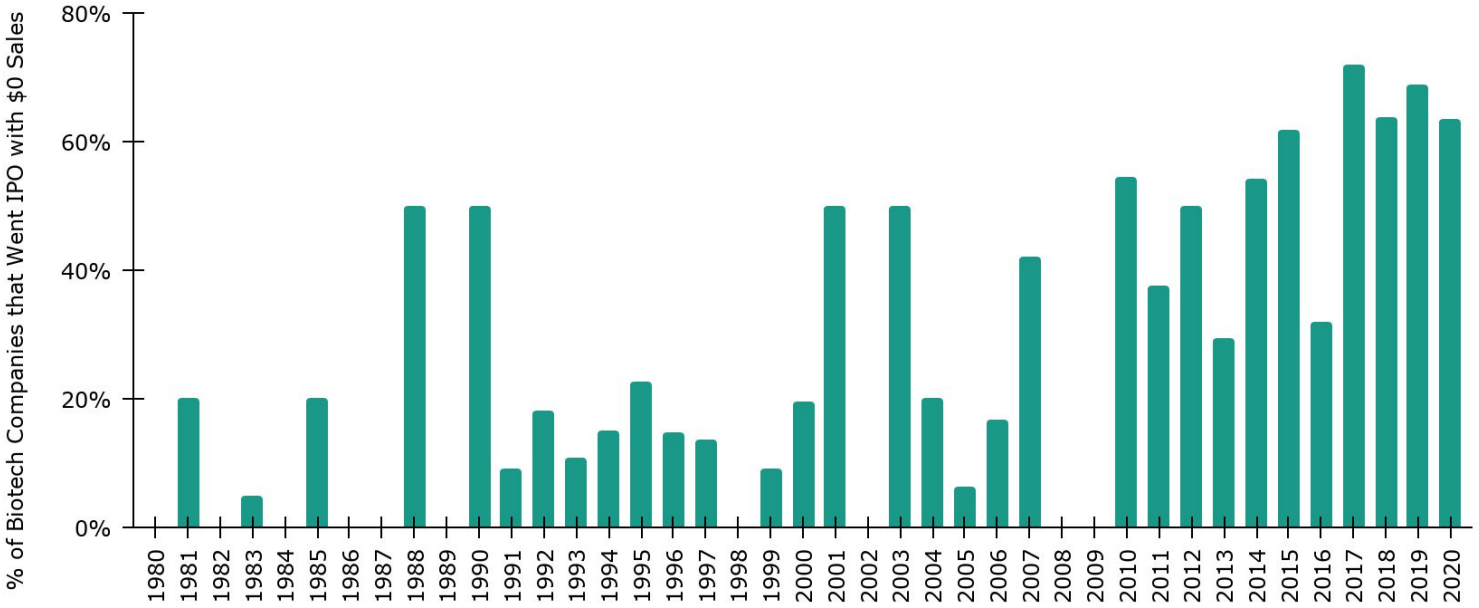
Why Is Underpricing Bad?

1. Establishes a conflict between investment banks' clients (company undergoing IPO process and asset management clients).

2. Newly public company does not attain more capital as purchased shares appreciate in value.

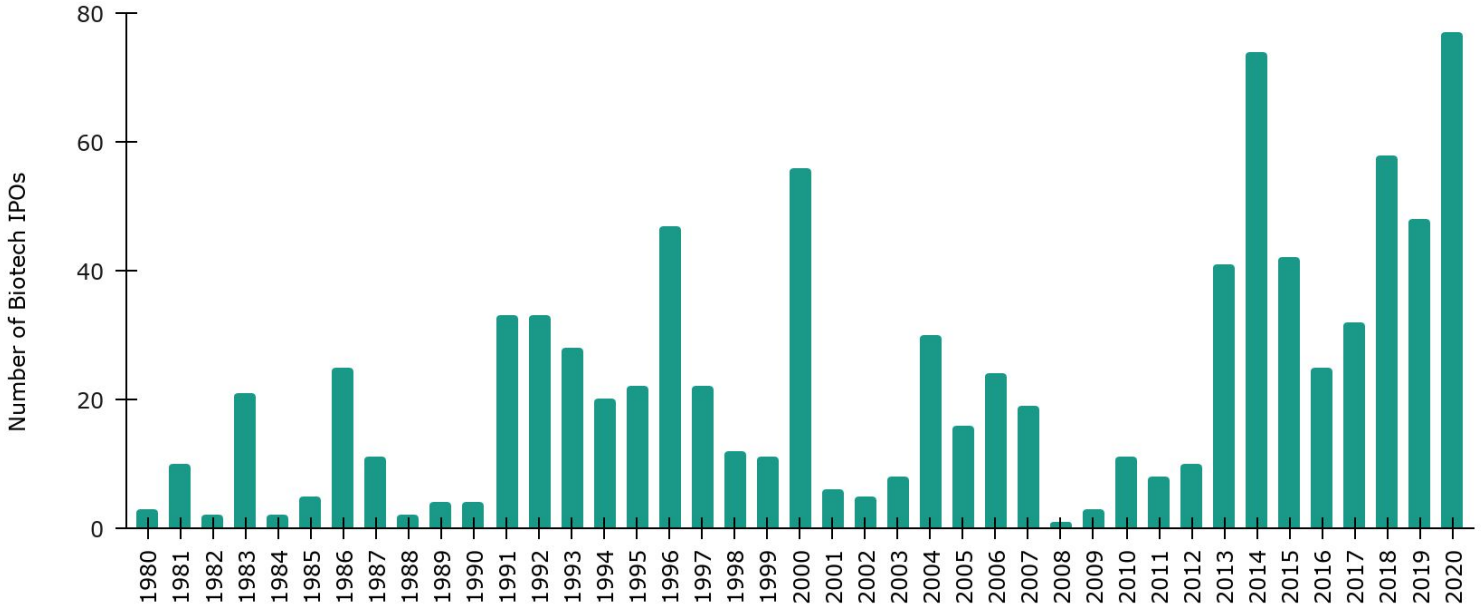
Based on 2020 figures, as previously shown, guidance from investment banks led to companies receiving 41.6% less than what the market was willing to pay.

Since 2010, a significant percentage of biotech IPOs were for pre-revenue biotech companies.



