



*Fueling life sciences through  
transformative transactions*

# FUNDAMENTALS AND RECENT TRENDS IN LIFE SCIENCES PRIVATE FINANCING

JULY 26, 2017

# Locust Walk is positioned as a fully integrated advisor with all key capabilities necessary for life science transaction advisory



## Investment Banks

### Pros

- Financial analytic capability
- Board level network and contacts
- Investor connectivity

### Cons

- Lack of industry operating expertise
- Strategic deliverables unusual
- Limited involvement early in process



## Full-Time Hire

### Pros

- Deep company understanding
- Long-term commitment
- Operational expertise

### Cons

- Limited resources to execute transactions
- Multiple work stream distractions
- Lack of broad experience (e.g., finance & partner)



# Locust Walk

Locust Walk integrates the benefits of multiple advisors to provide a full-service offering for clients



## Consulting Firms

### Pros

- Strategic analytic insights
- Board-ready deliverables
- Primary/ secondary research specialty

### Cons

- Lack transaction capabilities
- Not licensed as a broker/dealer
- Lack detailed company understanding



## Individual Consultant

### Pros

- Industry & operational expertise
- Close working relationship with management team

### Cons

- Not licensed as a broker/dealer
- Lack of broad experience (e.g., finance & partner)
- Limited resources

# Locust Walk has helped build many successful life science companies

 <p>Advised on company acquisition</p>  <p>\$55M Upfront, \$154M CVR</p>	 <p>Sell-side Japan/Asia collaboration for PRS-080</p>  ASKA Pharmaceutical <p>\$2.75M Upfront, \$80M Milestones, Plus Royalties</p>	 <p>Sell-side immuno-oncology collaboration</p>  <p>\$31M Upfront, \$539M Milestones, Plus Royalties</p>	 <p>Sell-side Japan licensing agreement for THG-1001</p>  ASKA Pharmaceutical <p>Undisclosed</p>	 <p>Sell-side US licensing agreement for arhalofenate</p>  <p>\$15M Upfront, \$190M Milestones, Plus Royalties</p>	 <p>Buy-side US rights acquisition for Kevevis</p>  <p>\$8.5M Upfront, Undisc. Milestones and Royalties</p>
 <p>Advised on company acquisition</p>  <p>Undisclosed</p>	<p>NeoTX Therapeutics</p> <p>Buy-side licensing agreement for ANYARA</p>  <p>\$250K Upfront, \$71M Deal Value</p>	 <p>Identified and initiated buy-side acquisition</p>  <p>Undisclosed</p>	 <p>Sell-side license for Canadian rights of IbuCream</p> <p>Leading Consumer Health Co</p> <p>Undisclosed</p>	 <p>Immuno-Oncology Advisor</p> <p>Undisclosed</p>	 <p>Development &amp; commercial collab. for anti-LIGHT mAb</p> <p>KYOWA KIRIN</p> <p>Undisclosed</p>
 <p>Advised on IPO process and syndicate selection</p> <p>\$25M NASDAQ IPO</p>	 <p>Sell-side Asian licensing agreement for fasinumab</p>  <p>\$55M Upfront, \$270M Milestones</p>	 <p>Sell-side Asian licensing agreement for Tecarfarin</p>  <p>Undisclosed Value</p>	 <p>Buy-side licensing agreement for ALT1103 for Acromegaly</p>  <p>\$5M Upfront, \$105M Milestones, Plus Royalties</p>	 <p>Buy-side asset acquisition of Somatoprim for Acromegaly</p>  <p>\$30M in Cortendo Equity</p>	 <p>Advised private placement to leading healthcare investors</p>  Granite Point Capital  TVM Capital  HealthCap NEA. <p>\$33.2M Private Placement</p>
 <p>Sell-side North American Oravig® rights</p>  <p>Undisclosed Value</p>		 <p>Advised on Series B financing</p> <p>Life Science Investors</p> <p>\$24.3M Series B</p>	 <p>Advised private placement to leading healthcare investors</p>  RACapital  HealthCap <p>\$26.4M Private Placement</p>		

Locust Walk has **closed 21 transactions** across a variety of deal types, stages of development and therapeutic areas since 2015

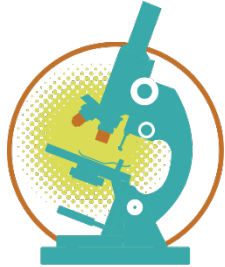
## Goals and Objectives

- The pros and cons of various types of private financing sources
- How best to prepare for raising private money
- Insider tips on how to be successful in approaching investors
- How investors think about valuation
- What are recent trends in terms of investors' preference for stage and type of investment?

- 1** Private Financing Sources: Pros & Cons
- 2** How Best to Prepare for a Private Raise
- 3** Tips on Approaching Investors
- 4** Investor Perspective on Valuation
- 5** Recent Trends in Private Financing

# Financing a biopharma company occurs at all stages of a company's lifecycle

## Research University



A biotech idea often originates at the university level

## Biotech Company Outlicense



A company is started around the technology by licensing it from the university

## Seed Financing



Early-stage investors provide the initial capital

## Institutional Financing



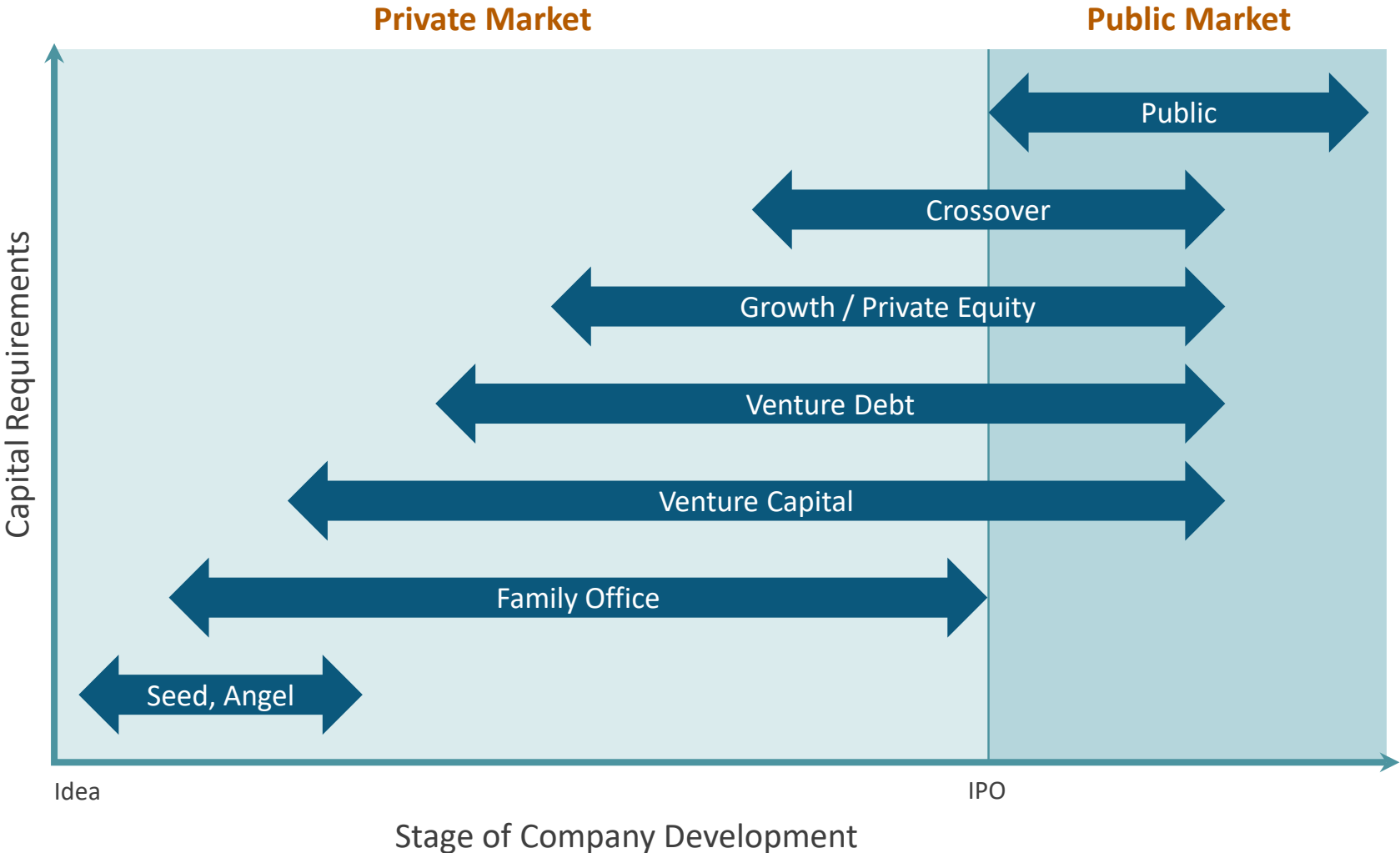
Institutions provide the larger sums of capital required for life science development

