

Late-Stage Private Placements

A Life Sciences Sector Survey

As privately held companies choose to remain private longer and defer their initial public offerings (IPOs), these companies are increasingly reliant on raising capital in successive private placements. New categories of investors, including cross-over funds, sovereign wealth funds, and family offices, have become significant participants in late-stage (or mezzanine) private placements. Depending on the sector, a late-stage private placement may be an important step for a company. For example, a late-stage private placement may provide needed capital to allow the company to defer its IPO until the IPO market becomes more hospitable. The transaction may serve to provide liquidity to friends and family, angel and other early investors in the company. For companies in other sectors, such as life sciences, a late-stage private placement made to known and well-regarded life science investors may serve to validate the company's product, drug or technology. Often, the investors will express an interest in participating in a subsequent IPO and this may be important to the IPO's ultimate success.

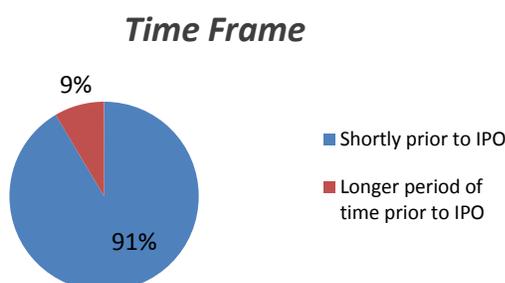
In this survey, we have examined the late-stage private placements that preceded life sciences IPOs undertaken in 2015 and in 2016 (through June 30). In 2015, there were 61 life sciences IPOs completed. Overall, in 2015, there were 185 IPOs completed. Life science IPOs represented approximately 33% of the IPOs for 2015. In 2016, through June 30, there were 19 life sciences IPOs completed. Overall, through June 30, 2016, there were 44 IPOs completed. Life sciences IPOs represented approximately 43% of the IPOs for the first half of 2016.

LATE-STAGE PRIVATE PLACEMENTS

Explanatory Note: Unless otherwise specified, our findings set forth below regarding late-stage private placements also include those private placements that were undertaken concurrently with the IPO.

How many months prior to the IPO was the last private placement completed?

Approximately 91% (75/82) of the companies surveyed undertook a private placement shortly prior to the IPO.

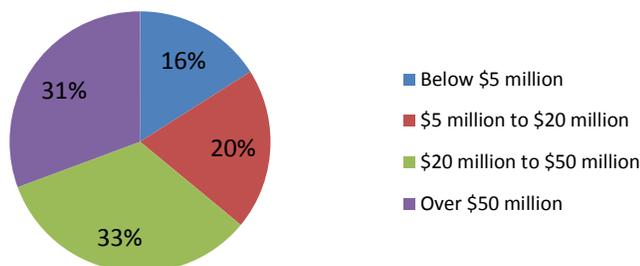


For those companies that undertook a private placement shortly prior to the IPO, the average amount of time between the final private placement and the IPO was approximately 6.91 months and the range was 1 to 16 months (excluding those private placements that were undertaken concurrently with the IPO).

What were the gross proceeds from the last private placement shortly prior to the IPO?

- Average gross proceeds: approximately \$39.9 million
- Range: \$0.01 million to \$120 million
- Below \$5 million: 16% (12/75)
- \$5 million to \$20 million: 20% (15/75)
- \$20 million to \$50 million: approximately 33% (25/75)
- Over \$50 million: approximately 31% (23/75)

Offering Size

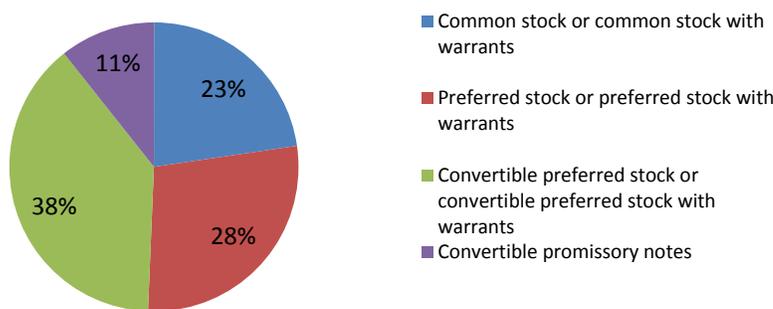


What type of security was offered in the last private placement shortly prior to the IPO?

- Common stock or common stock with warrants: approximately 23% (17/75)
- Preferred stock or preferred stock with warrants: 28% (21/75)
- Convertible preferred stock or convertible preferred stock with warrants: 39% (29/75)
- Convertible promissory notes: approximately 11% (8/75)

There were no issuances of non-convertible promissory notes. One company that issued convertible promissory notes also issued warrants exercisable for common stock.