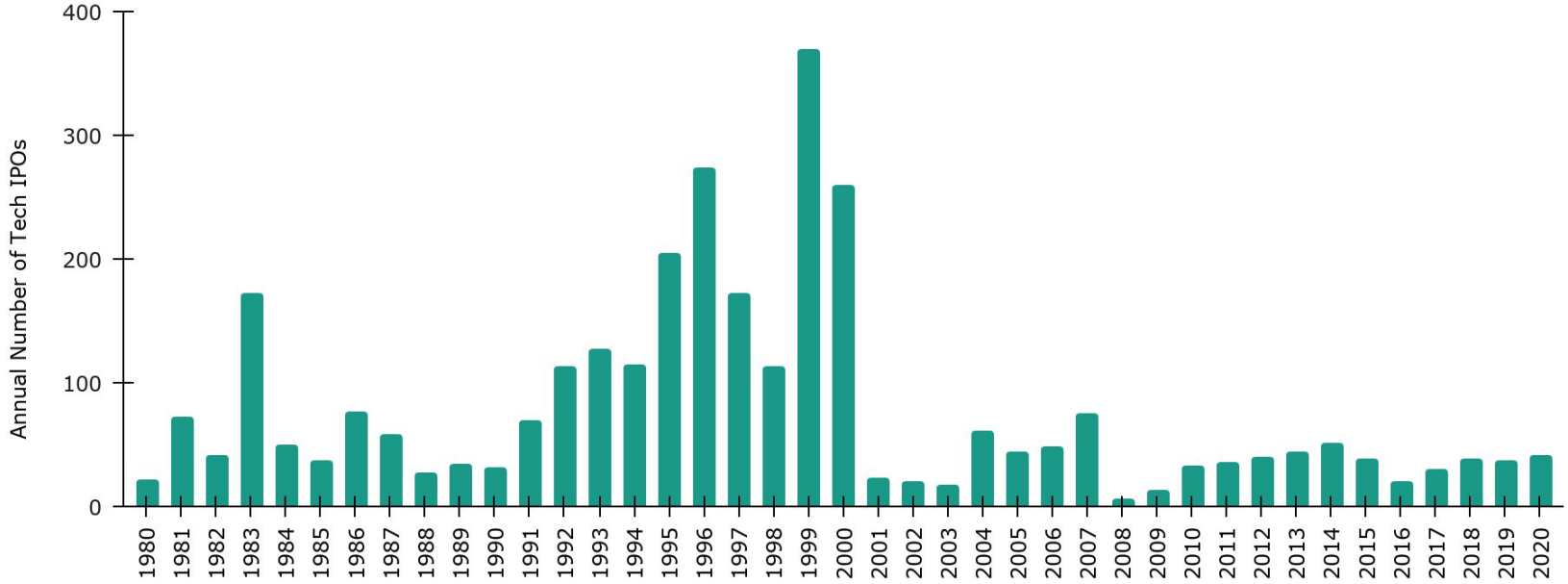
Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

Biotech IPOs seem to cluster around strong economic and industry periods.



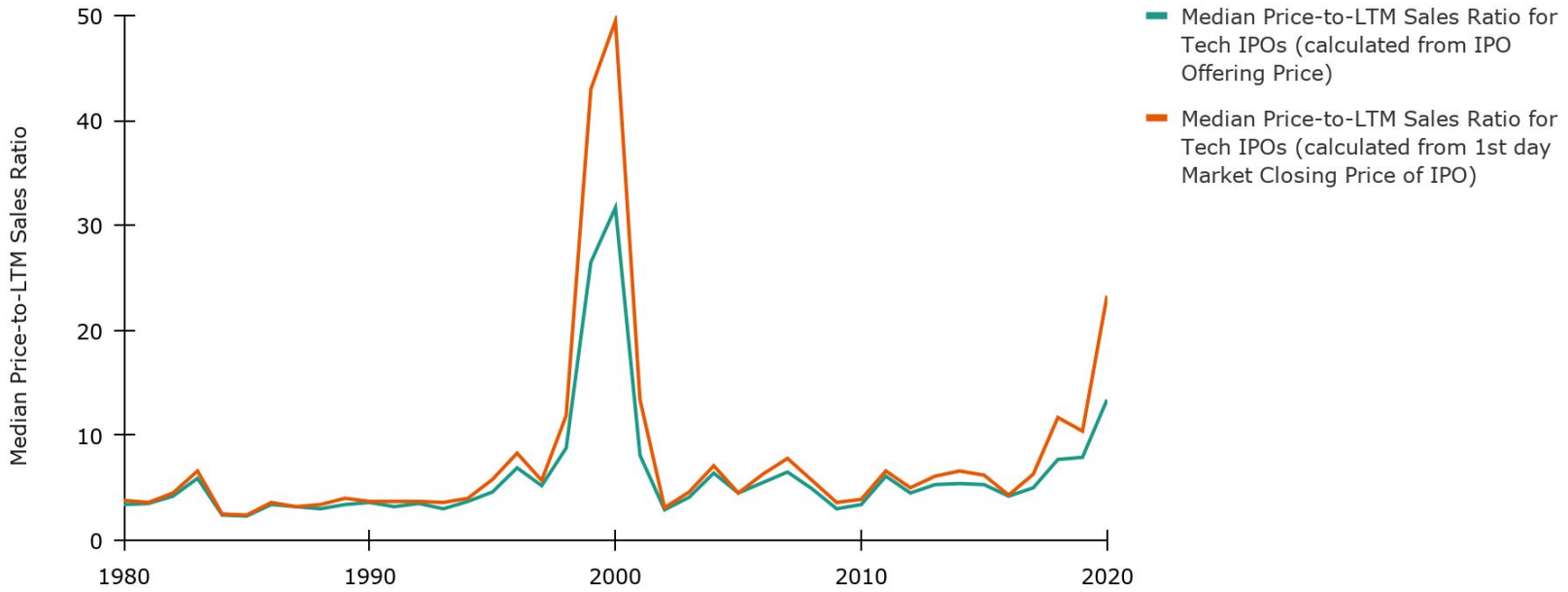
Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

Today's annual number of tech IPOs is only a fraction of the number of tech IPOs in the tech bubble.