## Partner/ M&A/IPO









After successfully demonstrating the value of the technology, an IPO, M&A, or partnering agreement is made

A number of investor types exist and have varying interests depending on the financing needs and stage of a company



# Private financing focuses on VC, crossover, and family office investors

Investor type	Investment Type	Examples
<p><b>Angel</b></p>	<p>An angel investor or angel is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.</p>	 <p><b>New York Angels</b> Committed to Funding and Mentoring Great Young Companies</p>
<p><b>Family Office</b></p>	<p>An organizational structure that manages the financial capital of ultra-high net worth individuals through investments across the fundraising spectrum.</p>	
<p><b>Venture Capital</b></p>	<p>Early-stage, higher-risk investment to support expanding small companies who do not yet have access to capital markets.</p>	
<p><b>Venture Debt</b></p>	<p>A type of debt financing provided to venture-backed companies that lack the assets or cash flow for tradition debt financing.</p>	
<p><b>Crossover</b></p>	<p>A long-term investment in a company prior to, during, or after a company's initial public offering.</p>	
<p><b>Growth Equity/ Private Equity</b></p>	<p>A later-stage, private equity investment in relatively mature companies looking for capital to expand, restructure, or enter new markets.</p>	



# Selecting the right type of investors is based on an opportunity's needs and future funding requirements

Investor Type	Pro	Con
Angels	<ul style="list-style-type: none"> <li>• Willing to go very early stage</li> <li>• Often can provide guidance to company</li> </ul>	<ul style="list-style-type: none"> <li>• Don't often have sufficient capital reserved for later rounds</li> <li>• Typically only invest smaller amounts</li> </ul>
Family Offices	<ul style="list-style-type: none"> <li>• Larger average check sizes than angels</li> <li>• Often mission driven; lower IRR hurdles</li> <li>• Most patient form of capital</li> </ul>	<ul style="list-style-type: none"> <li>• Don't often reserve capital for later rounds</li> <li>• Don't often understand the space and need significant guidance/education</li> </ul>
Venture Capital	<ul style="list-style-type: none"> <li>• Dedicated pool of funds with reserves to follow their initial investment</li> <li>• "Value added" advice on board and most sophisticated money available</li> </ul>	<ul style="list-style-type: none"> <li>• Fund cycle driven, which drives exit decision-making</li> <li>• Often not aligned with company objectives with dueling fiduciary roles</li> </ul>
Cross-over	<ul style="list-style-type: none"> <li>• Will buy your stock in and post-IPO</li> <li>• Improves cash position prior to IPO to maximize leverage with future investors</li> </ul>	<ul style="list-style-type: none"> <li>• Short term focused</li> <li>• If company not public &lt;12 months, start getting nervous</li> </ul>
Growth Equity	<ul style="list-style-type: none"> <li>• Larger check sizes for later stage companies/assets</li> </ul>	<ul style="list-style-type: none"> <li>• Won't go as early in company/product lifecycle</li> </ul>
Mutual Funds / Asset Managers	<ul style="list-style-type: none"> <li>• Typically only do large deals and public investments</li> </ul>	<ul style="list-style-type: none"> <li>• Typically only do large deals and public investments</li> </ul>
Hedge Funds	<ul style="list-style-type: none"> <li>• Can move a stock quickly</li> <li>• If fundamentally driven, can drive a herd into a stock</li> </ul>	<ul style="list-style-type: none"> <li>• "Hot money" can quick go in and out of companies</li> <li>• Not usually aligned with management</li> </ul>

## Key terms to understand in a private financing:

Term	Definition
<b>Pre-Money Valuation</b>	<ul style="list-style-type: none"><li>Valuation of the company before new money is invested</li></ul>
<b>Management Pool</b>	<ul style="list-style-type: none"><li>Shares of stock reserved for employees of the company</li></ul>
<b>Investment</b>	<ul style="list-style-type: none"><li>Amount of capital invested into the company</li></ul>
<b>Post-Money Valuation</b>	<ul style="list-style-type: none"><li>Pre-money valuation + investment</li></ul>
<b>Up Round</b>	<ul style="list-style-type: none"><li>Price per share (this round) &gt; Price per share (last round)</li></ul>
<b>Down Round</b>	<ul style="list-style-type: none"><li>Price per share (this round) &lt; Price per share (last round)</li></ul>
<b>Flat Round</b>	<ul style="list-style-type: none"><li>Price per share (this round) = Price per share (last round)</li></ul>
<b>Bridge Round</b>	<ul style="list-style-type: none"><li>'In-between' financing for companies that haven't previously financed and are in need of capital, but do not want to set a valuation – typically provided by insiders or seed investors</li><li>Generally structured as loans that convert to shares in the next round of financing at a typical discount of 10-20%, sometimes with warrant coverage and usually with a coupon</li></ul>
<b>Cap Table</b>	<ul style="list-style-type: none"><li>A detailed list of all investors and ownership (type of security and amount)</li></ul>

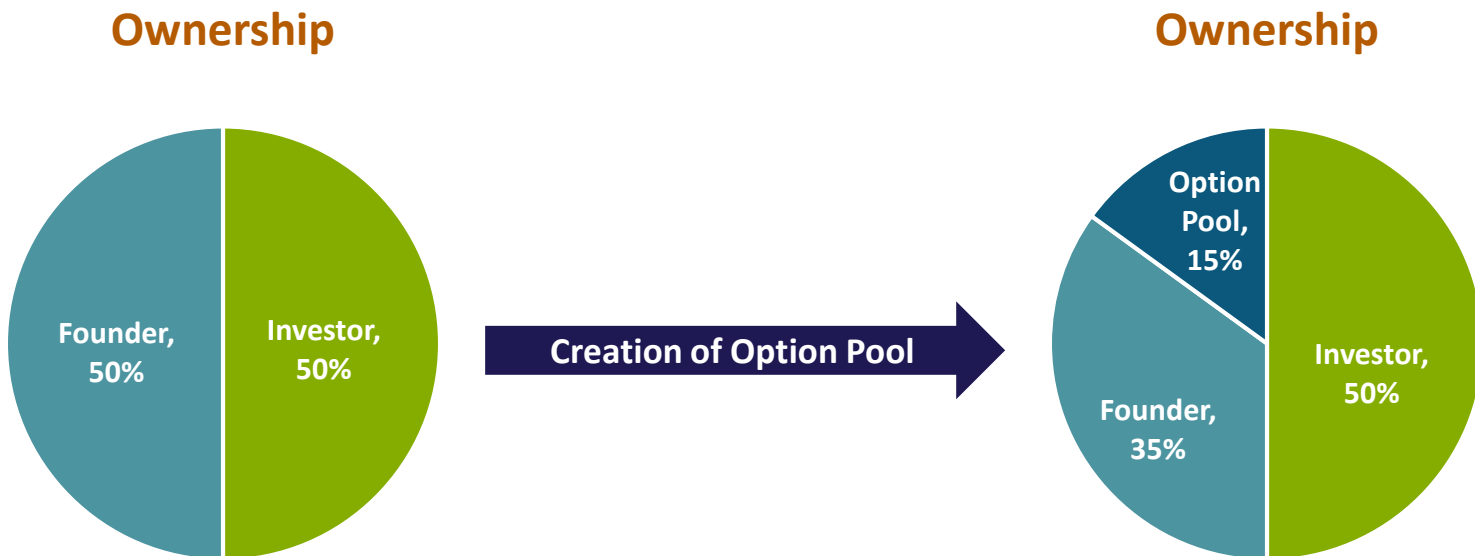
# A number of types of securities are held and issued by private companies

