



Funding strategies for life sciences businesses

February 3, 2010
2:00 pm – 3:15 pm EST

We will begin soon...

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Awarding CPE for this session

In general

Respond to **all** polling questions

Group participation will **not** receive CPE

The rule

Respond to at least **75%** of the polling questions to pass with full credit

You have to be logged in individually to receive credit

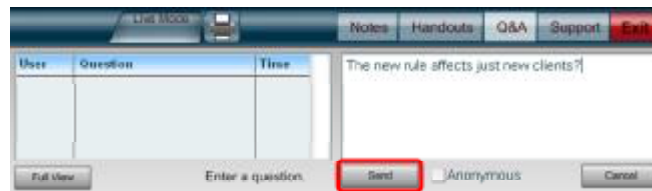
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Addressing your questions through Q&A

Step 1

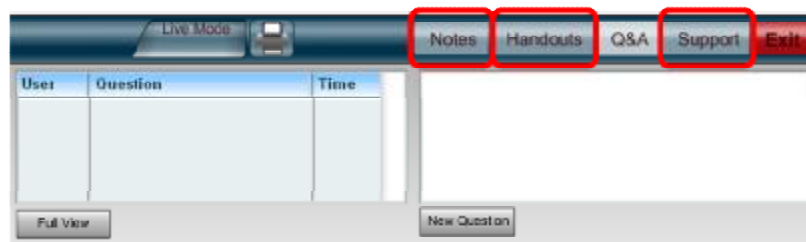


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Welcome!



Don Williams
National Life Sciences Practice Leader
San Diego

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5

Our presenters for today...



Don Williams
National Life Sciences
Practice Partner



Mike Buher
Mid-Atlantic Life Sciences
Practice Lead Partner



Stephen McGee
Practice Leader,
Corporate Finance



David Weild
Founder of Capital
Markets Advisory

Please type your questions/comments into



Why focus on life sciences?

- Current economic environment and challenges faced by life sciences companies
- How can we better connect with clients and prospects?



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7

Our focus for today...

Learning Objectives

- Describe economic challenges and funding options for life sciences companies in the current business environment
- Identify opportunities for traditional and non-traditional funding strategies

Agenda

- **Current business environment's effect on funding for life sciences companies**
- Opportunities for non-traditional funding strategies



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8

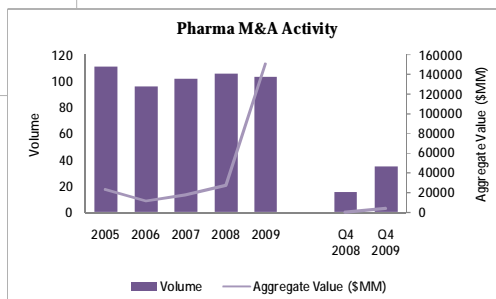
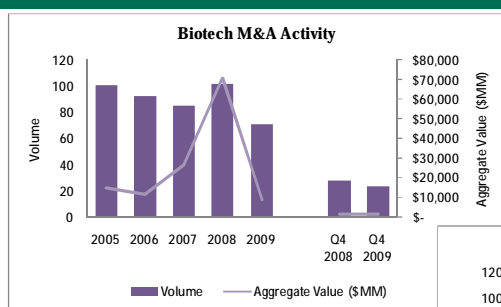
Economic and financial challenges faced by life sciences companies

- Lack of transaction activities in the last 12 months
 - Venture capital, IPOs, and M&A
 - Bankruptcies increased
- IPO market closed to new deals except highest profile offerings
- Crossover buyers and hedge funds have reduced allocations to private placements
- Private equity unable to put together leveraged deals
- Uncertainty over nature and impact of health care reform

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9

Biotech and Pharma M&A



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Recent (2009) notable deals announced and closed

Pharma

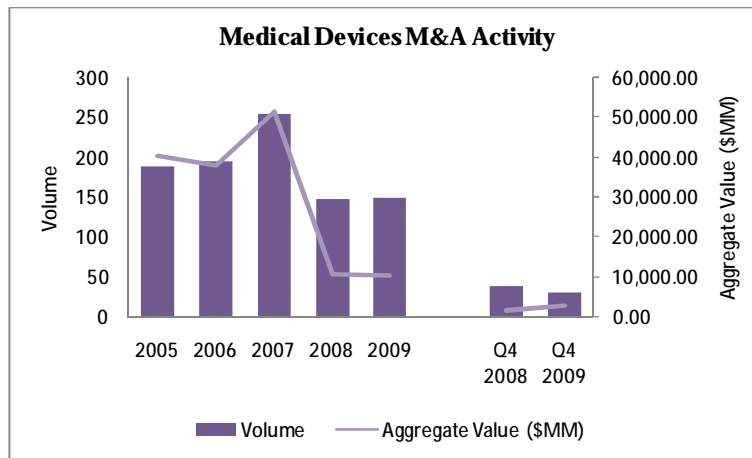
- Warner Chilcott acquired Procter & Gamble, Global Branded Prescription Pharma Business for \$3.1B
- Sanofi-Aventis acquired Meriel Limited for \$4B
- Merck acquired Schering-Plough for \$41B
- Pfizer acquired Wyeth for \$68B
- Bristol-Myers Squibb acquired Alder Biopharmaceuticals, ALD518 for \$1B
- Daiippon Sumitomo Pharma America Holdings, Inc. acquired Sepracor for \$2.6B