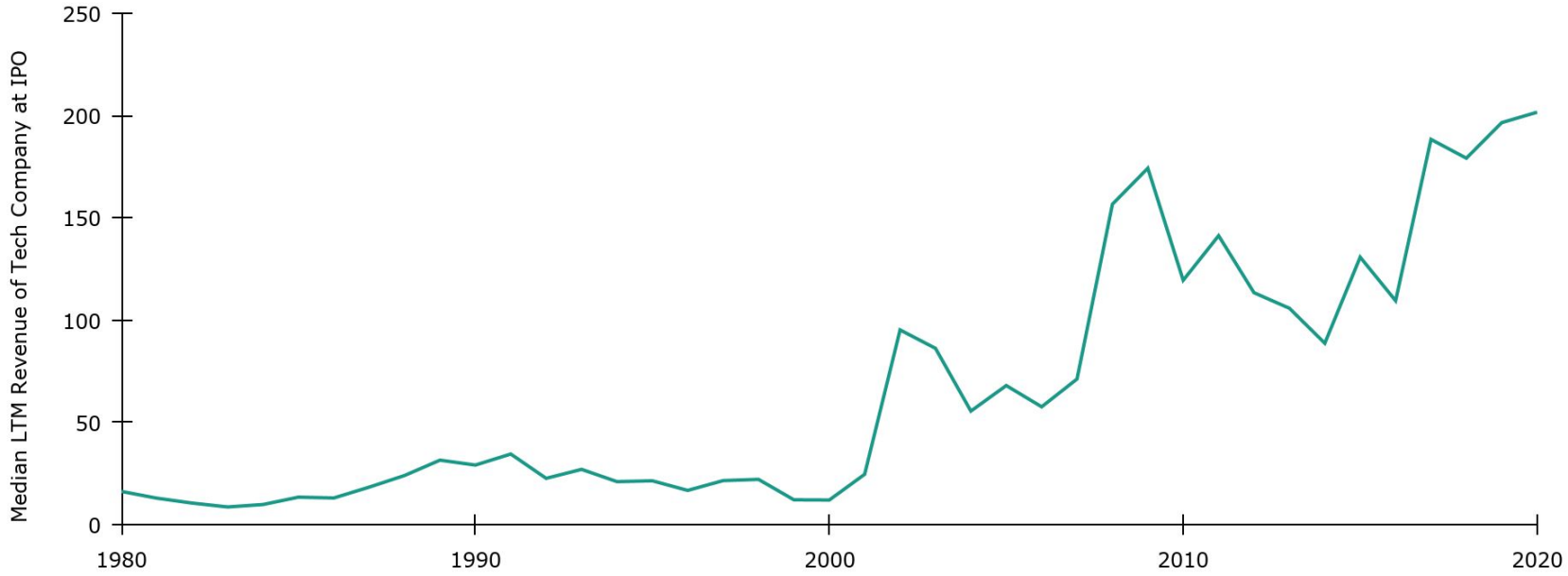
Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

Median price-to-LTM sales ratio clearly highlights the euphoria of the tech bubble.



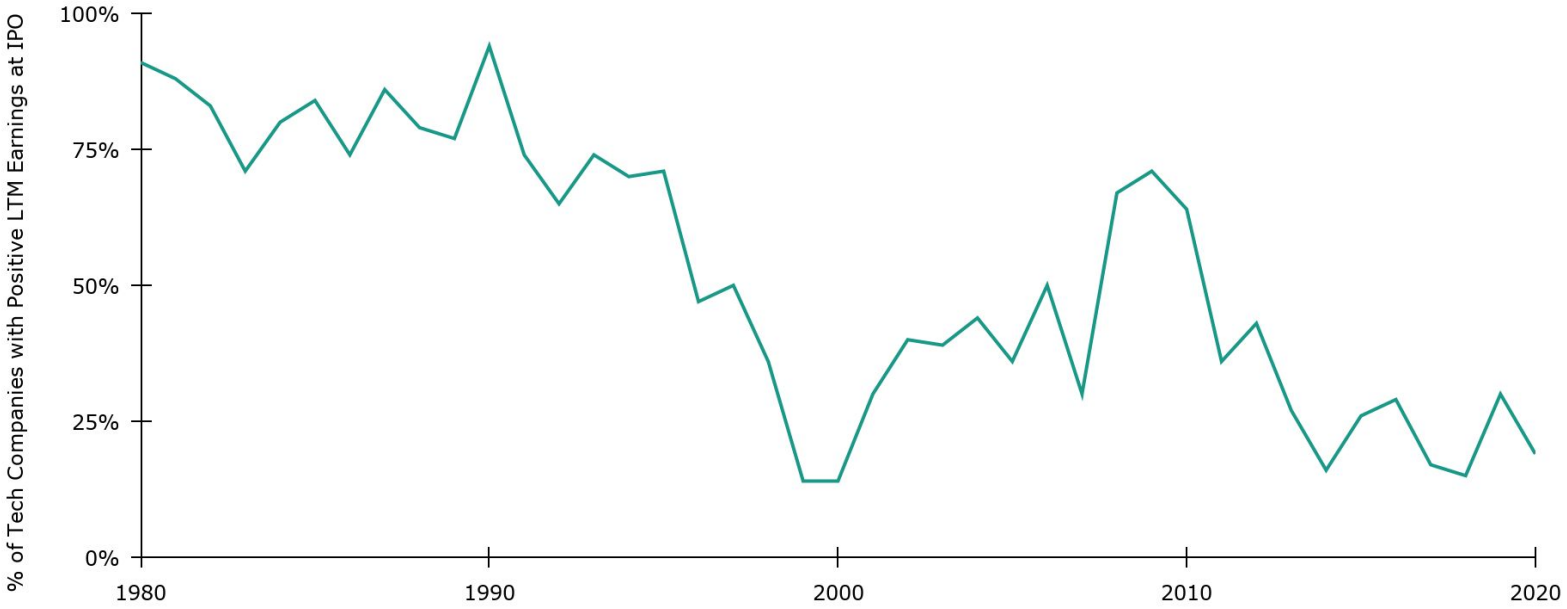
Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

Several tech companies have delayed the IPO process and are much larger businesses at the IPO compared to 20 years ago.