Security	Description
<b>Common Stock</b>	<ul style="list-style-type: none"><li>• A security representing ownership in a corporation at the bottom of the priority ladder</li><li>• Holders of common stock elect one or members of the Board of Directors and vote on corporate policy</li><li>• In a liquidation event common stockholders have rights to company assets after bondholders, preferred shareholders, and other debtholders have been paid in full</li><li>• All of the upside in value for the corporation goes to equity holders</li></ul>
<b>Preferred Stock</b>	<ul style="list-style-type: none"><li>• Ownership class with a higher claim on assets and earnings than common stock</li><li>• Typically has a dividend that must be paid out before dividends to common shareholders</li><li>• Preference shares typically do not carry voting rights</li></ul>
<b>Convertible Preferred Stock</b>	<ul style="list-style-type: none"><li>• Preferred stock that includes an option to convert shares into a fixed number of common shares</li></ul>
<b>Option/ Warrant</b>	<ul style="list-style-type: none"><li>• A contract that gives the holder a right to buy stock in the company at a preset price (the exercise or strike price)</li></ul>

**Founders (management team) will retain their shares as common stock while the new shares granted to investors will be preferred stock**

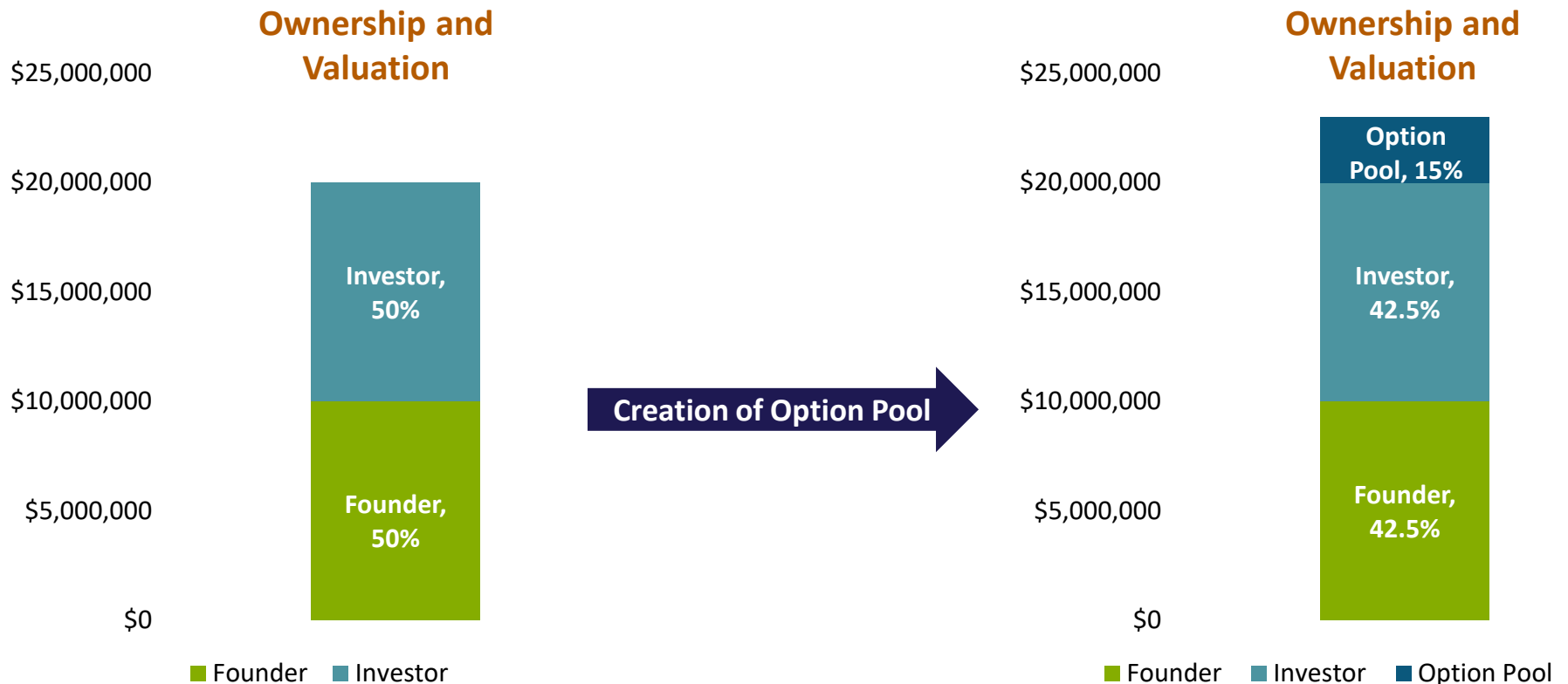
# An “option pool” is typically created from pre-money shareholder equity

- In a simplified example, if a Founder is the sole shareholder of a company with a \$10M valuation, and an Investor invests \$10M, each owns 50%
- However, the creation of a standard 15% option pool comes entirely out of the Founder’s equity, reducing the Founder’s ownership percentage



# Occasionally, the option pool is calculated on a post-money basis from both founder and investor equity

- Shares are added to the overall pie, increasing company valuation



- 1 Private Financing Sources: Pros & Cons
- 2 **How Best to Prepare for a Private Raise**
- 3 Tips on Approaching Investors
- 4 Investor Perspective on Valuation
- 5 Recent Trends in Private Financing

## Private financings – Keys to success

- 1 Corporate strategy drives financing requirements
- 2 Grounded perspective on value
- 3 Compelling presentation opportunity
- 4 Raising awareness for the company
- 5 Identifying potential investors
- 6 Organized, coordinated due diligence
- 7 Productive negotiations with competitive dynamics

## Financing keys to success –

### ① Strategy drives financing needs

- Before beginning a financing process, the following should be clear:
  - ▶ What is the corporate strategy?
  - ▶ Why are we financing?
  - ▶ What are we financing?
  - ▶ When are we financing (in the future)?
  - ▶ How are we financing (which types of investors)?
- A company should expect an investor to ask all of these questions if not already answered in the investor presentation

#### **Hint!**

*Companies should target strategic insight and connectivity as part of the “smart money” from their investors.*





## Financing keys to success –

### ① Strategy drives financing needs – What is the strategy?

- Who do we want to be when we grow up?
  - ▶ FIPCO (fully integrated pharmaceutical company) with R&D and sales and marketing
  - ▶ NRDO (no research development only)
  - ▶ Develop internal program to PoC (“FLIPCO”)
  - ▶ Sponsored research shop doing research for larger companies
  - ▶ Platform company only focused on technology development
- Why did you choose the model above?
  - ▶ Skills of founders?
  - ▶ Breadth of platform?
  - ▶ What’s *en vogue* with investors?
- How big of a company do you need to actualize the model above?
  - ▶ Are you feeding a research engine?
  - ▶ Are you funding multiple clinical programs simultaneously?
  - ▶ Do the people in your organization, or contracted team members, match the functions needed? Who do you add or subtract and when?