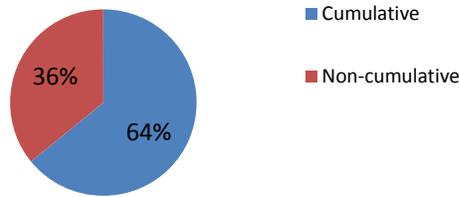
Securities Issued in Last Private Placement



Did investors receive dividend rights? If so, were dividends cumulative?

Yes, investors in offerings of common stock, preferred stock and convertible preferred stock were entitled to receive dividends. Approximately 64% (25/39) specified cumulative dividends and 36% (14/39) specified non-cumulative dividends.

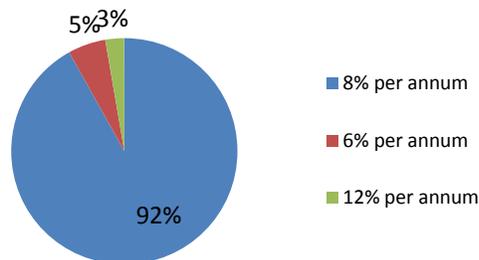
Cumulative Versus Non-Cumulative Dividends



What was the specified dividend rate (for those companies that issued dividend-paying securities)?

Approximately 92% (34/37) of the companies specified a dividend of 8% per annum, one company specified a dividend of 12% per annum and two companies specified a dividend of 6% per annum.

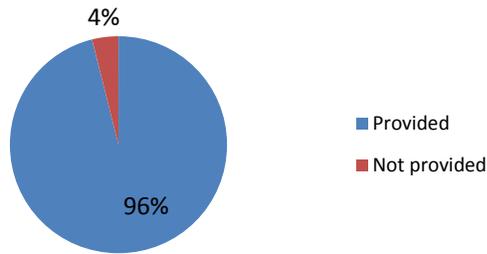
Dividend Rate



Did investors receive anti-dilution protection?

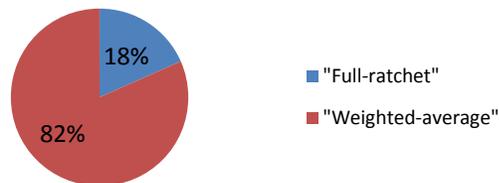
Approximately 96% (49/51) of the companies provided investors with anti-dilution protection and approximately 4% (2/51) did not.

Anti-Dilution Protection



Of those companies that provided investors with anti-dilution protection, approximately 18% (9/49) provided “full-ratchet” anti-dilution protection and approximately 82% (40/49) provided “weighted-average” anti-dilution protection.

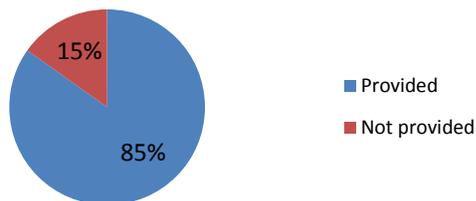
Type of Anti-Dilution Protection



Did investors receive registration rights?

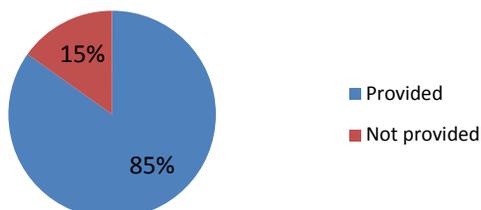
- Demand registration: Approximately 85% (56/66) of the companies provided investors with demand registration rights and approximately 15% (10/66) did not.

Demand Registration



- Piggyback registration: Approximately 85% (56/66) of the companies provided investors with piggyback registration rights and approximately 15% (10/66) did not.

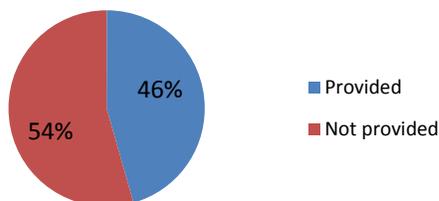
Piggyback Registration



Did investors receive co-sale rights? Drag-along rights?

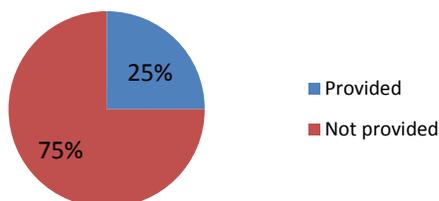
- Co-sale rights: Approximately 46% (31/68) of the companies provided investors with co-sale rights and approximately 54% (37/68) did not.