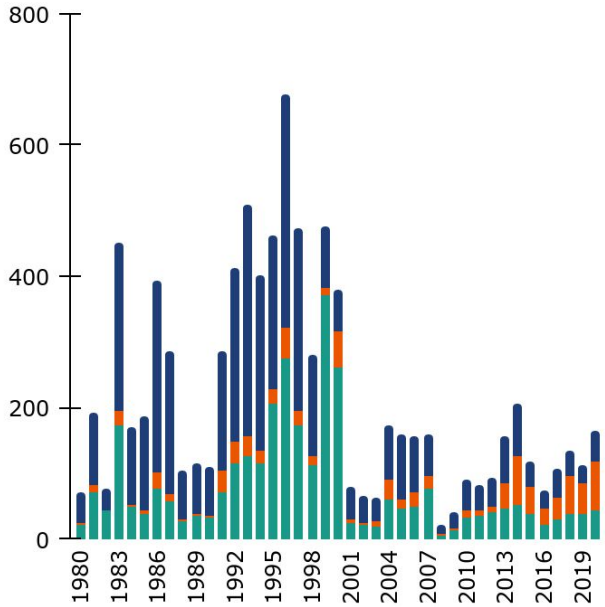
Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

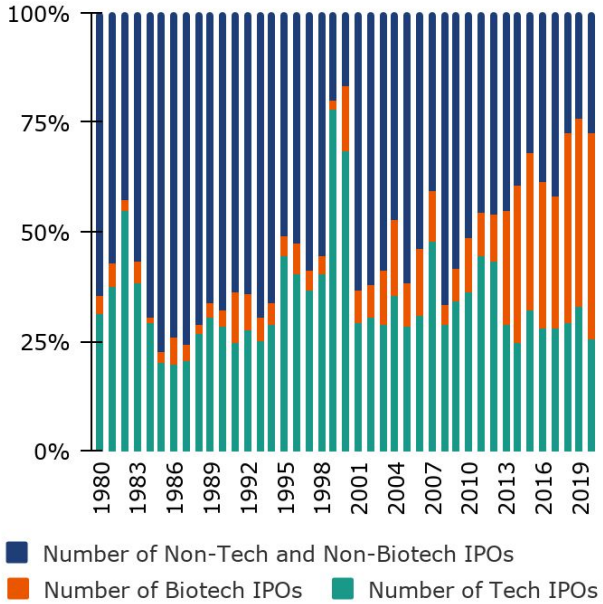
Today, the majority of tech companies are not profitable (LTM) at the time of their IPOs.



Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

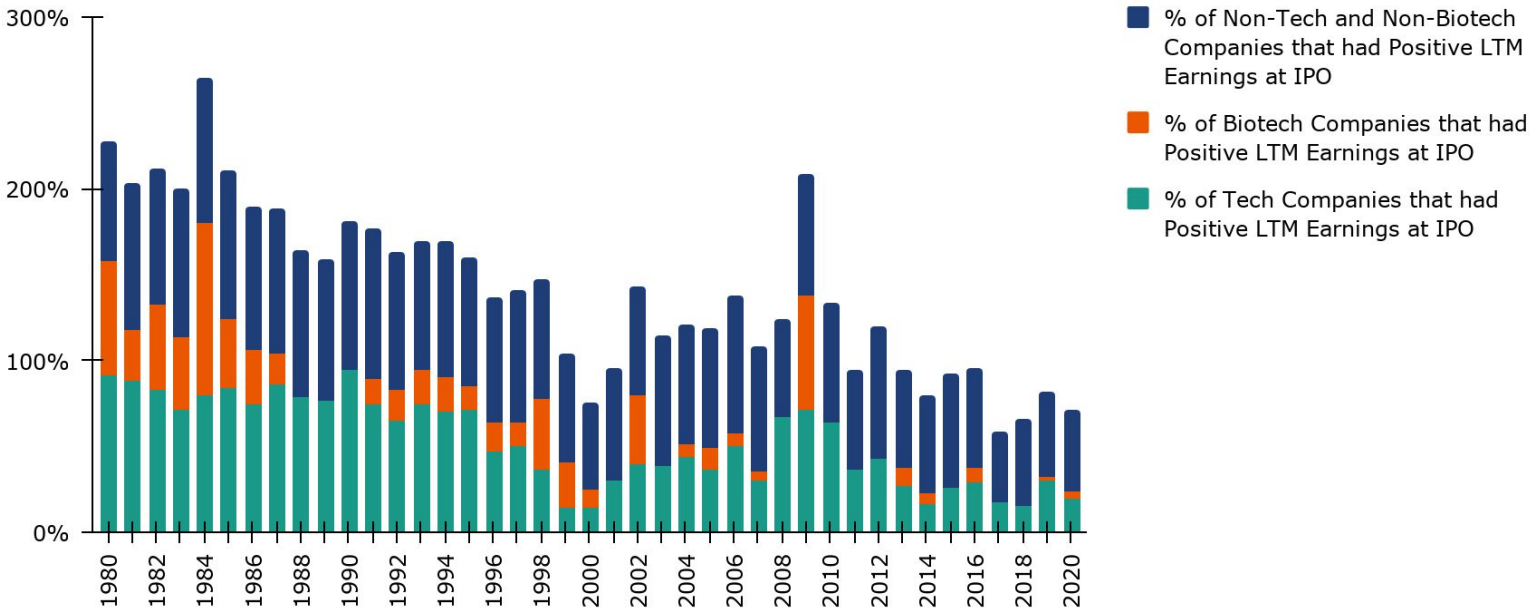
Tech and biotech IPOs are a growing share of total IPOs in a year.





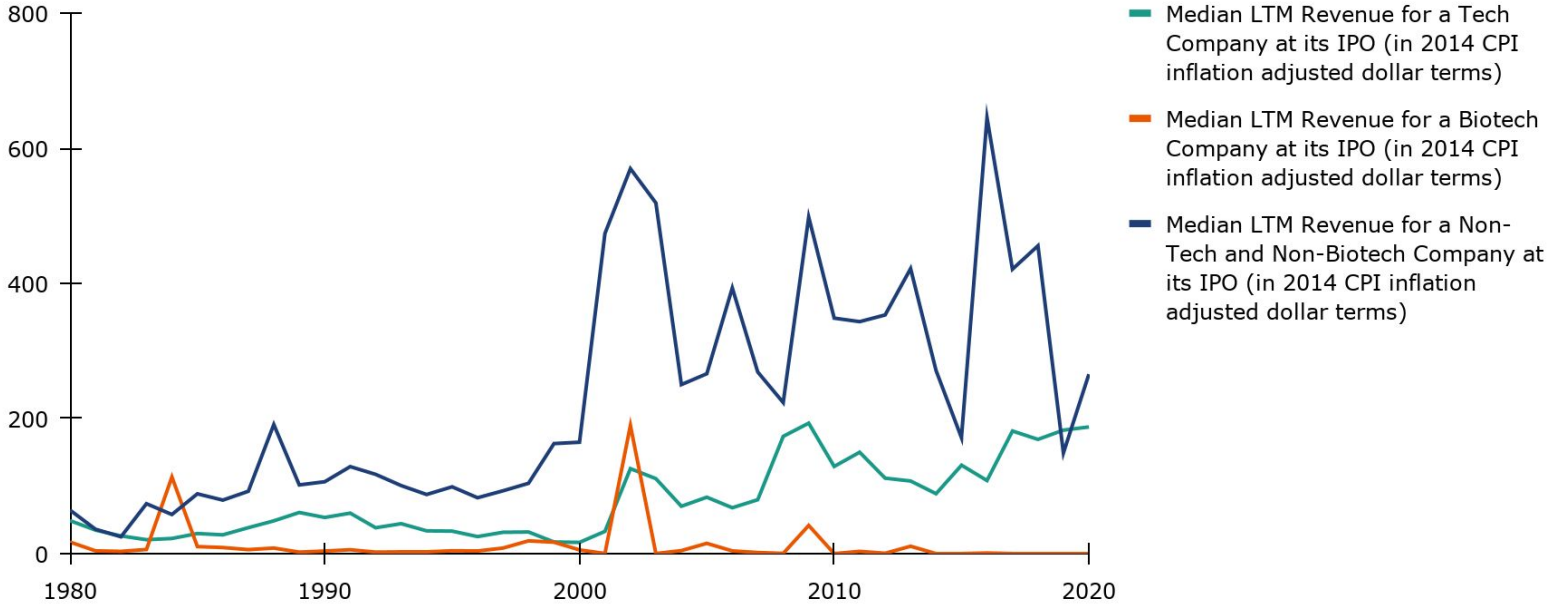
Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