Biotech

- Johnson & Johnson acquired Cougar Biotechnology for \$1B
- Roche acquired Genentech for \$46.8B
- Gilead Science acquired CV Therapeutics for \$1.4B

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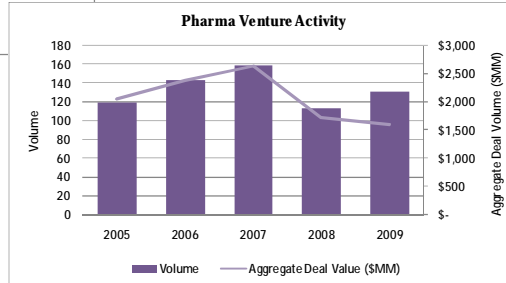
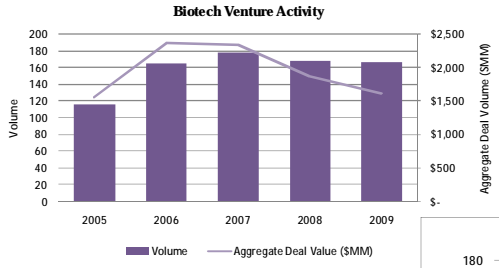
Medical Devices M&A



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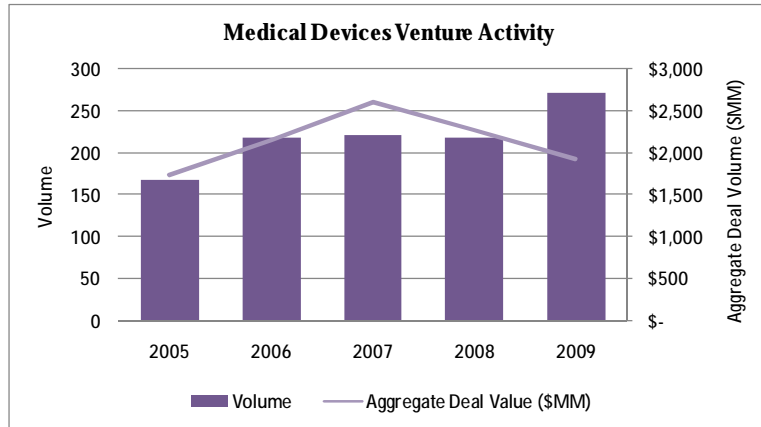
Source: Capital IQ

Biotech and Pharma Venture Capital Activity



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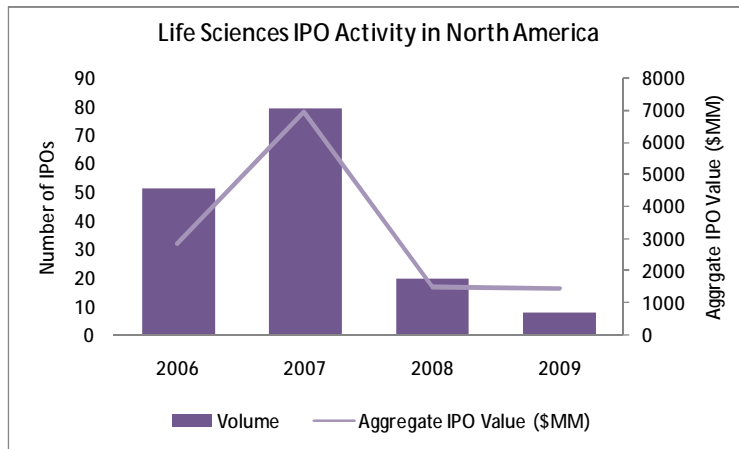
Medical Devices Venture Capital



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Source: Capital IQ

Life Sciences IPO Activity



Source: Thomson ONE Banker

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Life sciences companies are getting “back to basics”

- Evaluating and ranking their portfolio of research programs & products
- Identify internal and external options for continued portfolio development
- Determine optimal funding strategy for their business

“...Life sciences companies need to be focused, flexible, and innovative in identifying funding sources and negotiating terms.”

- Deron Curliss, Grant Thornton Partner

Main business / funding strategies

- Investment focus and re-alignment
- Aligning capabilities and partners
- Deal terms negotiation
- Alternative funding sources
 - Cost reduction
 - Government funding
 - Other non-traditional options



