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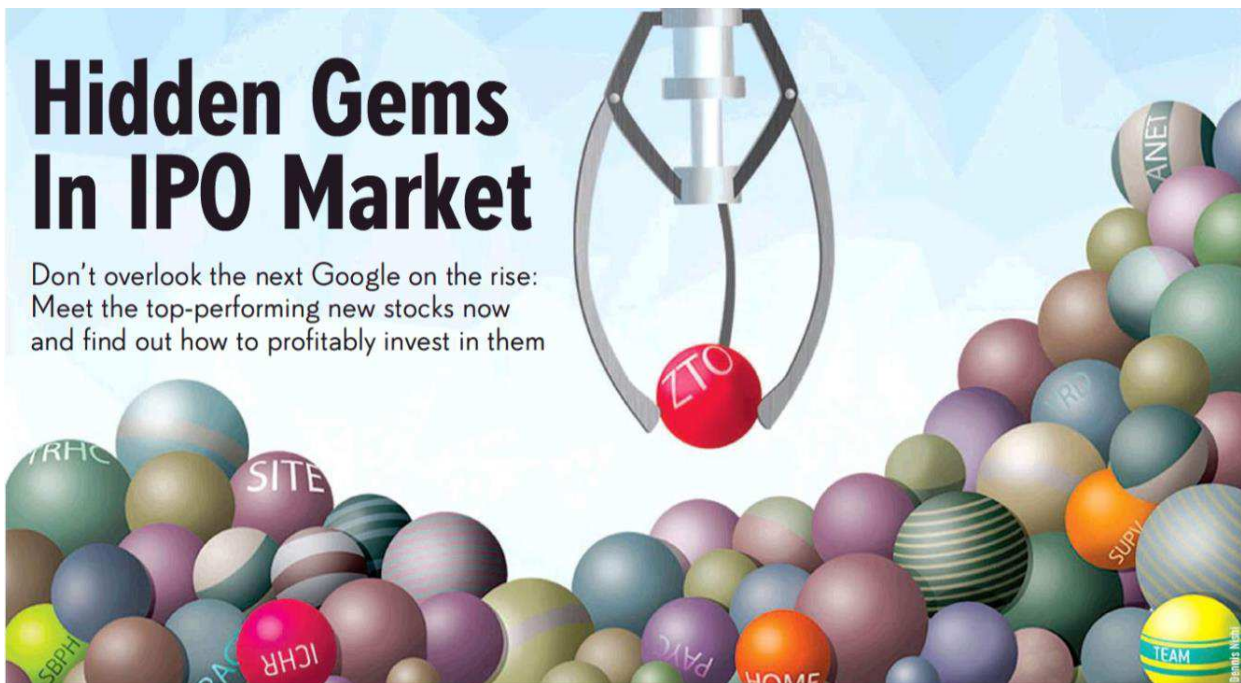
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Hidden Gems In IPO Market

Don't overlook the next Google on the rise:
Meet the top-performing new stocks now
and find out how to profitably invest in them



BY DAVID SAITO-CHUNG - INVESTOR'S BUSINESS DAILY

Nothing adds more sparkle to your portfolio than capturing the enormous gains of a truly innovative new company through timely investing in IPOs.

Think of Google, now known as Alphabet and up more than 2,300% from its 2004 initial public offering. Or Microsoft, which ran up 67,282% from a post-IPO trading low in March 1986 to a peak nearly 14 years later. Not to mention Cisco Systems, the greatest stock of the 1990s bull market, which shot up 118,741% in less than a decade.

In comparison, the pickings may seem slim in today's IPO market. Although the number of initial public offerings year-to-date has increased from 2016's meager pace, it's low on a historical basis.

Yet sharp-eyed investors can still find jewels among new IPO stocks. There's no guarantee that these companies will match the long-term gains of Alphabet or Microsoft. Yet some are off to an impressive start and could add some shine to your portfolio.

Consider: Among companies that debuted in the past 24 months, at least 23 stocks that currently trade at 25 or higher are up 40% or more this year, based on Investor's Business Daily research. That's hearty

outperformance in a year when the NASDAQ is excelling, rising around 26%, and the S&P 500 has rallied 15%.

This elite group includes Ichor, Square, Atlassian and Argentine lender Grupo Supervielle. (A list of top-performing IPOs to watch is provided on Page A10.)