### **Hint!**

*If you don't know where you're going, you certainly won't get there. Build a roadmap, and you have a better chance to arrive where you want to be.*



## Financing keys to success –

### ① Strategy drives financing needs – What are we financing?

- How much capital is needed to achieve “value inflection?”
  - ▶ Value inflection point is the data with which you could reasonably expect either strategic partner interest or that outside investors would be willing to pay a higher price per share for the next round of financing. What is the value inflection being financed?
  - ▶ Always build in “slippage,” typically 6 months worth at least in the event that science takes longer than planned
  - ▶ Add 6 months of “runway” to the answer to account for time needed to raise the next round or secure a strategic partnership post-data
- Do you have a thorough budget?
  - ▶ Make sure your budget is itemized and well thought through from a strategic and tactical perspective
  - ▶ Do you really need to be based in Kendall Square or does somewhere cheaper suffice?
- Which programs will receive how much funding and how far will it take each asset?
- What do we need to partner and when?

### *Hint!*

*Prior proper planning prevents probable poor performance (7Ps).*



## Financing keys to success –

### ② Grounded perspective on value

- Any company near or in clinical development needs to have a perspective on commercial potential for the product/company
  - ▶ What is the Target Product Profile (TPP)?
    - Efficacy profile, safety profile, route of administration, dosing
  - ▶ Conduct a commercial assessment
    - Patient flow / segmentation for target population
    - Physician reaction to the TPP
    - Payer reaction to the TPP
    - Competitive dynamics

#### **Hint!**

*Most early stage investors don't put much credence in this analysis. Mid/late stage investors and most potential partners/acquirers do value this analysis. It is important to know your market and potential value.*



## Financing keys to success –

### ② Grounded perspective on value

- Thorough risk-adjusted valuation for the company and its assets
  - ▶ Based on market-informed and defensible assumptions
  - ▶ Intrinsic value or eNPV with assumptions grounded from commercial assessment
  - ▶ Comparables analysis to determine future exit values and current comparable investments
- Any company near or in clinical development needs to have a perspective on commercial potential for the product/company
  - ▶ Commercial assessment, if available, will be an important resource to inform opportunity for the asset

**Setting valuation too low unnecessary dilutes the company existing investor and management;  
too high hurts returns for new investors and create additional pressure on the company**

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## Financing keys to success –

### ③ Compelling presentation of opportunity

- Teaser
  - ▶ Contains all non-confidential information necessary for an investor to decide if they want to proceed to confidential discussions
- Investor Management presentation
  - ▶ Ideally give under CDA but not a requirement
    - Most VC's won't sign a CDA
  - ▶ No more than 15 – 20 slides depending on time allocated
    - Less emphasis on clinical data (only show most important clinical data)
    - More emphasis on funding needs and financial history
- Business plan / private placement memorandum
  - ▶ Usually not necessary for early stage transactions
  - ▶ More important for family office and later stage mezzanine transactions

### **Hint!**

*The quality of the materials is an indicator for the organization of the company and its ability to tell a story to potential acquirers. Don't start outreach until the story is tight.*



## Financing keys to success –

### ④ Raising awareness for the company

- How to generate in-bound interest?
  - ▶ Corporate communications
    - Press release strategy to not over- or under-promote the company
    - Public relations to get placements in trade journals when newsworthy data achieved
    - Revamped website to comport with management presentation and business plan
  - ▶ Medical meetings
    - Good chance to meet both partners and investors
  - ▶ Partnering / industry meetings
    - Investors less frequent at BIO meetings and more frequent at banker conferences
  - ▶ Use scientific or clinical advisory board to make connections

#### **Hint!**

*The right PR/IR strategy can make the capital raise much easier to close via external validation and awareness.*



# Financing keys to success –

## ④ Raising awareness at medical and investor meetings

MACDOUGALL biomedical communications		MacDougall Biomedical Conference Calendar now available as a web app at <a href="http://www.macb.io/cal">www.macb.io/cal</a>	
APRIL 2017			
P	Deutsche Biotechnologietage (BIO Germany, BIO.NRW, BMBF)	Hannover, Germany	5-Apr-17 6-Apr-17
M	ESGCT - European Society of Gene & Cell Therapy - Annual Congress	Granada, Spain	5-Apr-17 7-Apr-17
M	ISHLT - Int'l. Society for Heart & Lung Transplantation - Annual Meeting and Scientific Sessions	San Diego, CA	5-Apr-17 8-Apr-17
I	Future Leaders in the Biotech Industry (BioCentury)	New York, NY	7-Apr-17 7-Apr-17
M	World Vaccine Congress - US (Terrapinn)	Washington, DC	10-Apr-17 12-Apr-17
P	Cancer Advance Conference at Harvard Medical School (BBC)	Boston, MA	11-Apr-17 11-Apr-17
M	NKF - National Kidney Foundation - Spring Clinical Meetings	Orlando, FL	18-Apr-17 22-Apr-17
M	World Orphan Drug Congress - USA (Terrapinn)	Washington, DC	19-Apr-17 21-Apr-17
M	EASL - European Association for the Study of the Liver - International Liver Congress™	Amsterdam, The Netherlands	19-Apr-17 23-Apr-17
M	ISN - International Society of Nephrology - World Congress	Mexico City, Mexico	21-Apr-17 25-Apr-17
M	ESCMID - European Society of Clinical Microbiology and Infectious Diseases - Congress	Vienna, Austria	22-Apr-17 25-Apr-17
M	AAA/APS/ASBMB/ASIP/ASN/ASPET - Experimental Biology	Chicago, IL	22-Apr-17 26-Apr-17
M	AAN - American Academy of Neurology - Annual Meeting	Boston, MA	22-Apr-17 28-Apr-17
M	NFID - National Foundation for Infectious Diseases - Conference on Vaccine Research	Bethesda, MD	24-Apr-17 26-Apr-17
M	ASPHO - American Society of Pediatric Hematology/Oncology - Annual Meeting	Montreal, QC	26-Apr-17 29-Apr-17
I	ARM Annual Cell & Gene Therapy Investor Day	Boston, MA	27-Apr-17 27-Apr-17
M	ESC - European Society of Cardiology - Heart Failure Congress	Paris, France	29-Apr-17 2-May-17
MAY 2017			
M	AAPS - American Association of Pharmaceutical Scientists - National Biotechnology Conference	San Diego, CA	1-May-17 3-May-17
M	World Medical Innovation Forum - Cardiovascular (Partners HealthCare)	Boston, MA	1-May-17 3-May-17
I	Deutsche Bank Annual Healthcare Conference	Boston, MA	3-May-17 4-May-17
P	OIS - Ophthalmology Innovation Summit at ASCRS	Los Angeles, CA	4-May-17 4-May-17
M	ELCC - European Lung Cancer Conference (ESMO, IASLC)	Geneva, Switzerland	5-May-17 8-May-17
M	ACOG - American Congress of Obstetricians and Gynecologists - Annual Clinical Meeting	San Diego, CA	6-May-17 9-May-17
M	DDW - Digestive Disease Week (AASLD, AGA, ASGE, SSAT)	Chicago, IL	6-May-17 9-May-17
M	ARVO - Association for Research in Vision and Ophthalmology - Annual Meeting	Baltimore, MD	7-May-17 11-May-17
P	ChinaBio Partnering Forum (EBD Group, ChinaBio)	Shunde, China	10-May-17 11-May-17
M	ASGCT - American Society of Gene & Cell Therapy - Annual Meeting	Washington, DC	10-May-17 13-May-17
P	Convergence Forum East: The Life Sciences Leaders Forum	Harwich, MA	11-May-17 12-May-17
M	AUA - American Urological Association - Annual Meeting	Boston, MA	12-May-17 16-May-17
I	Bank of America Merrill Lynch Health Care Conference	Las Vegas, NV	16-May-17 18-May-17
M	APS - American Pain Society - Annual Scientific Meeting	Pittsburgh, PA	17-May-17 20-May-17
M	NICE - National Institute for Health and Clinical Excellence - Annual Conference	Liverpool, UK	18-May-17 19-May-17
M	ATS - American Thoracic Society - International Conference	Washington, DC	19-May-17 24-May-17
M	APA - American Psychiatric Association - Annual Meeting	San Diego, CA	20-May-17 24-May-17
M	ACR - American College of Radiology - Annual Meeting and Chapter Leadership Conference	Washington, DC	21-May-17 25-May-17
M	ICAR - International Conference on Antiviral Research (ISAR)	Atlanta, GA	21-May-17 25-May-17
I	BioEquity Europe (BIO, BioCentury, EBD Group)	Paris, France	22-May-17 23-May-17
P	Cell & Gene Exchange (EBD Group)	Washington, DC	22-May-17 23-May-17
I	UBS Global Healthcare Conference	New York, NY	22-May-17 24-May-17
M	ILTS/ELITA/LICAGE - Joint International Congress on Liver Transplantation	Prague, Czech Republic	24-May-17 27-May-17
M	ESHG - European Society of Human Genetics - Conference	Copenhagen, Denmark	27-May-17 30-May-17
P	Boston CEO Conference (BBC)	Boston, MA	30-May-17 31-May-17
P	NIO - Neurotechnology Industry Organization - Investing and Partnering Conference	San Francisco, CA	31-May-17 1-Jun-17