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17

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18

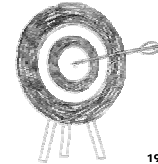
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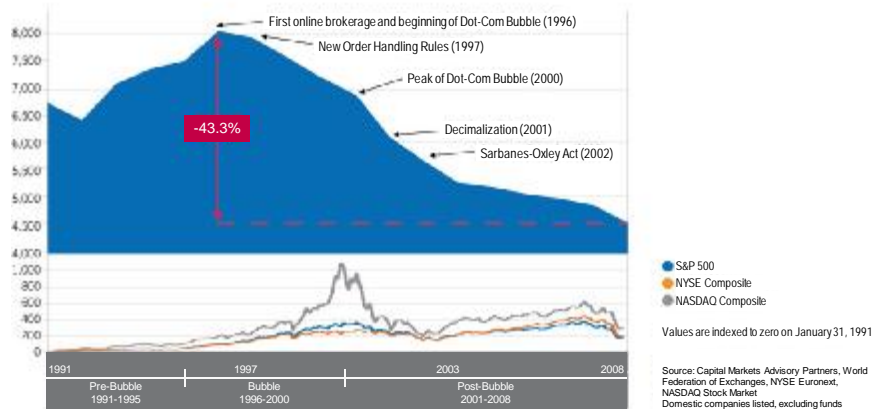


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19

The Great Depression in Listings began with the advent of online brokerage and the Order Handling Rules—the Dot-Com Bubble peak and SOX adoption came much later

Companies listed on U.S. stock exchanges

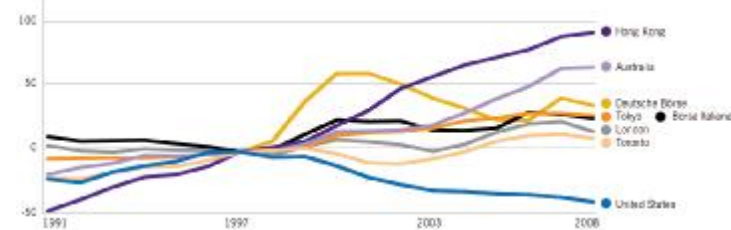


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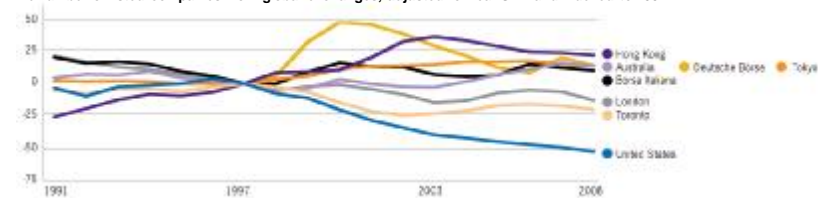
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The U.S. listed markets—unlike other developed markets—have been in steady decline since 1997

The number of listed companies from global exchanges indexed to 1997

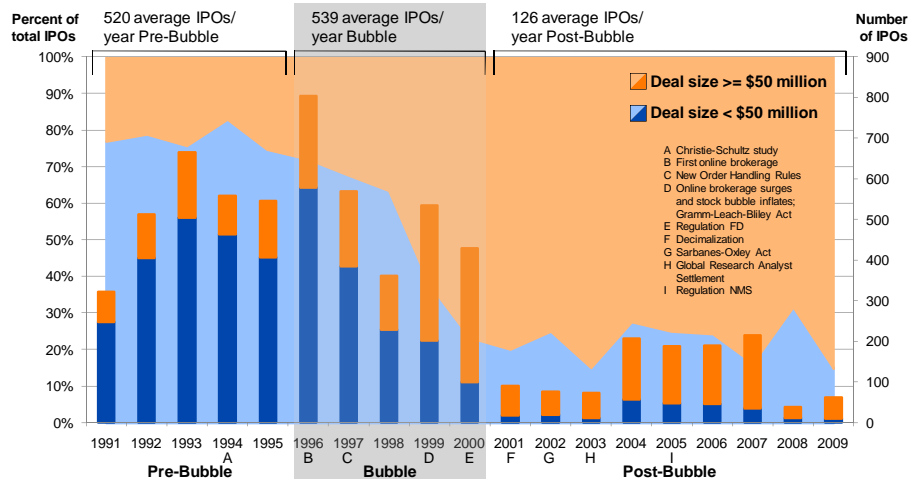


The number of listed companies from global exchanges, adjusted for real GDP and indexed to 1997



Source: Capital Markets Advisory Partners, World Federation of Exchanges, individual stock exchanges, USDA Economic Research Service
Real GDP measured in 2005 US\$. Excluding funds.

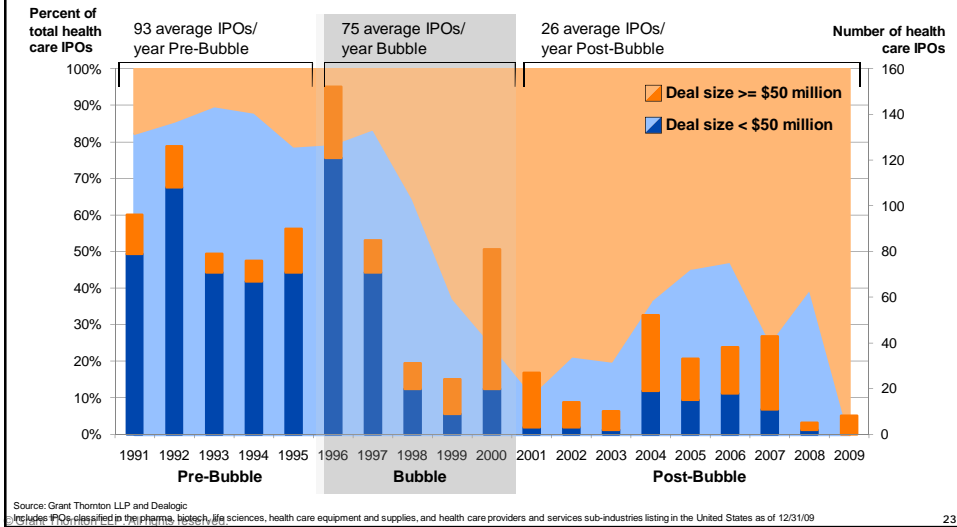
The number of IPOs has fallen in the last decade, specifically deals less than \$50 million in proceeds



