Raising Capital for Life Sciences Companies – US IPOs, Mezzanine Rounds, Strategic Partnerships and License Agreements

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Presented by: Stephen Thau
BIOTECH IPOS ARE HOT!

“The Biggest Biotech IPO Ever Takes Aim at Alzheimer’s”
– The Fiscal Times 9/21/2015

“Appetite for High-Growth Stocks Helping Drive Biotech IPO Boom”
– MarketWatch 4/20/2015

“Blazing Biotech IPO Market Continues to Deliver a Fortune for Startups”
– FierceBiotech 7/16/2015

“Biotech IPO Boom Gaining Thrust With NantKwest Debut”
– Investor’s Business Daily 7/24/2015
BIOTECH IPOS ARE COLD!

“Biotech IPOs Grind to a Halt As Stock Rout Rattles Investors”
-Bloomberg Business 10/7/2015

“The Daily Startup: Market Turbulence Puts Biotech IPOs in Question”
-Wall Street Journal 10/8/2015

“Tough Third Quarter for IPOs”
-Wall Street Journal’s Money Beat Blog 10/7/2015

“Take the Poll: Has the Biotech Boom Come to an End?”
-FierceBiotech 10/6/2015
US BIOTECH IPO ACTIVITY

Source: IPO Vital Signs
ISRAELI COMPANIES ARE PARTICIPATING IN THE US IPO MARKET

Source: IPO Vital Signs

<table>
<thead>
<tr>
<th>Year</th>
<th>Value in Millions</th>
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<tbody>
<tr>
<td>2013</td>
<td>$100</td>
</tr>
<tr>
<td>2014</td>
<td>$300</td>
</tr>
<tr>
<td>2015</td>
<td>$300</td>
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Note: The value for 2015 is through September.
WHAT’S DRIVING BIOTECH IPOS

• High Value M&A
  – patent cliffs
  – aging population
  – many unmet medical needs

• Science becomes clinically relevant
  – E.g., Gene Therapy, Cancer Immunotherapy, Precision Medicine

• Friendlier FDA

• Market leadership by large cap biotechs draws investors into sector
  – Gilead, Celgene, etc.

• Opportunities in rare disease and other niche markets
CAUTIONARY SIGNS?

- General market volatility cuts number of offerings
- Drug pricing is becoming a political issue in the US
- Some recently public companies have had clinical trial failures
- Patent reform and changes in patent law may limit product protections
- Is demand for new biotechnology issues from public investors tapped out?
HOW LONG WILL AN IPO TAKE?

Time From First SEC Document to Completion (Days)

**2014**

- 61 days
- 127 days
- 445 days

**2015** (through September 30)

- 33* days
- 62 days
- 157 days
- 567 days

*Canadian Issuer on Form F-10
Source: Morrison & Foerster Analysis; SEC Filings
HOW MUCH WILL AN IPO COST?

- IPO costs include
  - Legal
  - Accounting
  - Regulatory (SEC, FINRA, Nasdaq/NYSE)
  - Printing
  - Road Show
- Underwriters discount/commission are in addition
- After IPO company will have ongoing increased G&A costs for SEC and SOX Compliance

US Life Science IPO Costs 2014-2015 (September)

Source: IPO Vital Signs
WILL THE DEAL PRICE AS EXPECTED?

Pricing Compared to Initial Estimated Range for Life Science IPOs

Source: Morrison & Foerster Analysis

Morrison & Foerster LLP
Percent of Life Science IPOs With Financing Event Within Six Months Before IPO

Source: Morrison & Foerster Analysis; SEC Filings
WHY DO A MEZZANINE ROUND?

• Attract cross-over investors who will purchase stock in IPO
• Specialist investors help attract generalist investors in IPO
• Provide capital to fund operations and offering expenses
MEZZANINE ROUND KEY DEAL TERMS

• Mezzanine investors will value a company with IPO valuation in mind
  – Seek 2-3x return
• Investors will seek terms to “Lock-In” investment return
  – Liquidation preference
  – Ratchet antidilution adjustments
  – IPO conversion protections that grant additional shares if IPO below set price
Percent of Life Science IPOs with Existing Investor Participation

Source: Morrison & Foerster Analysis; SEC Filings
GOING PUBLIC HAS MANY BENEFITS

- Companies can raise significant capital at the IPO
- A publicly listed security facilitates access to capital markets through follow-on offerings, ATMs, and convertible debt offerings
- Stock can be used as currency for acquisitions
- Tool for employee recruitment and retention
- Liquidity for early investors
OTHER PATHS TO CAPITAL AND LIQUIDITY

• Reverse Merger
• License and Collaboration Agreements/Strategic Partnerships
• Venture Capital
• Combination Investment/Collaboration/Acquisition Option Transactions
“REVERSE MERGER” OFFERS ALTERNATIVE PATH TO BECOME PUBLIC