### Hint!

Selecting the right meetings is key to raising awareness for a financing opportunity. Don't spread yourself too thin and make appointments in advance for meetings.



Source: <http://www.macb.io>



## Financing keys to success –

### ⑤ Identifying potential investors

- Define universe of potential investors for your raise
  - ▶ Investors are tiered (Tier 1, 2, 3) based on their ability to fund, activity, interest in the space, and degree of relationship
- Look to venture databases or your agent to help identify ideal investors
  - ▶ Medtrack, ThomsonOne, Bloomberg, VentureSource, Pitchbook, CB Insights
  - ▶ Get introductions to VC partners via mutual friends and meet them prior to needing them
- Find the VC with the right experience at the appropriate firm who will champion your deal within their partnership
- Maintain a contact log of every interaction with every investor
- Get in front of prospective investors early and often if you are not known to them

#### ***Hint!***

*Don't expect a VC with >6 board positions to offer much time and attention.*

*Operating experience often makes a difference as does time to dedicate to the company as an active board member.*



## Financing keys to success –

### ⑥ Organized, coordinated due diligence and data room

- Responding to due diligence requests
- Most investors are reluctant to sign a CDA
  - ▶ The potential repercussions of an investor maliciously using confidential data are much lower than for a strategic partner
- What goes into the data room?
  - ▶ Clinical: Protocols, plans, budgets, study reports
  - ▶ IB (investigators brochure)
  - ▶ Scientific papers and experimental reports
  - ▶ CMC
  - ▶ Management background
  - ▶ Commercial reports, assessments
  - ▶ Contracts
- What would you potentially hold back until later in the due diligence process?
  - ▶ CRF (case report forms)
  - ▶ FDA correspondence (perhaps earlier if not too sensitive)
  - ▶ IP, but you may not even want to put this in the VDR
- What level of access to provide?
  - ▶ Read-only vs. print rights?
  - ▶ Access time limits

### **Hint!**

*Most investors won't invest until their questions have been answered satisfactorily. Don't be cagey or avoid questions as that is a red flag.*



## Financing keys to success –

### ⑦ Productive negotiations with competitive dynamics

- How to generate competitive dynamics among investors?
  - ▶ Don't introduce them to each other until you sign exclusivity with a lead
  - ▶ Many will talk to each other anyway so there is only so much you can do
  - ▶ Solicit several different types of investor who might not otherwise know each other
- Negotiations best practices
  - ▶ Understand the financial and governance implications of each term in the term sheet; if you don't, reread this deck or ask your agent or attorney
  - ▶ Keep your goals in mind and focus on the main ones
  - ▶ Read these books
    - Getting to Yes
    - Getting More

#### **Hint!**

*Sometimes getting any deal is worth it regardless of the terms. Know when to negotiate and when to just get the deal done.*



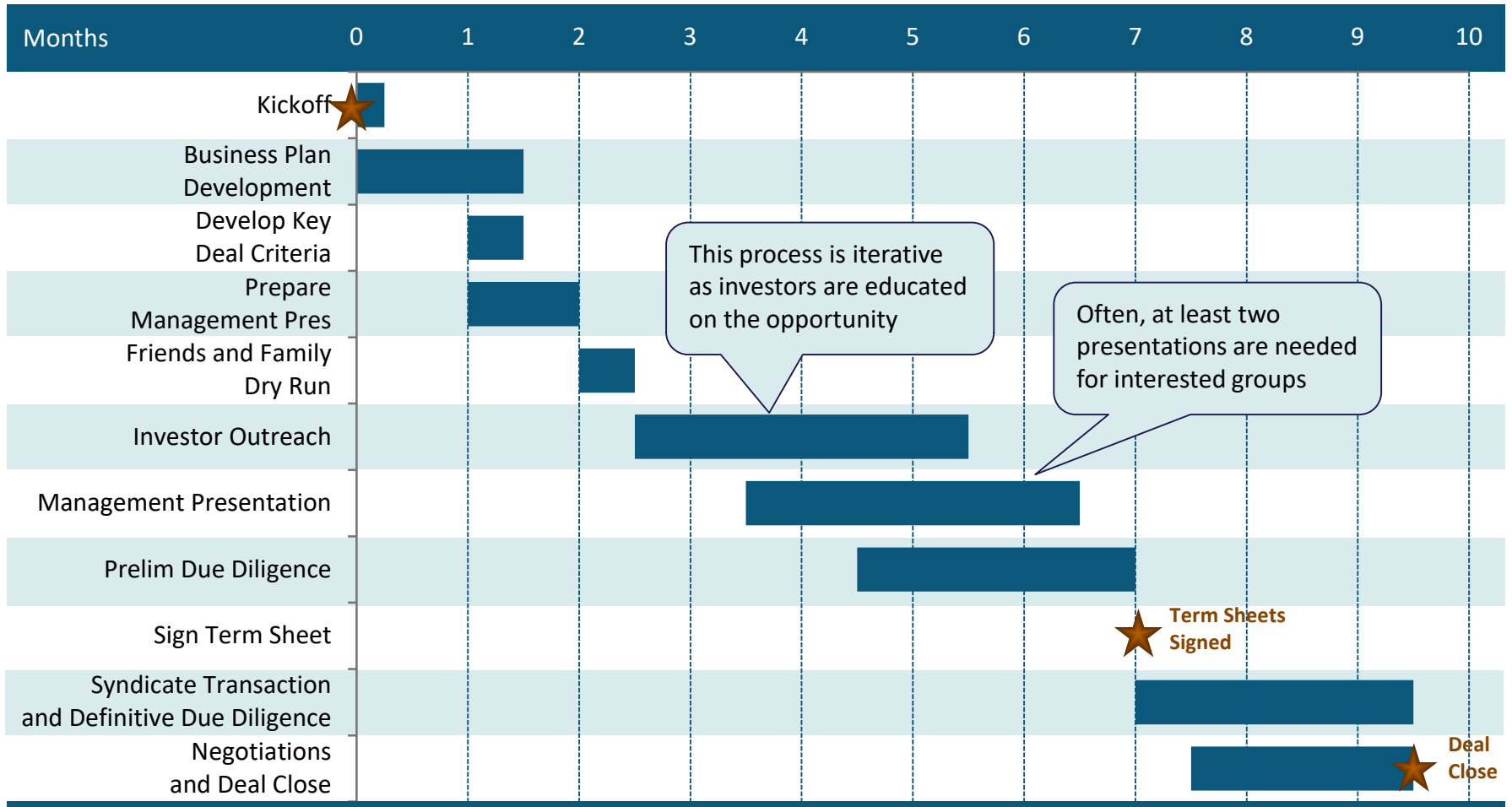
**If successful, a financing process can provide a competitive alternative to a strategic transaction**