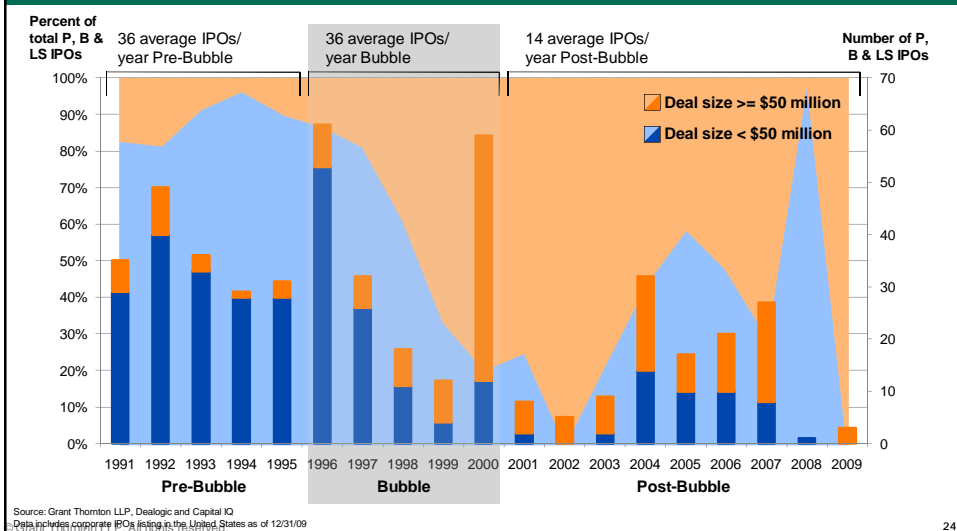
Source: Dealogic and Capital Markets Advisory Partners
Data includes corporate IPOs (# of 1023109), excluding funds, REITs, SPACs and LPs

22

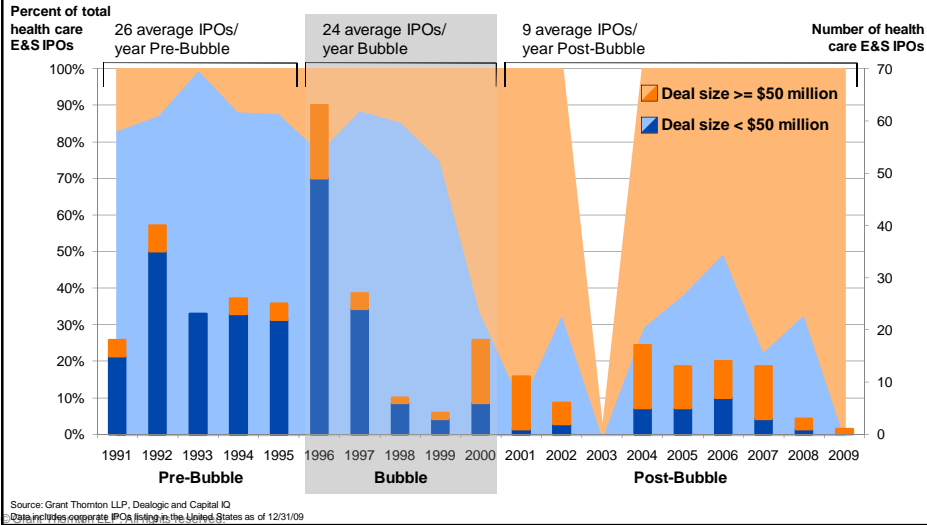
The number of health care IPOs has fallen in the last decade, specifically for deals less than \$50 million in proceeds



All health care sectors have been impacted *Pharmaceuticals, Biotechnology and Life Sciences*