Many companies, including several tech and biotech companies, are increasingly not profitable at the time of the IPO.



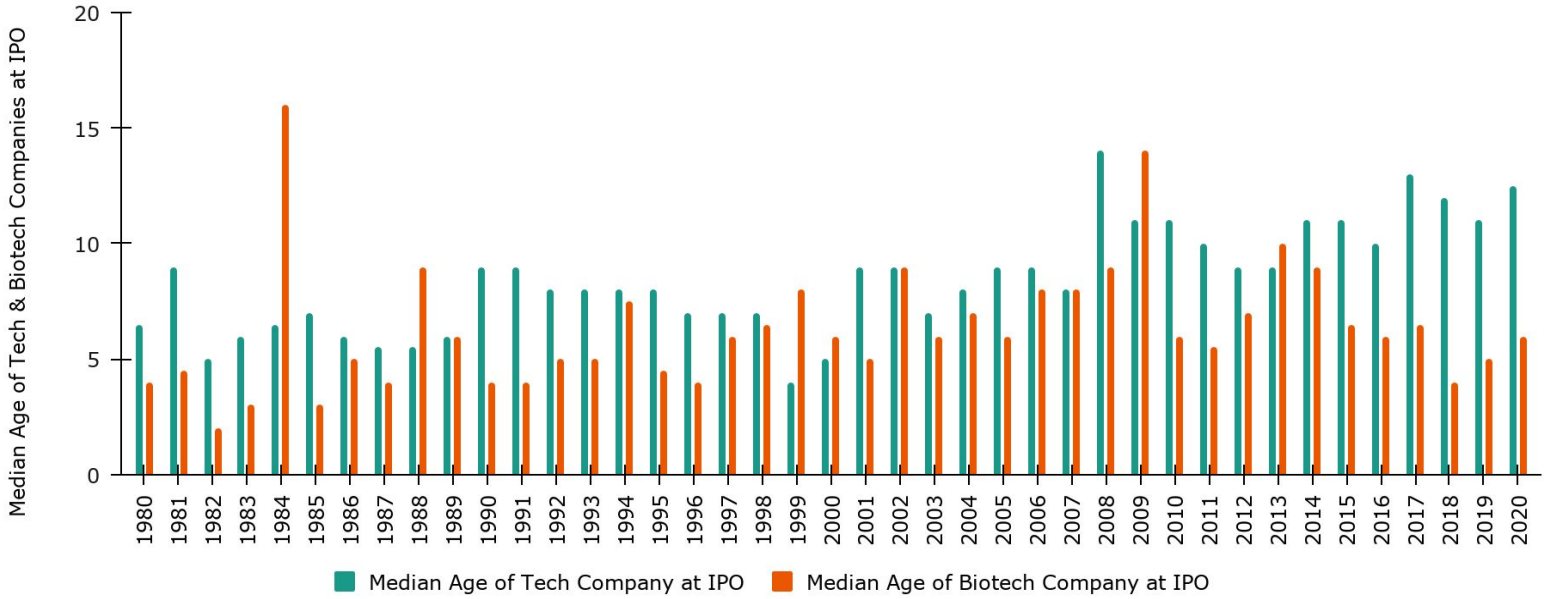
Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

IPOs outside of the tech and biotech industries historically go public with much higher revenues.



Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

Biotech companies tend to go public faster than tech companies.



Data Source: Professor Jay Ritter, https://site.warrington.ufl.edu/ritter/ipo-data/

Inception to IPO for “FANGMAN” companies

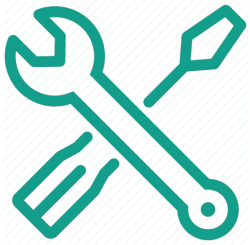
Company	Founding Year	Year of IPO	Founding to IPO
Facebook	2004	2012	8 years
Amazon	1994	1997	3 years
Netflix	1997	2002	5 years
Google / Alphabet	1998	2004	6 years
Microsoft	1975	1986	11 years
Apple	1976	1980	4 years
NVIDIA	1993	1999	6 years

SECTION III

Understanding Financing

PRIVATE FINANCING

Financing a company in private markets



Bootstrapping
positive cash flow, revenue, and growth

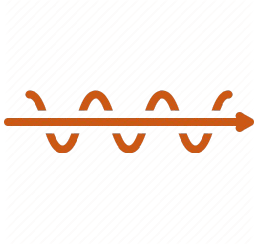
Debt Financing
bonds, loans, and convertible notes

Private Investment
angels, VC/PE funds, and crossover investors

PUBLIC FINANCING

Financing a company in public markets

Initial Public Offering
underwriters, intermediaries, brokers



Direct Listing
market-based pricing

SPAC
merge with blank check company

Reasons for Going Public

1. Larger Fundraising
2. Increased Publicity
3. Liquidity Event
4. Valuation Growth
5. Investor Diversity
6. Employee Retention

Benefits of an IPO

1. Popular Choice
2. Price Stabilization
3. Underpricing for Buy-Side

Concerns about the IPO Process

1. Extensive Process
2. Uncertain Valuation
3. Restricted Guidance
4. Imbalanced Pricing
5. Restricted Participation
6. Conflicting Interests

Notes on Direct Listings

1. Private shares become listed on public stock exchange
2. No primary capital raised = No ownership dilution
3. Reduced costs compared to IPOs
4. Democratized access with market-based pricing
5. Limited or no lock-up period

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Notes on SPACs

1. Faster + simpler than traditional IPO
2. Enhanced liquidity and flexibility for investors
3. Ability to provide guidance and forecasts to investors
4. Known company valuation
5. SPAC sponsor characteristics and due diligence process influence the success of a SPAC transaction

SECTION III

Opportunities in SPACs

SPACs: Why Now?