Co-Sale Rights



- Drag-along rights: 25% (17/68) of the companies provided investors with drag-along rights and 75% (51/68) did not.

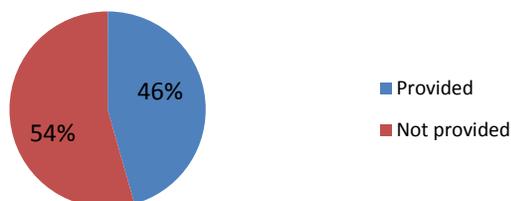
Drag-Along Rights



Did investors receive a right of first offer? A right of first refusal? Pre-emptive rights?

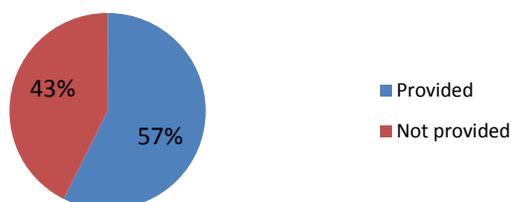
- Right of first offer: Approximately 46% (31/68) of the companies provided investors with a right of first offer and approximately 54% (37/68) did not.

Right of First Offer



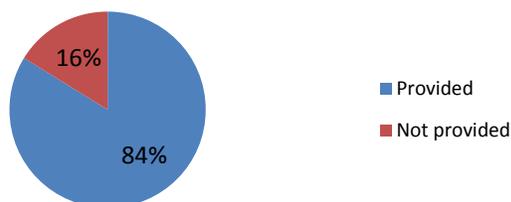
- Right of first refusal: Approximately 57% (39/68) of the companies provided investors with a right of first refusal and approximately 43% (29/68) did not.

Right of First Refusal



- Pre-emptive rights: Approximately 84% (57/68) of the companies provided investors with pre-emptive rights and approximately 16% (11/68) did not.

Pre-emptive Rights



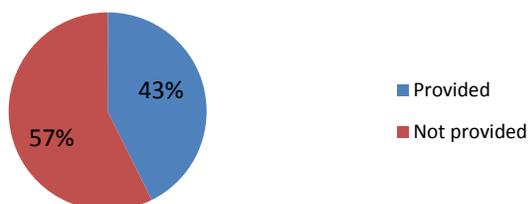
Did investors receive voting rights?

All of the companies issuing equity securities provided for voting as a separate class on certain matters (for example, board members) and voting with other common stockholders or other classes of preferred stock on general matters presented to stockholders.

Did investors receive board rights?

Approximately 43% (29/68) of the companies provided investors with board rights and approximately 57% (39/68) did not.

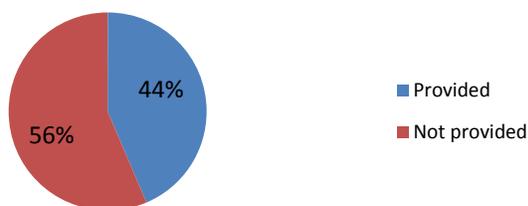
Board Rights



Did investors receive observer rights?

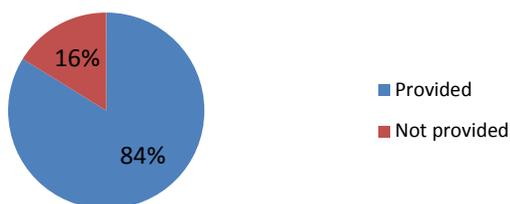
Of those companies that did not provide investors with board rights, approximately 44% (17/39) provided investors with observer rights, typically non-voting, and approximately 56% (22/39) did not.

Observer Rights

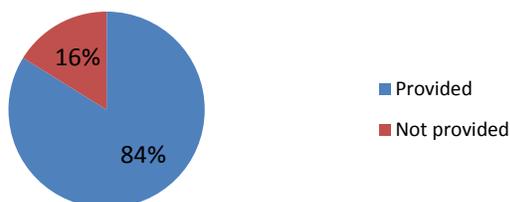


Did investors receive information rights?

- Right to financial reports: Approximately 84% (57/68) of the companies provided investors with a right to receive financial reports and approximately 16% (11/68) did not.

Right to Financial Reports

- Inspection rights: Approximately 84% (57/68) of the companies provided investors with inspection rights and approximately 16% (11/68) did not.