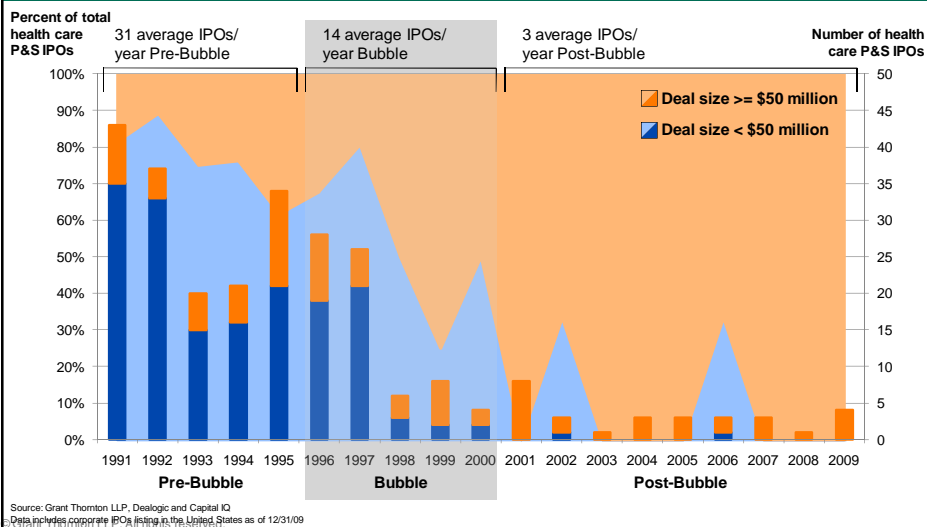


All health care sectors have been impacted *Health Care Equipment and Supplies*



25

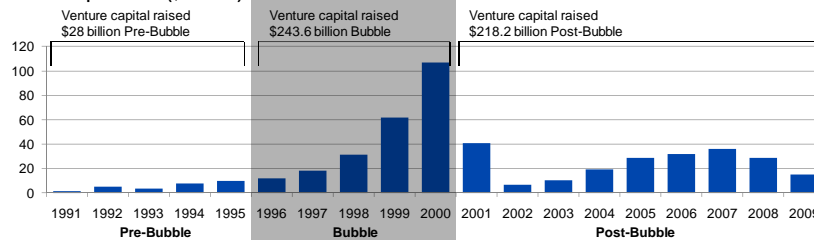
All health care sectors have been impacted *Health Care Providers and Services*



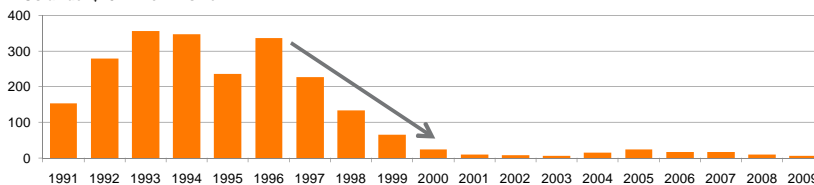
26

Growing supply of venture-backed companies were suddenly faced with the loss of the IPO market

Venture capital raised (\$ billions)



IPOs under \$25 million in size



Source: National Venture Capital Association web site, Dealogic, Capital Markets Advisory Partners
Data includes corporate IPOs as of 12/31/09, excluding funds, REITs, SPACs and LPs

27

The IPO crisis hurts all small businesses, extending far beyond venture capital and private equity

IPOs 1991-2009

- Venture capital backed 36%
- Private equity backed 15%
- Other 49%



Source: Capital Markets Advisory Partners, Ritter, Jay, "Some Facts About the 2009 IPO Market," January 14, 2010
Excludes IPOs below \$500 per share, unit offers, ADRs, closed-end funds, LPs, SPACs, REITs, bank and S&Ls

28

Changing Wall Street incentives have led to markets that are failing issuers

Winners	Losers
Hedge funds	Mutual funds
Trading-oriented institutions	Long-term institutions
Day traders	Mom and pop investors
Investment advisors (asset allocators)	Stockbrokers (stock marketeers)
Electronic trading	Capital commitment to stocks
Institutional investor research	Wall Street research ("brain drain")

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29

Group check

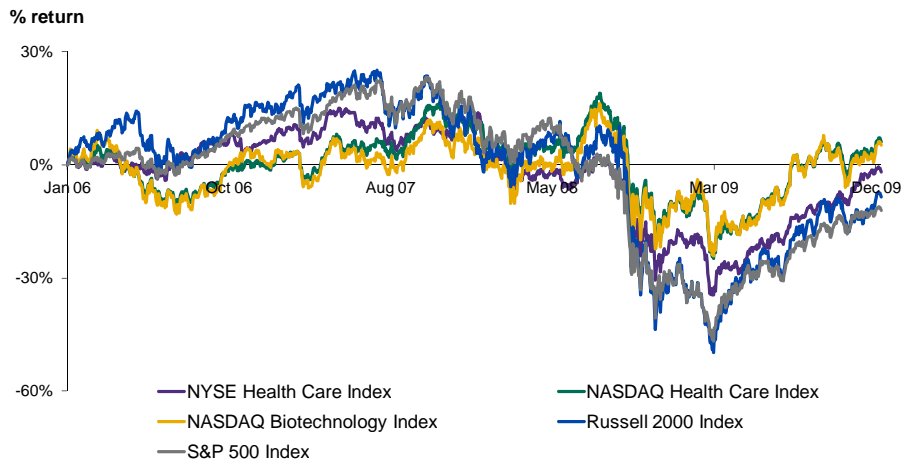
If enacted, how do you think the current regulatory reform proposals, including the potential taxing of financial transactions, will change the capital raising environment?