# Comprehensive approach to financing transactions yields returns



Some of these phases of work can be parallel processed to accelerate the transaction process

# Fundraising process can take more time than expected



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# How VCs think about valuation

- Venture capitalists purchase their position and typically do not maintain their ownership stake in each successive round
- Therefore, it is critical for VCs to consider future dilution when targeting their desired 3–5x return on invested capital
- A strawman example:
  - ▶ A preclinical company is anticipated to exit for \$250M after Proof of Concept is demonstrated
  - ▶ A total of \$50M in new capital is required to bring the company to exit

	Series A	Series B	Series C	Total
Pre-money	\$10M	\$20M	\$50M	-
VC Investment	\$10M	\$5M	\$2.5M	\$17.5M
Other Groups' Investment	\$0M	\$10M	\$22.5M	-
Post-money	\$20M	\$35M	\$75M	-
VC Ownership Stake	50%	42.8%	23.3%	23.3%

$$\$250M \times 23.3\% = \$58.3M$$

$$\$58.3M / \$17.5M = 3.3x$$

- 3.3x is on the low end of the 3-5x spectrum – if the VC wanted to ensure a higher return, they would decrease the pre-money valuation at which their position is purchased to increase their share of the overall pie to 35% following successive rounds of financing

$$\$17.5M \times 5x = \$87.5M$$



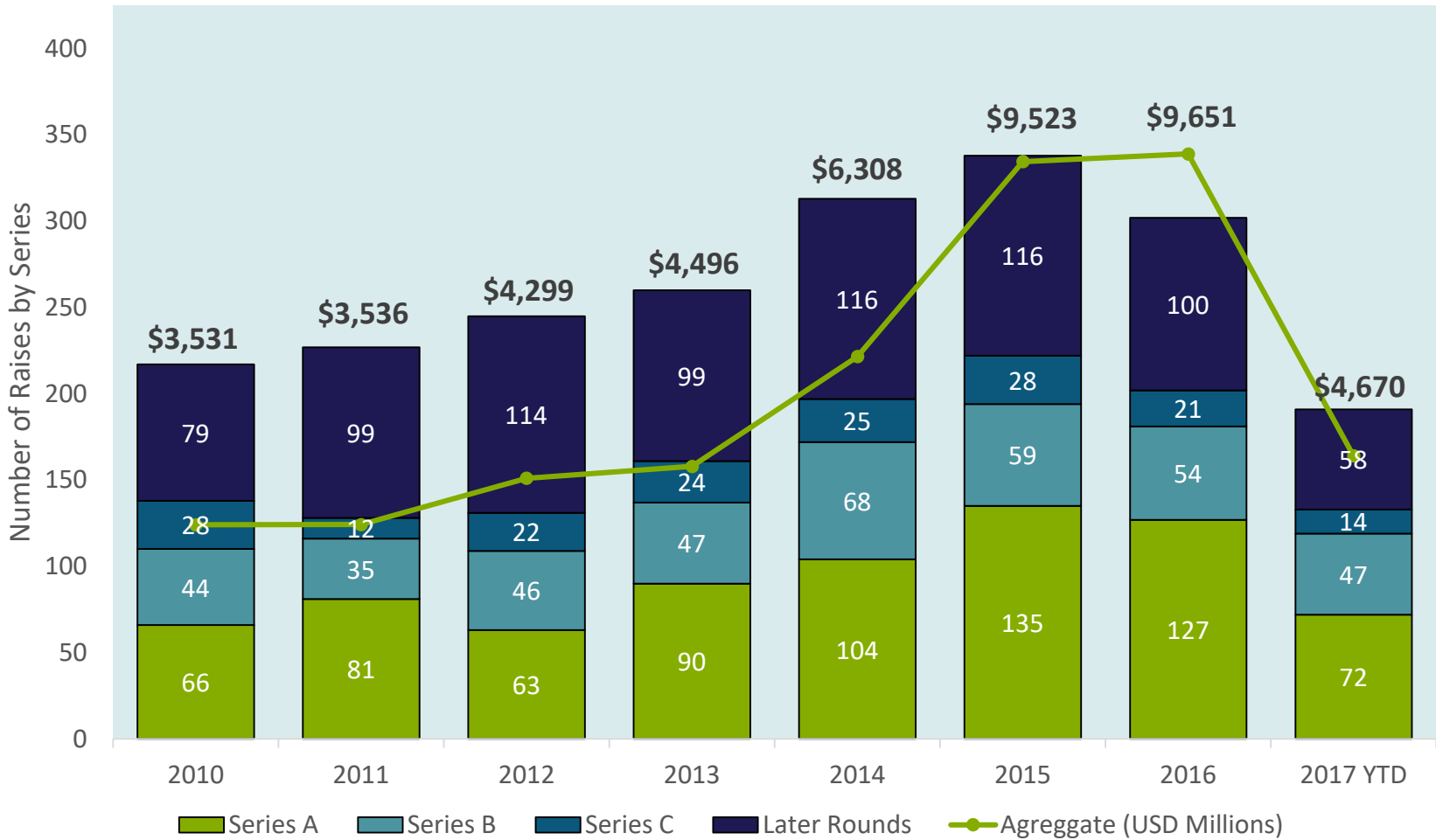
$$\$87.5M / \$250M = 35\% \text{ Ownership}$$



- 1 Private Financing Sources: Pros & Cons
- 2 How Best to Prepare for a Private Raise
- 3 Tips on Approaching Investors
- 4 Investor Perspective on Valuation
- 5 **Recent Trends in Private Financing**

# After several lackluster years, healthcare venture investment is on the rise; 2017 on track to match 2016

## Aggregate Value and Number of Biopharma VC Investment by Series



SOURCE: Locust Walk Analytics, BioCentury: BCIQ 2017 YTD as of Q2 2017

# Early stage biopharma investments (Series A-C) continue to represent the most significant portion of VC funding

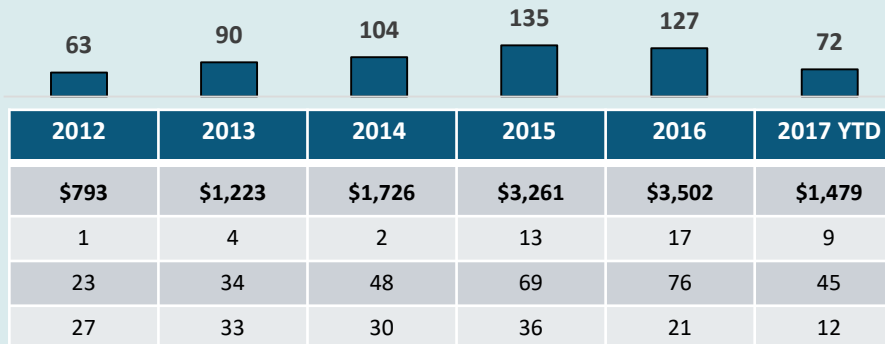
## Series A

Total with Disclosed Value (\$USD)