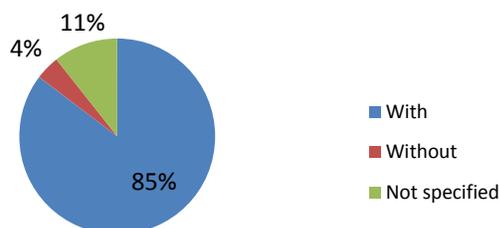
Inspection Rights***Did investors receive IPO price protection?***

No. Unlike tech company late-stage private placements in which IPO price protection has become more common, none of the companies provided investors with IPO price protection.

Did insiders participate in the last private placement shortly prior to the IPO? If so, what was the amount of their investment as a percentage of the gross proceeds of the last private placement shortly prior to the IPO?

- Approximately 85% (64/75) of the companies had insider participation in their last private placement shortly prior to the IPO. Approximately 11% (8/75) of the companies did not disclose whether they had insider participation in their last private placement shortly prior to the IPO. Three companies did not have insider participation in their last private placement shortly prior to the IPO. “Insiders” refer to directors, executive officers, officers or employees with policy-making functions, and 10% beneficial holders.

Insider Participation in Last Private Placement



- Of those companies that had insider participation in their last private placement:
 - The amount invested by insiders relative to the gross proceeds of the last private placement was on average approximately 62%.
 - The amount invested by insiders relative to the gross proceeds of the last private placement ranged from 1% to 100%.

IPOs FOLLOWING THE LAST PRIVATE PLACEMENTS

We also reviewed the IPOs following the last private placements in order to identify trends related to insider participation. Our findings are set forth below.

How many IPOs had insider participation?

Approximately 70% (57/82) of the IPOs had insider participation and approximately 30% (25/82) did not.

Insider Participation in IPO



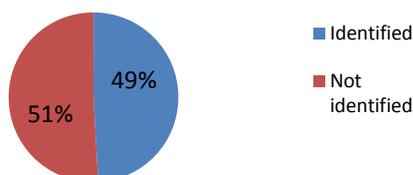
What types of insiders participated?

Insiders participating in the IPOs generally were 10% beneficial holders, including through an affiliation with a director or officer.

Did the IPO prospectuses include disclosure regarding the type of insider participation?

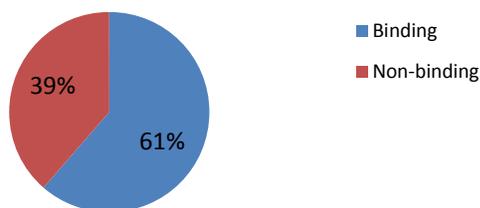
- Approximately 51% (29/57) of the IPO prospectuses did not disclose the names of those insiders participating in the IPO and approximately 49% (28/57) identified those insiders participating in the IPO.

Insiders Identified Versus Non-Identified



- Approximately 61% (35/57) of the IPO prospectuses disclosed a binding agreement of insiders to participate in the IPO and approximately 39% (22/57) disclosed a non-binding agreement to participate in the IPO.

Binding Versus Non-Binding Participation



For those IPOs with identified insider participation, what was the amount of insider investment as a percentage of the gross proceeds of the IPO?

- Range: approximately 1% to 80%
- Average: approximately 34%

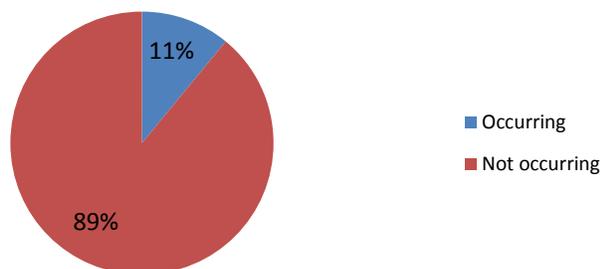
Was there a jump in valuation from the last private placement to the IPO?

Yes, typically there is a jump in valuation for life sciences companies from the last private placement to the IPO. This jump was slightly higher in 2015 (an average of approximately over 150%) compared to 2016 (an average approximately under 110%).

How many of the IPOs had a concurrent private placement?

Approximately 11% (9/82) of the IPOs had a concurrent private placement. Of those companies with a concurrent private placement, eight also had insiders indicating an interest in participating in the IPO.

Private Placement Concurrent with IPO



For those IPOs that had a concurrent private placement, what were the gross proceeds of the concurrent private placement relative to the gross proceeds of the IPO?

- Range: approximately 8% to 36%
- Average: approximately 22%

For more information regarding late-stage private placements, see our infographic:
http://www.mofo.com/~media/Files/PDFs/160411LateStageFinancings_infographic.pdf

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