1. The reforms will likely increase the cost of raising capital and move capital flows to other countries
2. The reforms will likely decrease the cost of raising capital and encourage capital flows to remain in the U.S.
3. I am not anticipating any changes to the cost of raising capital or capital flows as a result of the current regulatory reforms



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The health care industry is rebounding more than the overall market

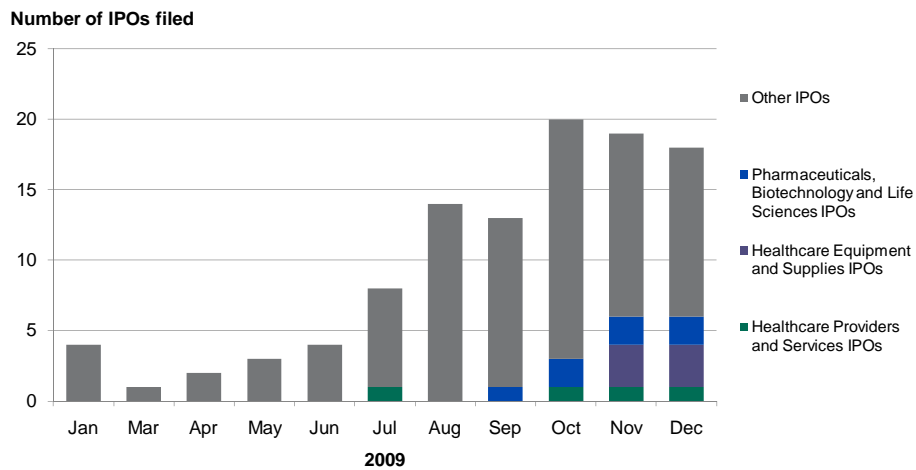


Source: Grant Thornton LLP, New York Stock Exchange, NASDAQ Stock Market, Standard & Poor's and Russell Investments
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31

Although the IPO market is showing signs of rebounding...

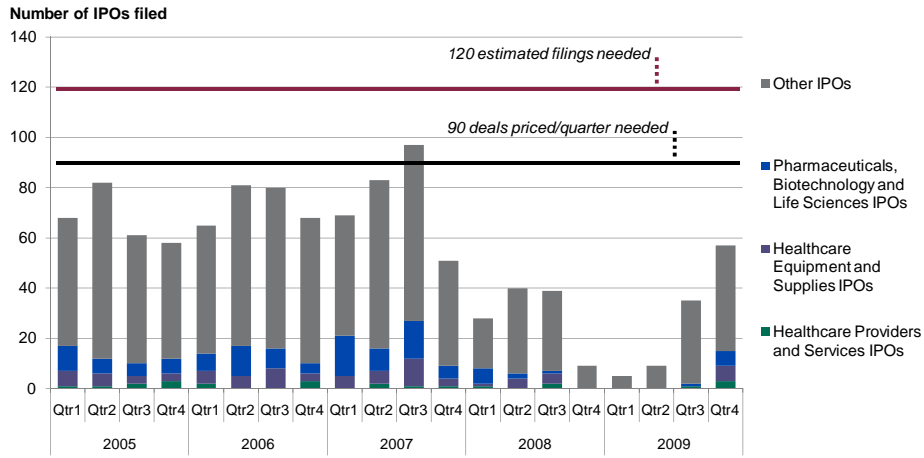
Number of IPO deals filed in 2009



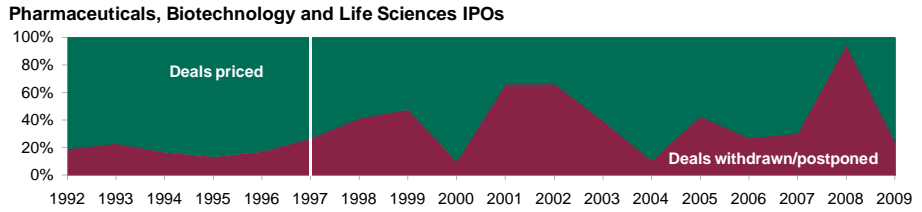
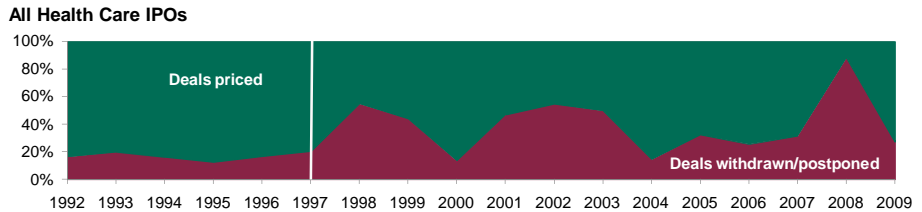
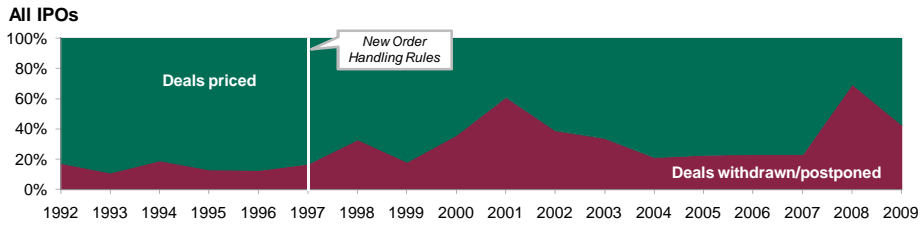
Source: Grant Thornton LLP and Dealogic
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32

