

## Tech Unicorn AppDynamics takes first step toward public debut

*The application performance management company could be one of the first large tech players to usher in a warmer U.S. IPO market in 2017.*

*By Vicky Huang*



San Francisco application performance management company AppDynamics Inc. has kicked off the process to go public by filing a Form S-1 on Wednesday, Dec. 28.

The company, which provides management, analytics and troubleshooting for business software, listed a \$100 million placeholder figure for an initial public offering that could come as early as next month. It has applied to trade on Nasdaq under the ticker symbol APPD, according to the Securities and Exchange Commission filing.

AppDynamics plans to use the proceeds to obtain additional capital, increase its marketplace visibility and fully repay its term loan—including related prepayment penalties, accrued interest and related fee payments—which had an outstanding balance of \$20 million as of Oct. 31.

Like Snap Inc., the parent company of photo-messaging app Snapchat, AppDynamics previously took advantage of its status as an emerging growth company under the Jumpstart Our Business Startups Act to file for an IPO confidentially.

Morgan Stanley and Goldman, Sachs & Co. lead an underwriting team that also includes JPMorgan Securities LLC, Barclays Capital Inc., UBS Securities LLC, Wells Fargo Securities LLC, William Blair & Co. LLC and JMP Securities LLC.

Jeffrey D. Saper, David J. Segre and Jon C. Avina of Wilson Sonsini Goodrich & Rosati PC represent AppDynamics, while Richard A. Kline and Rezwan D. Pavri of Goodwin Procter LLP are legal counsel to the underwriters.

Despite an evolving IT landscape and varying competitions from similar companies such as CA Inc. (CA), Dynatrace LLC, BMC Software Inc., Hewlett Packard Enterprise Co. (HPE), Microsoft Corp. (MSFT) and New Relic Inc. (NEWR), which went public in 2014, AppDynamics has shown strong and rapid revenue growth over the past three years. Its revenue for the fiscal years ended Jan. 31, 2014, 2015 and 2016 was \$23.6 million, \$81.9 million and \$150.6 million, respectively, representing year-over-year growth of 247% and 84%.

The company, founded in 2008, attributed its growth to increasing user demand for peak software application performance and the digital transformations experienced by enterprises across the globe. As of Oct. 31, AppDynamics had approximately 1,975 customers, including more than 275 of the Forbes Global 2000 companies, located in more than 50 countries across every major industry. It counts Verizon Communications Inc. (VZ), Nike Inc. (NKE) and Expedia Inc. (EXPE) among its clients.

While on a rapid growth track, AppDynamics also has been registering ongoing losses sometimes as high as its revenue. The company posted a \$95 million net loss on \$158.4 million in revenue for the nine months ended Oct. 31, versus \$92.4 million on \$102.7 million in revenue in the same period the year before. It also warned in the risk factors section of its S-1 filing that the losses are expected to continue because of plans for development and expansion.

AppDynamics last raised \$158 million in a Series Financing round in December 2015, which gave the company a post-money valuation of approximately \$1.9 billion.

The tech unicorn has raised \$314.9 million in venture funding, with backing from Greylock Partners LLC, Lightspeed Venture Partners, Institutional Venture Partners, General Atlantic LLC, Altimeter Capital, Adage Capital Management LP, Industry Ventures LLC, Goldman Sachs and Cross Creek Advisors, among others.

The S-1 shows AppDynamics' largest shareholders as of Dec. 20 were Greylock and Lightspeed (20.8% each), Institutional Venture Partners (8.3%), Kleiner Perkins Caufield & Byers (7.1%) and General Atlantic (5%).

According to data from Dealogic, U.S. IPO volume was the third-lowest on record in 2016, with \$19.7 billion raised via 98 deals, down 41% from \$33.2 billion in 2015. A total of 20 U.S. technology IPOs raised \$2.1 billion in 2016, compared with the \$8.7 billion raised via 25 tech IPOs in 2015.

AppDynamics, which filed confidentially for an IPO on Aug. 24, had been rumored to go public for a few years. It recently postponed its planned December IPO due to uncertainty following the U.S. presidential election, according to The Wall Street Journal.

**"In spite of low interest rates, plenty of available investor cash and some interesting companies with strong products, a number of companies that thought they would go public changed their minds in the face of likely valuations that would be lower in the values they received in recent private investment rounds," Marlin & Associates Securities LLC managing partner Ken Marlin said.**

"We don't expect a lot of change in 2017," he continued. "Investors have become wary of rewarding emerging companies with very high valuations that only can be justified with expectations of extremely strong revenue growth that will continue for many years--especially given disappointing results from some combined with a U.S. economy that is, according to many economists, overdue for a correction."

An AppDynamics spokeswoman declined comment, citing the SEC-mandated quiet period.

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