Early Stage: Discovery/ Lead

Mid Stage: Preclinical/Phase 1

Late Stage: Phase 2/Phase 3/Mkt



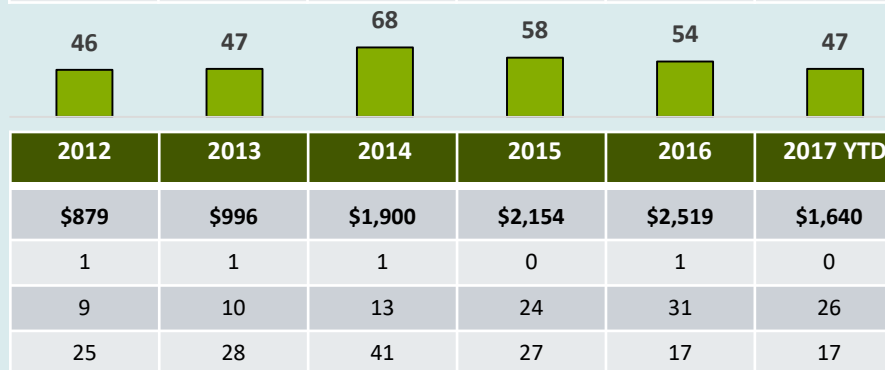
## Series B

Total with Disclosed Value (\$USD)

Early Stage: Discovery/ Lead

Mid Stage: Preclinical/Phase 1

Late Stage: Phase 2/Phase 3/Mkt



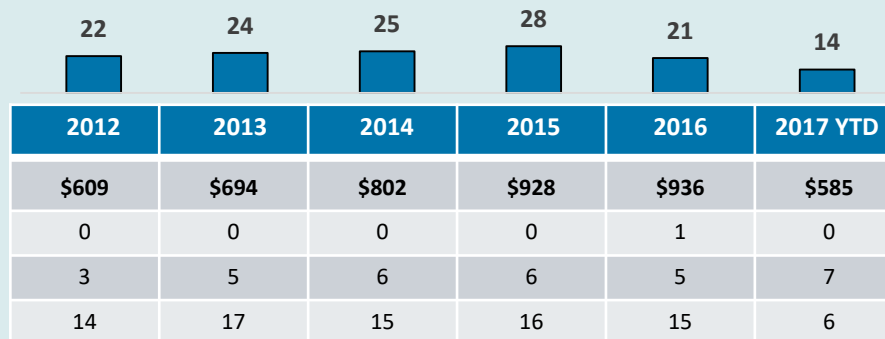
## Series C

Total with Disclosed Value (\$USD)

Early Stage: Discovery/ Lead

Mid Stage: Preclinical/Phase 1


















Late Stage: Phase 2/Phase 3/Mkt



## Key Takeaways

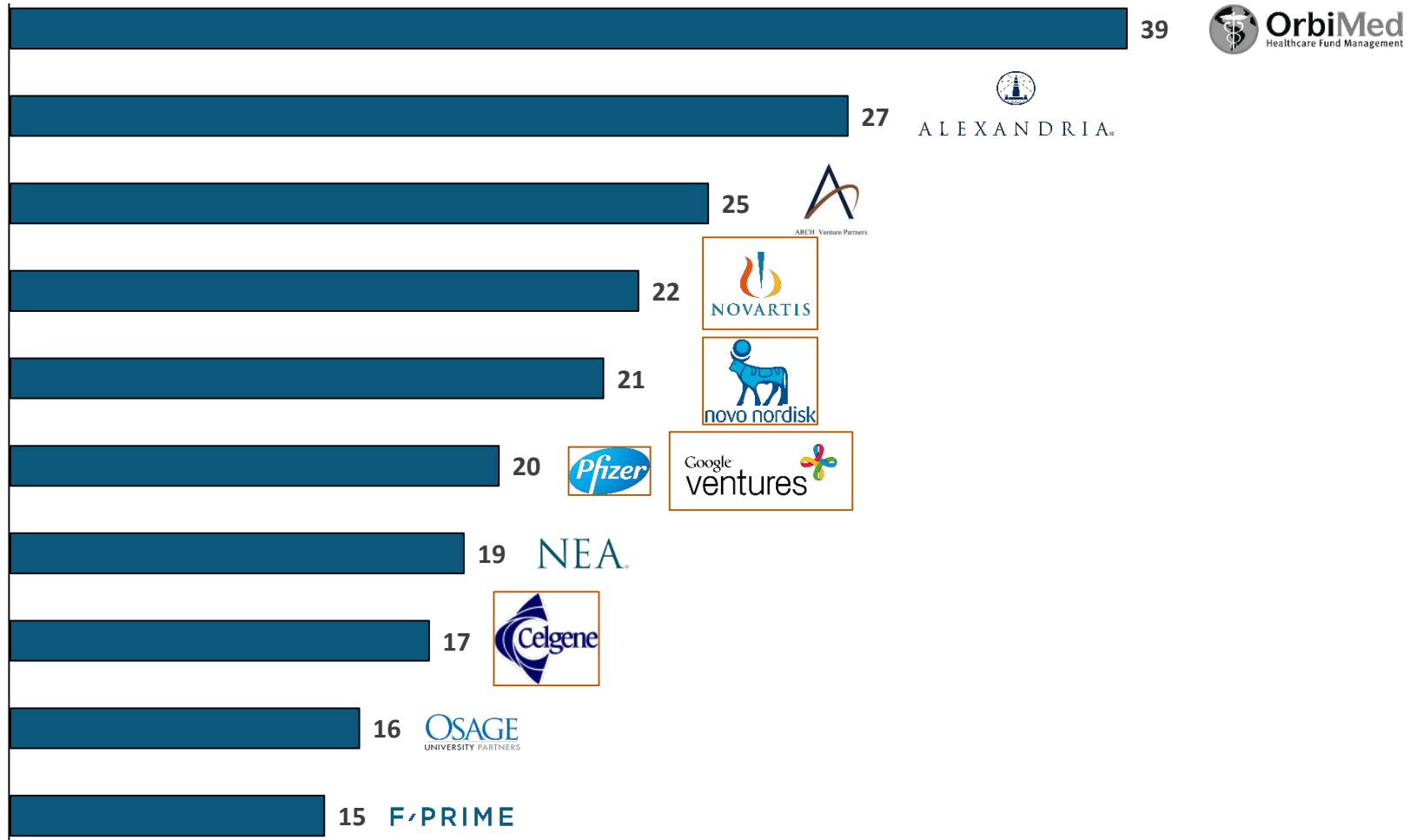
- Biopharma series A investments continue to increase steadily
- Total venture funding for 2017 on track for record year
- Significant increase in mid stage companies seeking series B and series C funding. There have been 26 investments in companies with preclinical/phase 1 leads in 2017 YTD, there were only 9 total in 2012.