ONE

Investors are seeking growth-focused strategies in a low interest rate environment with a constrained supply of high-growth public companies.

TWO

Executives prefer faster speed-to-market, better valuation certainty, and less dilution when going public.

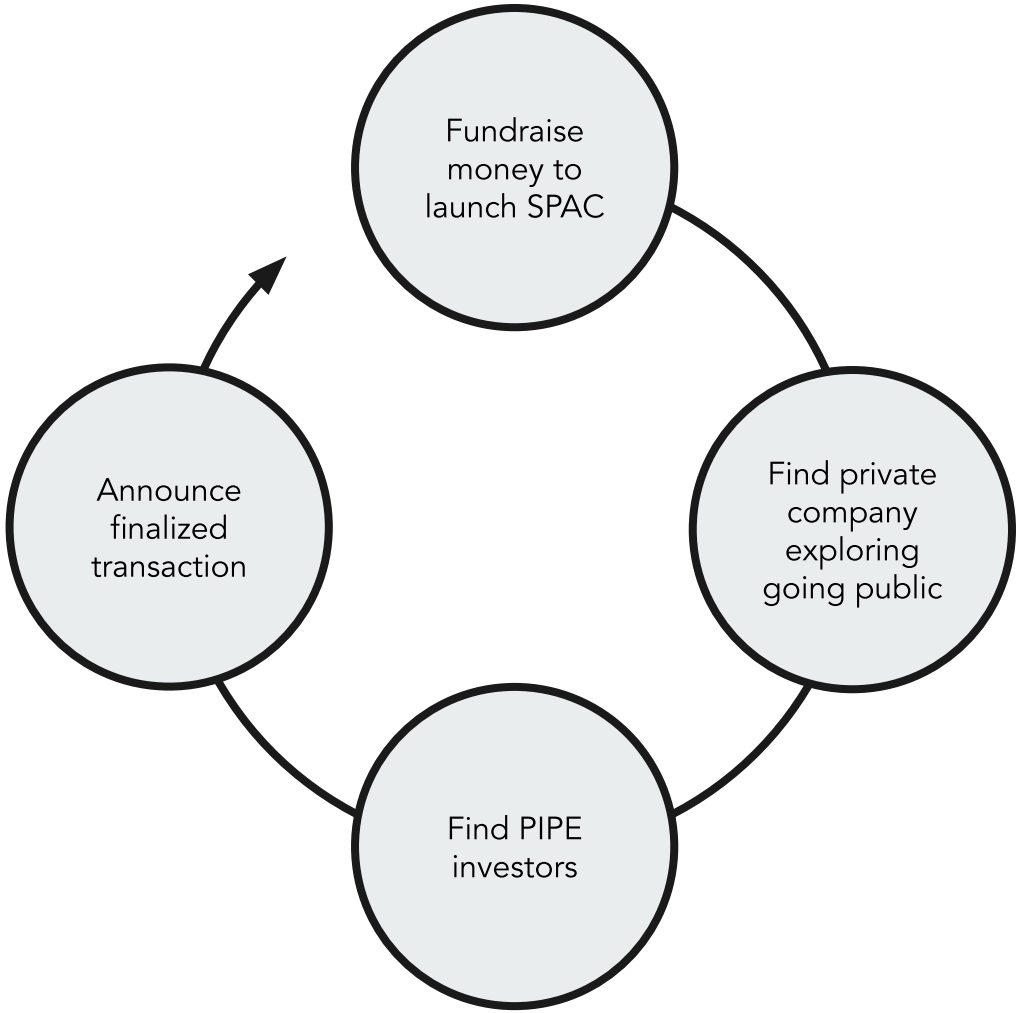
THREE

Individual sponsors with financial market knowledge and business operational expertise add value.