Though new to the stock market, these companies have shown strong fundamentals, giving investors confidence in their business strategy. All four are highly profitable. The combined trailing 12-month revenue for this quartet of new market maestros? A stately \$4.6 billion.



Square CEO Jack Dorsey, left, celebrates on the floor of the New York Stock Exchange on Nov. 19, 2015.

NYSE-traded **Square**, whose software lets small businesses and mobile merchants take credit-card payments via a tabletop device or a smartphone, came public at 9 a share in November 2015. Today, its stock is trading near 41, up 355%. Atlassian, which sells project management and collaboration software, trades near 53 and has jogged more than 150% higher since holding its initial public offering at 21 in December 2015.

In addition to the 20 or more stocks up 40% plus in 2017, at least 25 more companies that went public this year already have risen 20% or more. Eight of these stocks hold an IBD Earnings Per Share Rating of 80 or higher. They range from retailer **Floor & Décor (FND)** and auto shopping site **CarGurus (CARG)** to **Warrior Met Coal (HCC)**, a coal miner, and **Gardner Denver (GDI)**, an industrial equipment maker.

Greg Eisen, senior research analyst and market strategist at Los Angeles-based Singular Research, notes that roughly half of recent IPOs hail from the speculative biotech sector.

“Pharmaceuticals and biotech is still one of the largest areas of innovation,” he said. But note: Many of the newly public companies are working on new medicines and treatments that don’t have any significant sales, much less profits.

That’s true of at least two top IPO stocks this year: **Pulse Biosciences (PLSE)** and **BeiGene (BGNE)**. Pulse, which is working on devices that use a proprietary “Nano-Pulse Stimulation” technology to attack solid tumors, has no sales. BeiGene, a biopharmaceutical firm registered in the Cayman Islands with operations in Cambridge, Mass., and China, posted just \$1.1 million revenue in 2016.

So called clinical or development-stage companies are risky and demand greater scrutiny, yet they too should be closely watched. One sign to look for: Do top-performing mutual funds own shares of the stock? Better yet, are they showing confidence by adding to their holdings over time?

Funds have deeper research and expertise than individual investors. You can judge a fund’s performance by its IBD rating; those rated A have performed in the top 15% over the past 36 months and are listed in the IBD Weekly newspaper. (Data on fund ownership of specific stocks can be found on IBD’s MarketSmith service.)

IPO Market Activity More IPOs are hitting the market, presenting new opportunities for investors. The first two weeks of November combined for 18 new issues, the most in any two-week period this year and raising nearly \$4 billion in proceeds, according to Dealogic.

On Nov. 9, Chinese internet content play **Sogou (SOGO)** had a positive debut, finishing the session at 13.50, up 23% from its IPO price of 11 and raising nearly \$500 million before bankers’ fees. The company, which has **Sohu.com (SOHU)** as its controlling stakeholder, notched a 60% jump in third-quarter profit to 8 cents a share on a 55% revenue gain to \$257.4 million. Watch to see if it can form an initial base.

The same day, **Apellis Pharmaceuticals (APLS)** priced 10.7 million shares at 14 each. The stock is trading near that IPO price.

Year to date through Nov. 13, IPOs listed on U.S. exchanges have totaled 166 companies, together raising \$45.5 billion, according to Dealogic. In all of 2016, 111 companies raised a total \$24.3 billion in capital. This year’s total is also higher than the \$36.2 billion raised by 174 firms in 2015, but it’s likely to fall well short of the \$96 billion raised by 292 companies in 2014.

As of Nov. 10, the number of new issues within the past 12 months as a ratio of total companies listed on the NYSE had hit a 12-month peak of 6.1%.

But that’s well off the five-year high of 11% seen in August 2014. (Track this statistic by going to the Psychological Market Indicators section near The Big Picture column, today on Page B6.)

Robert Maltbie, president and founder of Singular Research, thinks optimism over new issues is not yet at a boiling point and thus good for the future of U.S. equities. In 2018, “We could have a snowball effect in an inverse sort of way, in that as the market goes higher, it would extend into the small caps. Plus, if a tax cut occurs, that would only accelerate the issuance of IPOs,” Maltbie said. The reason? U.S. corporations stand to benefit from Congress’ plan to lower taxes sharply to 20%.