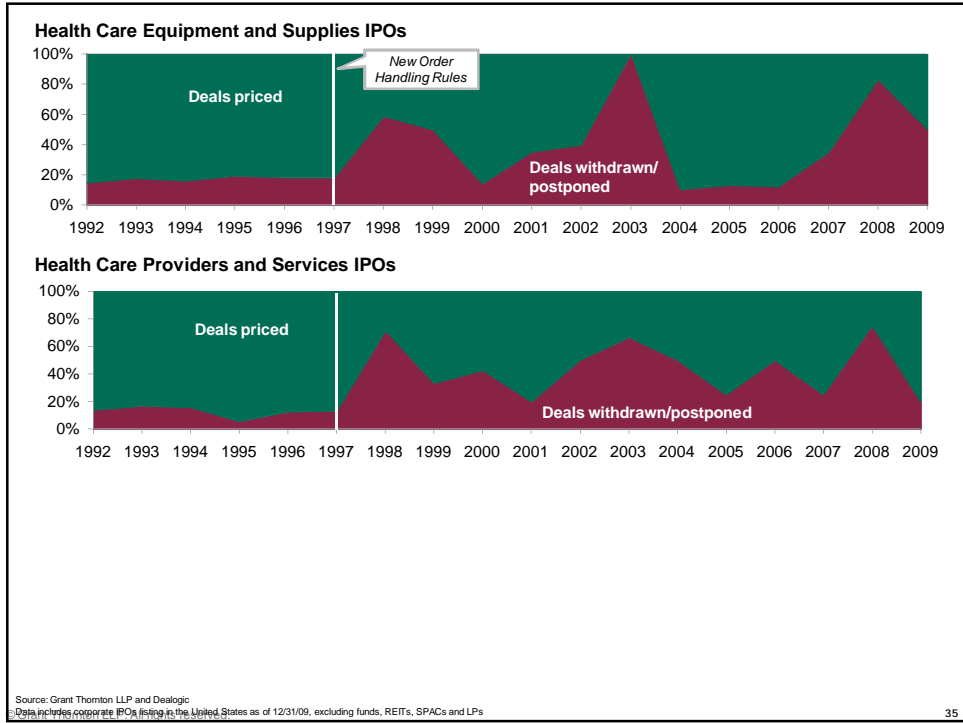
...a full recovery has a long way to go
 Number of IPO deals filed from 2005 to 2009



Source: Grant Thornton LLP and Dealogic
 Data includes corporate IPOs listing in the United States as of 12/31/09, excluding funds, REITs, SPACs and LPs



Source: Grant Thornton LLP and Dealogic
 Data includes corporate IPOs listing in the United States as of 12/31/09, excluding funds, REITs, SPACs and LPs



Although the IPO market in general is improving...

The ratio of deals trading above to deals trading below issue price has been relatively healthy recently at 2:1

As of December 31, 2009:

	Deals completed over the past								
	3 months			6 months			12 months		
Deals currently trading	# of deals	%age of deals	Average return	# of deals	%age of deals	Average return	# of deals	%age of deals	Average return
Above issue price	21	70%	20%	31	67%	33%	42	69%	39%
Below issue price	9	30%	-12%	15	33%	-12%	19	31%	-17%
Total	30	100%	10%	46	100%	18%	61	100%	21%

Source: Grant Thornton LLP, Dealogic and Capital IQ
Data includes corporate IPOs listing in the United States, excluding funds, REITs, SPACs and LPs

36

...the aftermarket support for health care is lagging

2009 health care IPO performance

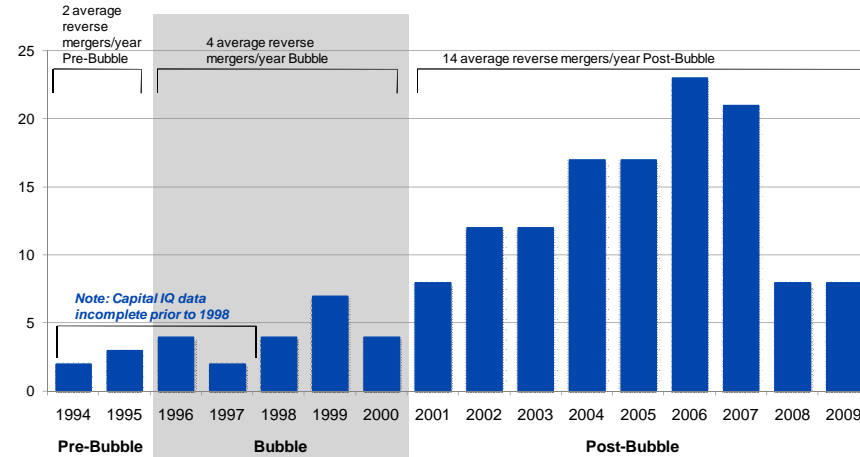
Pricing date	Issuer	Health care sub-sector	Deal size	Offer price	Closing price 12/31/2009	Return
8/10/09	Cumberland Pharmaceuticals Inc	Pharmaceuticals, Biotechnology and Life Sciences	\$85 MM	\$17.00	\$13.59	-20%
9/24/09	Select Medical Holdings Corp	Healthcare Providers and Services	\$336 MM	\$10.00	\$10.62	6%
9/30/09	Talecris Biotherapeutics Holdings Corp	Pharmaceuticals, Biotechnology and Life Sciences	\$1 B	\$19.00	\$22.27	17%
10/7/09	Omeros Corp	Pharmaceuticals, Biotechnology and Life Sciences	\$68 MM	\$10.00	\$7.02	-30%
10/20/09	AGA Medical Holdings Inc	Healthcare Equipment and Supplies	\$199 MM	\$14.50	\$14.77	2%
10/27/09	Addus HomeCare Corp	Healthcare Providers and Services	\$54 MM	\$10.00	\$9.20	-8%
12/11/09	Concord Medical Services Holdings Ltd	Healthcare Providers and Services	\$132 MM	\$11.00	\$8.64	-21%
12/15/09	Team Health Holdings Inc	Healthcare Providers and Services	\$184 MM	\$12.00	\$14.02	17%