• Public company that is cash rich and asset poor combines with private company that is asset rich and cash poor
• Structured as acquisition of private company by public company
  – Public company stock used to acquire private company and retain listing status
  – Exchange ratio set so private company stockholders become majority owners
  – Former private company board and management control going forward
• Public company typically has investment banker run competitive process
CATALYST BIOSCIENCES/TARGACEPT REVERSE MERGER

- $100 Million Cash
- Public Listing
- Experienced Board
- Public Company Shareholders
- Ph II Ready Lead Program
- Other Product Candidates
- Management Team
- Scientific Leadership
- VC Shareholders

Catalyst Reverse Merger Creates Well Capitalized Public Company
CATALYST BIOSCIENCES/TARGACEPT REVERSE MERGER

Cash Dividend ($19.5 Million)

Convertible Note ($37 Million)
- Converts Into Equity at Premium to Deal Price at Holders Option

- Owned Approximately 52% By Former Catalyst Shareholders; 48% By Targacept Shareholders
- 7 Person Board
  - 4 Catalyst
  - 3 Targacept
- Catalyst Management Team
- Approximately $39 Million Cash
• The BioMeter™ is an Index that Measures the Biotechnology Industry and Captures Relevant Information About Deal-making

• Averages up-front payments in Licensing, Collaboration, and Development Agreements for biotechnology products

• Why Up-Front payments?
  – Focus of negotiations and certainty of Payment
  – Widely and consistently reported

• Biometer seeks to show trends:
  – What is an asset worth at different stages of development?
MOFO BIOMETER VALUES BY STAGE OF DEVELOPMENT & AVERAGE 2009–H1 2015

Source: BioMeter
NUMBER AND PERCENTAGE OF COLLABORATION AGREEMENTS BY STAGE OF DEVELOPMENT 2009–H1 2015

* Total number of deals annualized

Source: BioMeter
A COMPLETE TERM SHEET IS ESSENTIAL TO THE DEAL

TERM SHEET NEGOTIATION

Biotech Company
• Business Development
• CEO
• Legal/IP
• Board?

Pharma
• Business Development
• Finance
• Accounting
• Regulatory
• Research & Development
• Marketing
• Sales
• Legal
• IP

SHORT CYCLE

LONG CYCLE

Make All Major Business Terms Clear

“The term sheet said …”
KEY BUSINESS TERMS

• Field, Territory, Scope of Rights
• $$$ -- What, When, Conditions
• Diligence Obligations
• Governance
• IP Ownership/Enforcement
• Publication
• Product Liability
• Termination Rights and Effects of Termination
VENTURE CAPITAL INVESTMENT: BIOTECHNOLOGY
Q1 2000–Q3 2015

Number of deals

$0bil

$0.5bil

$1bil

$1.5bil

$2bil

$2.5bil

Investment amount ($)

Source: PwC/NVCA MoneyTree™ Report, Data: Thomson Reuters
VENTURE CAPITAL INVESTMENT: MEDICAL DEVICES
Q1 2000–Q3 2015

Source: PwC/NVCA MoneyTree™ Report, Data: Thomson Reuters
## COMBINATION TRANSACTIONS

<table>
<thead>
<tr>
<th>Venture Capital Financing</th>
<th>Collaboration Agreement</th>
<th>Option for Acquisition</th>
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</thead>
<tbody>
<tr>
<td>• Biotech funded in area of interest to Pharma</td>
<td>• Biotech and Pharma agree to research program</td>
<td>• At set milestones Pharma has right to acquire Biotech in pre-negotiated M&amp;A</td>
</tr>
<tr>
<td>• Traditional venture capital financing terms set by VC investor</td>
<td>• May include additional funding apart from investment</td>
<td>• M&amp;A price may depend on level of success (e.g., number of product candidates, clinical trial stage)</td>
</tr>
<tr>
<td>• Pharma corporate venture fund participates on same terms</td>
<td>• Biotech executes research program with guidance and input from Pharma</td>
<td>• If acquisition doesn’t occur Pharma remains equity holder</td>
</tr>
<tr>
<td>• Proceeds dedicated to collaboration under Collaboration Agreement</td>
<td>• Joint steering committee of Biotech and Pharma make major decisions</td>
<td></td>
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</table>
## COMBINATION TRANSACTIONS OFFER BENEFITS TO ALL PARTIES

<table>
<thead>
<tr>
<th>Venture Capitalist</th>
<th>Biotech Company</th>
<th>Pharma Company</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Invest in area of known interest to Pharma</td>
<td>• Funding from VCs and Pharma reduces financing risk and distraction</td>
<td>• Access to scientific expertise outside core strengths</td>
<td></td>
</tr>
<tr>
<td>• Leverage Pharma capital</td>
<td>• Access to Pharma resources/expertise</td>
<td>• Leverage VC investment</td>
<td></td>
</tr>
<tr>
<td>• Low risk exit if project succeeds</td>
<td>• Input from Pharma can improve development plan and reduce exit risk</td>
<td>• Financing investment does not impact P&amp;L</td>
<td></td>
</tr>
</tbody>
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