Upcoming IPO Calendar Singular Research notes that the pipeline for the rest of the year is decent at around 80 potential IPOs. Both Maltbie and Eisen, however, expect upcoming market debutantes to fall within the small-cap range, unlike bigger offerings such as **Snap (SNAP)**, which quickly hit \$35 billion in market cap after its March 2 debut but is now valued at \$15 billion.

Despite the market's strong rebound on Thursday following passage of a massive U.S. tax reform bill in the House of Representatives, some companies have decided to wait before going public.

Argentine food producer Molino Canuealas (ticker MOLC, target range of \$14 to \$17) filed for registration of American depositary receipt shares on Oct. 27. On Thursday, Renaissance Capital reported that the flour, oil and biscuits giant is postponing its IPO that would offer 19.5 million shares, potentially raising up to \$331 million before fees.

Specialty silicone and chemical additives play MPM Holdings is also delaying a potential \$350 million IPO. The Waterford, N.Y.- based company posted \$2.3 billion in 12-month sales through Sept. 30.

Late on Thursday, **SailPoint Technologies (SAIL)** priced its offering of 20 million shares at 12 apiece, raising \$240 million. On Friday the Morgan Stanley, Citi and Jefferies-led new issue finished the day at 13.

How To Find Good IPOs Investors will have a higher likelihood of picking winners if they focus on companies with large year over-year increases in earnings and sales. Look for companies that have the best pretax and after-tax profit margins in their field.

Occasionally, a company with zero earnings can still become a giant winner, particularly if revenue is growing rapidly. It may have other positive attributes, including a well-regarded management team and a Wall Street banker with a proven track record of backing highly successful new stocks. Over the past two decades, Morgan Stanley, JPMorgan Chase, Credit Suisse and Goldman Sachs have successfully brought numerous outstanding companies public.

Business software firm **Workday (WDAY)**, a 2012 IPO, comes to mind. In the year the Pleasanton, Calif., firm went public, it racked up \$274 million in revenue for fiscal 2013 (ended in January that year) but also lost 56 cents a share.

Yet the stock climbed 143% in 14 months. Investors knew Workday founder David Duffield as the man who built PeopleSoft, a former software giant and stock market leader that eventually got acquired. Workday continued to post fast growth, with revenue soaring to \$1.57 billion in fiscal 2017. The company also bagged its first net profit, earning 12 cents a share. Wall Street expects earnings to jump 592% to 83 cents in the current fiscal ending in January.

Companies with that kind of growth are rare, even in the case of biotechs. Only the best companies have outstanding earnings and sales and show the potential to become as big as an **Amgen (AMGN)** or **Gilead Sciences (GILD)**.

Best Time To Buy IPO Stocks While it may be tempting to buy shares of a promising new company on the first day of trading, it's usually best to wait for the stock to establish a trading range. That can take weeks, but it's time well spent. Why? An investor can, with the help of charts, get a sense of the supply-demand balance.

Does the stock peak at, say 20, but seem to find a floor near 16? Such information is useful, especially when an investor uses a chart. If the stock has strong demand, it shouldn't fall below 16. And when the stock rises past 20, an investor can buy shares on the breakout to new highs. That strength suggests institutional investors such as mutual funds, banks, pensions and hedge funds are backing up the truck and desiring large amounts of shares.

Technical analysis of IPO stocks is a bit different than of established stocks. IPO-style bases, or stock chart patterns, can form in just three or four weeks. That's much shorter than common bases for established stocks, such as the flat base, which must be a minimum of five weeks in length, or the cup with handle, which must be at least seven weeks long. Look for a proper entry price, which is typically 10 cents above the narrow IPO base's left-side peak, in higher volume, and buy within 5% of that buy point.

When luxury goods retailer **Michael Kors (KORS)** debuted in December 2011 at 20, shares raced higher in less than two weeks to as high as 27.58, then pulled back gently. Over the course of just 11 sessions, Kors dropped to 25.50, pulling back just 7.5% and building a narrow new IPO base.

On Jan. 17, 2012, the maker of stylish handbags, watches, sunglasses and high-end apparel shot out of that narrow base, rising nearly 6% and clearing the 27.68 buy point in the fifth-heaviest volume in a single session. That breakout spurred an 83% gain in less than two months. Kors produced another new base, then broke out again near 50 in August the same year. Shares eventually reached as high as 101 in February 2014 before peaking.

Patience and chart analysis can keep you from being swept into the euphoria over IPOs in supposedly hot businesses.