# Oncology diagnostic and therapeutics continue to command the largest proportion of investor dollars

Company	Series	Raised	Lead Investor	Background
 GRAIL	B	\$900M		<ul style="list-style-type: none"> <li>Developing a blood screening test for cancer detection</li> <li>Currently conducting a multi-center 200,000 patient Preclinical study</li> </ul>
 Rubius Therapeutics	B	\$120M		<ul style="list-style-type: none"> <li>Developing a Preclinical treatment platform utilizing off-the-shelf red blood cell technology</li> <li>Clinical trials expected 2018</li> </ul>
 歌礼中国 ASGLETIS	B	\$101M		<ul style="list-style-type: none"> <li>Developing anti-virals for hepatitis C</li> <li>Lead asset, Danoprevir commercial in China and clinical in US</li> </ul>
 WuXiNextCODE	B	\$75M	<b>TEMASEK</b>	<ul style="list-style-type: none"> <li>A commercially available genomic information technology currently expanding its services to leading precision medicine companies</li> </ul>
 PMV Pharma	B	\$74M		<ul style="list-style-type: none"> <li>Developing a pipeline seeking to restore p53 function in oncology patients</li> <li>Expected to enter the clinic in 2018</li> </ul>
 Cell Medica	C	\$73M		<ul style="list-style-type: none"> <li>Entering Phase 2 trials for the treatment of non-Hodgkin lymphoma</li> <li>Uses immune stem cell reconstitution technology</li> </ul>
 亞盛醫藥 Ascentage Pharma	B	\$72M	Future Industry Investment Fund	<ul style="list-style-type: none"> <li>Lead asset is a BCL-2 inhibitor and is currently in Phase 2</li> <li>Aiming to generate POC data for 3 pipeline candidates by 2020</li> </ul>
 NEON THERAPEUTICS	B	\$70M		<ul style="list-style-type: none"> <li>Neon targets abnormal proteins produced by cancer cells and are entering Phase 1 clinical trials</li> <li>Exploits CRISPR-CAS technologies</li> </ul>
 REPAIR THERAPEUTICS	A	\$68M		<ul style="list-style-type: none"> <li>Developing oncology drugs applying precision medicine tactics</li> <li>Repair's POLQ inhibitors are seeking to enter clinical trials in 2018</li> </ul>
 freenome	A	\$65M	ANDREESSEN HOROWITZ	<ul style="list-style-type: none"> <li>Developing a liquid biopsy diagnosis platform to detect cancer from next generation DNA sequencing</li> </ul>

# Corporate VC's have emerged as a new and prominent source of capital

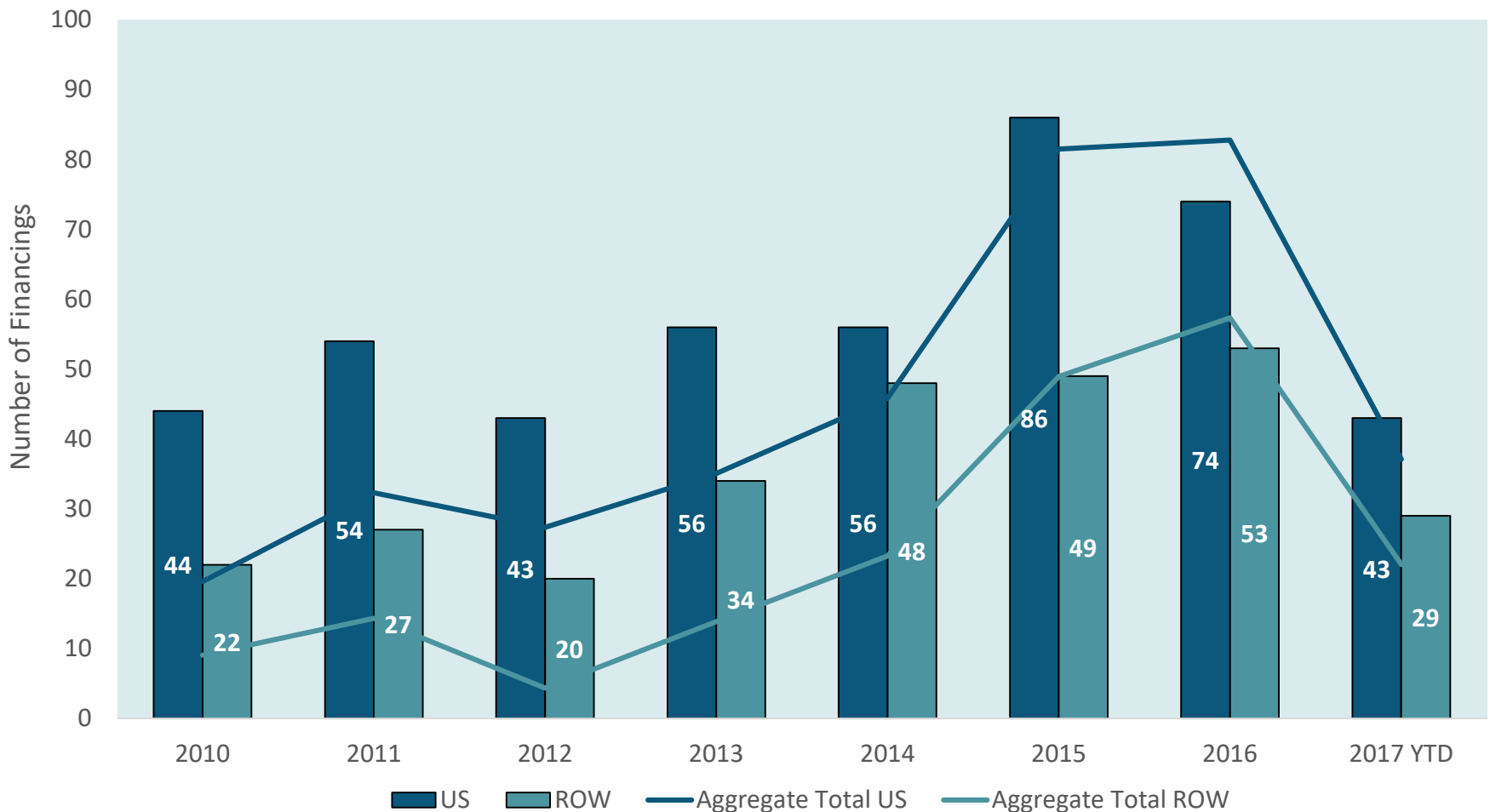
## Top VC (Series A-E) Investments by number from 2016- 2017 YTD



SOURCE: BioCentury (BCIQ), Locust Walk Analytics

# US remains the powerhouse in producing leading-edge biotech companies; ROW mirrors US in trends of aggregate funding

## Aggregate Value and Number of Biopharma VC Series A Investment by Region



# Boston and San Francisco continue their dominance as the worldwide biopharma hubs

## US Location Companies Receiving VC Funding in Biopharma Hubs: (2016 - YTD)



SOURCE: BioCentury (BCIQ), Locust Walk Analytics

## Summary and future outlook: Private financing alive and well

- Biopharma private venture financings continue to show impressive growth
  - ▶ CAGR of 18.2% from 2010-2016
  - ▶ 2017 is currently on pace with 2016
- Series B financings have shown a substantial increase in number
  - ▶ After the return of the Series A in '15 and '16, companies have successfully started raising their next rounds of funding
  - ▶ Locust Walk estimates an increase in partnering activity as companies progress in their corporate development
- Top VC players have changed in biopharma and life science, as corporate/strategic funds have emerged as a significant player
- US continues to lead the way for WW financings; Boston and SF remain the key biopharma hubs



## Upcoming Locust Walk Institute webinar topics

- BioPharma Valuation Analysis- September 19
- BioPharma Partnering and Financing Term Sheet Review- October 17
- BioPharma Partnering in Japan
- BioPharma Partnering in Europe
- MedTech Business Development Best Practices

\*Please let us know other topics you would like to see covered in future webinars. Email [maria@locustwalk.com](mailto:maria@locustwalk.com) and we will try to accommodate your request.