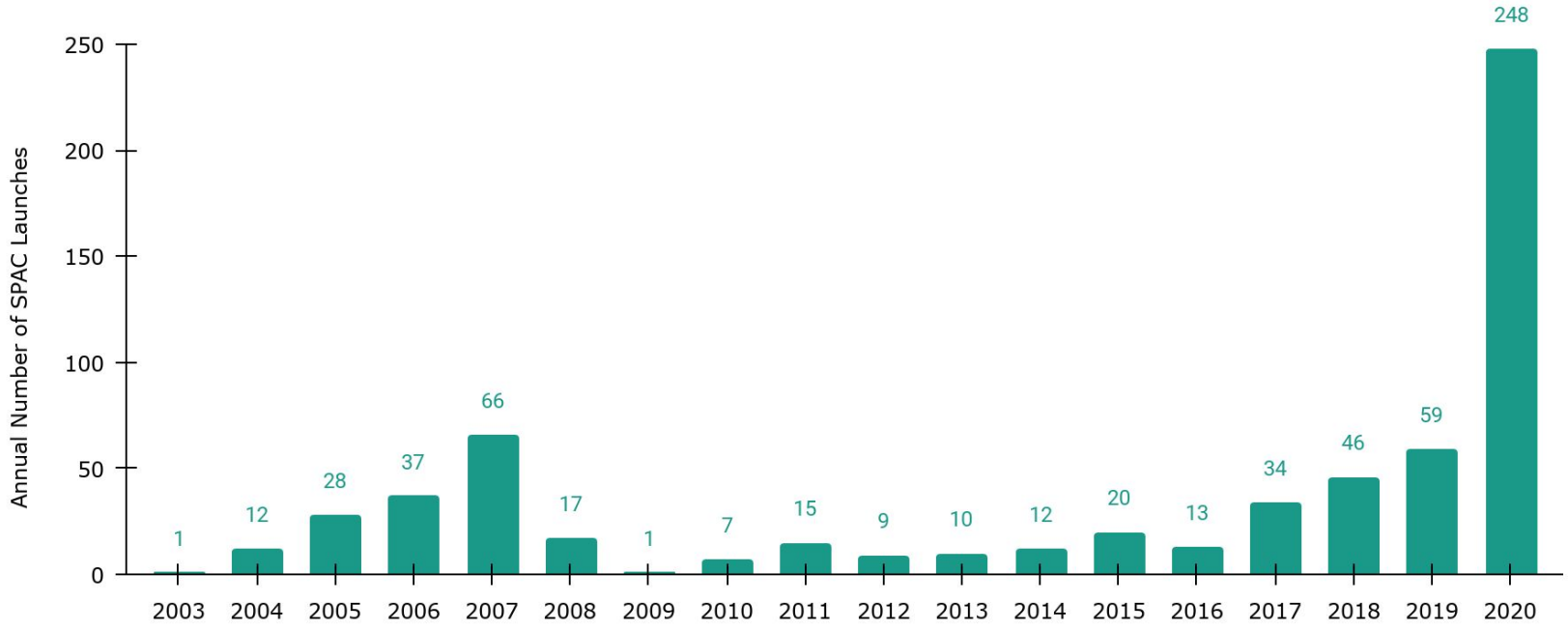
FOUR

Unlike IPOs, SPAC transactions allow discussions on forecasts for innovative technologies, which better informs investors.

SPAC Process From a Sponsor's Perspective

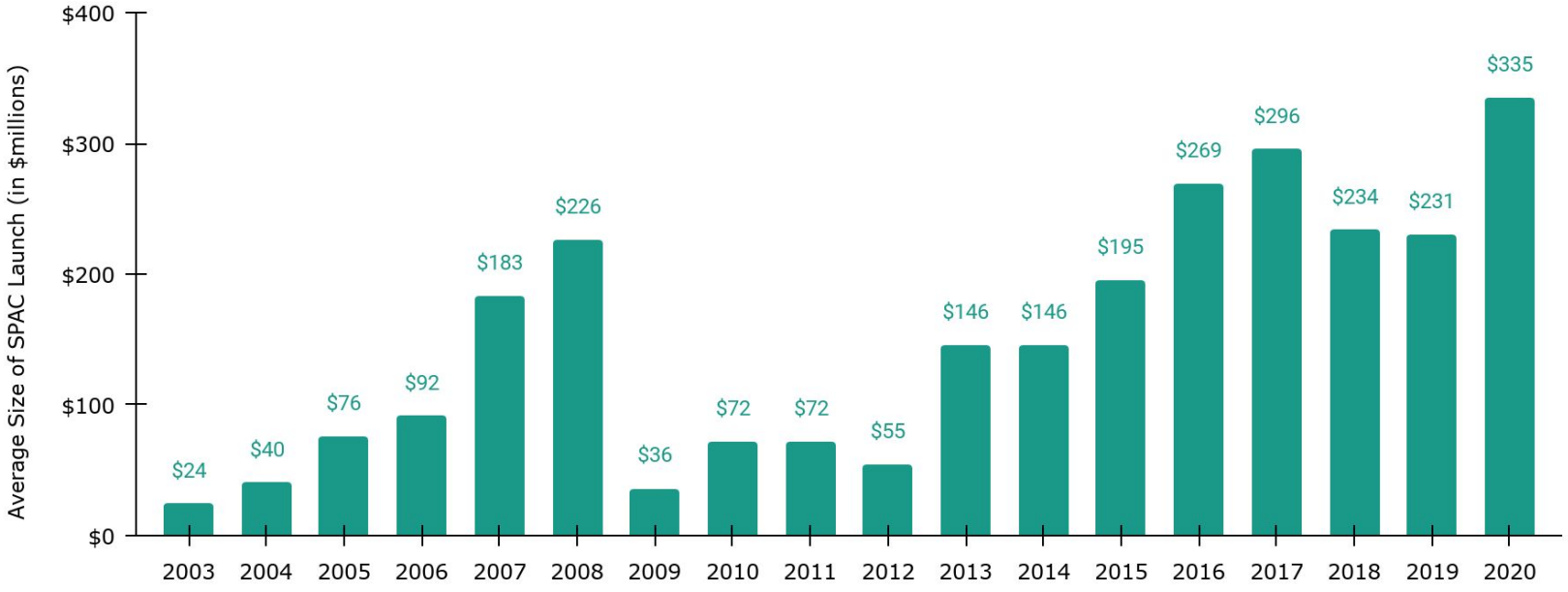


The Surging SPAC Trend



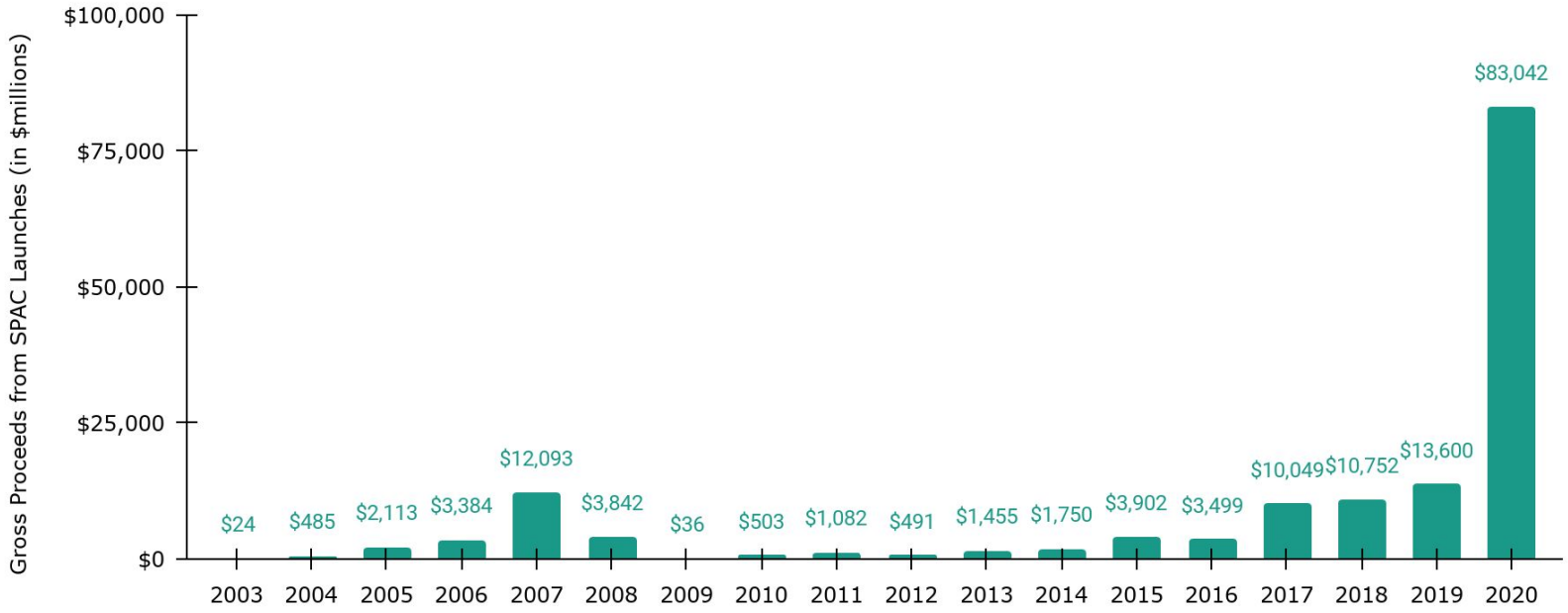
Source: Debevoise & Plimpton, SPACInsider.com, and SPACData.com