Money-losing social network Snap is the latest example. The company got plenty of media coverage when it debuted on the NYSE on March 2 at 17 a share.

Snap rose with fury in its first two days. But it's mostly fallen since then. On Nov. 8, shares plunged 15% after the Venice, Calif., company reported disappointing third quarter revenue growth of 62%, far smaller than its year-over gains of 406%, 286%, 153% and 666% in the prior four quarters.

Blue Apron (APRN), a web-based meal kit delivery service that is bleeding red ink despite having \$795 million in sales last year, has done even worse. The stock peaked at 11 its first day of trading and now trades around 3.

"The quality of IPOs, generally, has declined since the heydays of the '80s and '90s, when small companies viewed going public as a rite of passage — giving them access to the public market and the recognition that being public brought to their company and their brand," Bryan Anderson, Executive VP and Market Strategist at Austin-based Beck Capital Management, told IBD. Anderson once worked as a portfolio manager for William O'Neil +Co.

"Based on how many of the highly touted IPOs have performed in recent years, it is clear to us that these companies are increasingly going public primarily to provide an exit strategy for their founders and venture-capital backers—leaving crumbs for the public investors," Anderson added. "The early investors are making the bulk of the returns."

A New Class Of Stock Leaders

All went public within the past 24 months and currently have an EPS Rating of 70 or higher

Company	Ticker	EPS Rtg	IPO date	New issue price	Latest price	Price chg from IPO	Market value, in mil
China Internet Nationwide Square	CIFS	82	8/8/17	10.00	57.54	475%	\$1,150.8
SiteOne Landscape	SQ	80	11/19/15	9.00	41.90	365	11,264.8
Ichior	SITE	91	5/12/16	21.00	69.00	228	2,743.9
Tabula Rasa Healthcare	ICHR	99	12/9/16	9.00	28.81	220	723.6
Kinsale Capital	TRHC	80	9/29/16	12.00	34.66	188	618.6
Trade Desk	KNSL	75	7/28/16	16.00	43.65	172	915.3
Tactile Systems Tech	TTD	76	9/21/16	18.00	48.90	171	1,409.0
Atlassian	TCMD	97	7/28/16	10.00	26.21	162	460.9
Grupo Supervielle	TEAM	96	12/10/15	21.00	52.43	149	4,886.2
FB Financial	SUPV	92	5/19/16	11.00	25.11	128	1,190.4
Hamilton Lane	FBK	76	9/16/16	19.00	39.79	109	1,213.2
Canada Goose	HLNE	77	3/1/17	16.00	32.77	104	631.3
Floor & Decor	GOOS	79	3/16/17	12.78	25.06	96	904.5
Medpace	FND	96	4/27/17	21.00	38.91	85	3,671.5
Equity Bancshares	MEDP	74	8/11/16	23.00	34.53	50	1,298.5
Warrior Met Coal	EQBK	94	11/11/15	22.50	33.57	49	403.5
RYB Education	HCC	80	4/13/17	19.00	28.00	47	1,496.4
Gardner Denver	RYB	72	9/27/17	18.50	26.99	45	586.1
Midland States Bancorp	GDI	80	5/12/17	20.00	28.89	44	5,661.1
Athene	MSBI	70	5/24/16	22.00	31.03	41	592.5
	ATH	93	12/9/16	40.00	49.29	23	5,890.6

IPO Stocks To Watch Now that's not to say the careful investor can't find IPO gems.

The most successful new issues tend to create a new product or service or change the way people work, live or spend their time.

Medical companies attract big sales with government-approved treatments that extend life or improve the quality of life. Take Moorestown, N.J.-based **Tabula Rasa Healthcare (TRHC)**, which came public in September 2016. Its software provides a better way to prevent adverse side effects of multiple medicines taken by patients.

Atlassian, the U.K.-based business collaboration software firm, is changing the way company employees communicate with each other to get tasks and projects done. The midcap stock boasts exceptional fundamentals, as seen in its IBD Stock Checkup: They include a Composite Rating of 99, an EPS Rating of 96, and an A for SMR (Sales + Profit Margins + Return On Equity). IPO Leaders, a daily automated stock screen that also includes weekly commentary (today in IBD Weekly on page B9), helps readers locate stocks that are trading near or at the best entry points.

IBD found 21 companies that have gone public within the past 24 months, hold an Earnings Per Share Rating of 70 or higher, and trade at 25 a share or higher. They're listed in the table above.