Average Size of a SPAC Launch Since 2003



Source: Debevoise & Plimpton, SPACInsider.com, and SPACData.com

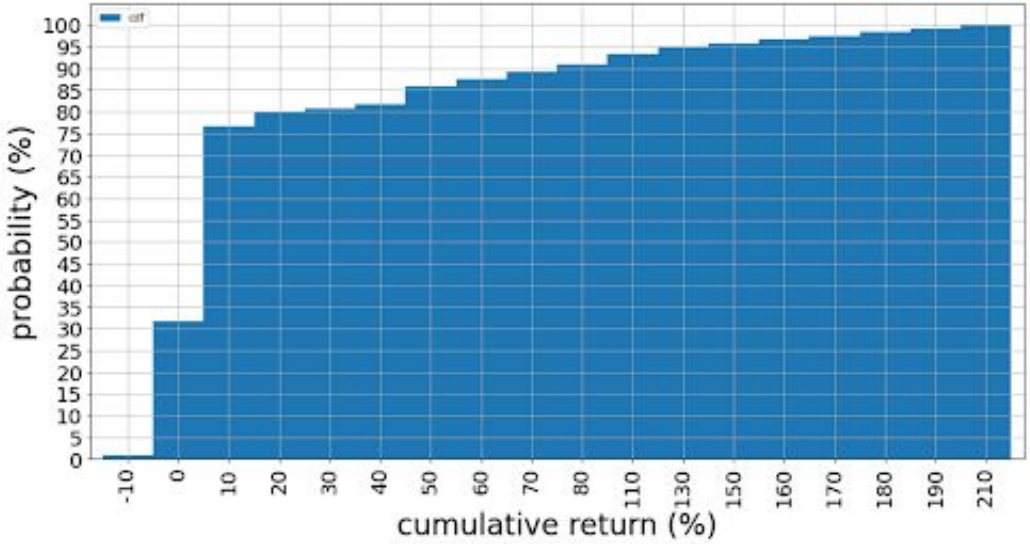
Money is Chasing Private Companies to Pursue a SPAC



Source: Debevoise & Plimpton, SPACInsider.com, and SPACData.com

Percentage of SPACs Trading Above Issuing Price

- Cumulative distribution function as of 1/10/2021
- Data only includes SPACs offered at $10
- 97%+ trading above their IPO



Source: Drawing Capital Research & API from FinancialModelingPrep.com

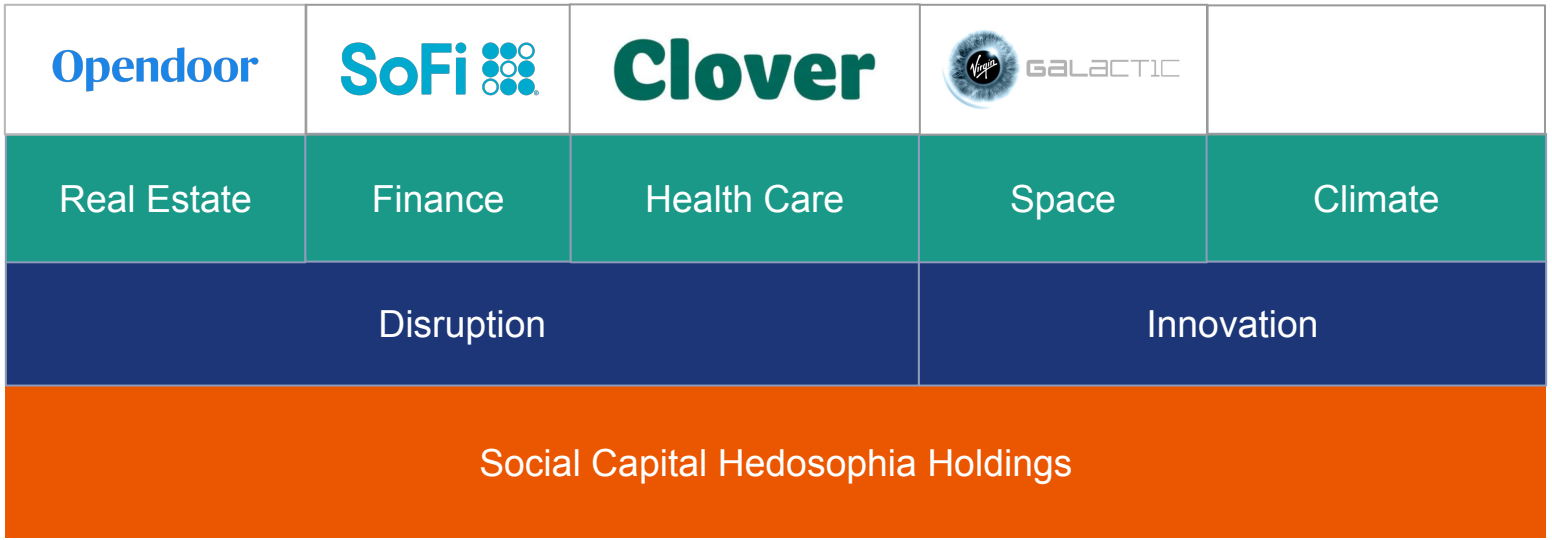
Growth Strategy

1. Find high quality SPAC sponsors
2. Review companies pursuing SPACs
3. Understand future growth valuation
4. Invest in companies with limited dilution

Recurring Return Strategy

1. Find SPACs before deal announcement
2. Invest when price is below issuing price
3. Review warrants on deal announcement
4. Sell investment after deal announcement

Case Study: Social Capital Hedosophia Holdings - Key SPAC Themes



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