Source: Grant Thornton LLP, Dealogic and Capital IQ
Data includes corporate IPOs listing in the United States, excluding funds, REITs, SPACs and LPs

37

"Backdoor" health care IPOs are seen as one alternative

Number of health care reverse mergers



Source: Grant Thornton LLP and Capital IQ
Data includes reverse mergers for companies headquartered in the United States as of 12/31/09

38

Poster child for Biotech development?

Case study: Cougar Biotechnology, acquired by Johnson & Johnson for \$1 billion on July 10, 2009



- Clinical stage, in-licenses and develops therapies for treatment of prostate cancer, breast cancer and multiple myeloma
- April 2006: reverse merger into a virgin shell with simultaneous PIPE issuance of **\$40 million**
- February 2007: stock begins quotation on OTC Bulletin Board
- May 2007: **\$50 million** raised via PIPE
- December 2007: stock begins trading on NASDAQ; **\$87 million** raised via PIPE
- July 2009: acquired by J&J via tender for \$43/share, or nearly **\$1 billion**
- Company's operational strategy of licensing products that have been previously clinically tested and early decision to go public via reverse merger may serve as a model for developing biotech companies

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39

What's wrong with this picture?

Case study: Omeros Corporation's \$68 million IPO on October 7, 2009



- Clinical stage, developing therapies for treatment during and after arthroscopic, ophthalmological, urological and other surgeries
- 104 issued patents, 114 pending applications
- CEO was orthopedic surgeon
- **\$92 million** raised pre-public
- Stock priced at \$10, low-end of the range, opened at \$8.80, bottomed October 30th at \$5.40 and closed January 22nd at \$6.39, or 36% below IPO price
- Market cap is now **\$136 million** after **\$160 million** of invested cash



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40

Financing alternative: Hybrid Private Public Offering (HPPO) *IPO structured to offer greater long-term stability*



- Tailored to meet the specific needs of small and mid-cap companies
- A blend of late-stage venture/strategic investors and long-term fundamentally-oriented investors that comprise the majority of the institutional allocation, with a small percentage reserved for retail
- The result is a public company with a smaller number of investors who are dedicated to the long-term interests of the company
- No hedge funds, no flippers, no other short-term accounts
- Aftermarket support program to replace research and investor relations solutions that have disappeared for small and mid caps
- HPPOs are structured to provide a smooth transition from private to public ownership and a sustainable platform for long-term growth

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41

How Grant Thornton can assist in an IPO

Set up your transaction to succeed

Grant Thornton provides capital markets readiness consultations to assist management in preparing for the onset of new financing processes, acquiring market intelligence and mitigating transaction risk

Grant Thornton can advise clients on

- their choice of investment banks
- creating incentive fee structures to maximize banks' involvement
- institutional account targeting and institutional/retail allocation strategy

Ongoing support—pre, during and post transaction



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42

Commitment Committee acceptance by all of the leading investment banks

Initial public offerings
January 2004 - December 2009

Top 20 Auditors*	Top 20 Underwriters**																				% Penetration
	J.P. Morgan	Merill Lynch	Citi	Morgan Stanley	Lehman Brothers	UBS	Goldman Sachs	Credit Suisse	Bank of America	Deutsche Bank	Wells Fargo	RBC	Fidelity Investments	Oppenheimer	Jefferies	Raymond James	Cornwall	Kleinfelder	Thomas & Whitely		
Grant Thornton	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	100%
Deloitte	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	100%
Ernst & Young	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	100%
PricewaterhouseCoopers	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	95%
KPMG	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	90%
BDO Seidman	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	75%
RSM/McGladrey & Pullen	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	45%
Crowe Horwath	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	20%
UHY	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	15%
Jai Cohn																				10%	
BKD																				5%	
Vinchow Krause																				5%	
Chaz/Mayer Hoffman McCann																				0%	
Cifton Gunderson																				0%	
Dixon Hughes																				0%	
LarsonAllen																				0%	
Moss Adams																				0%	
Plante & Moran																				0%	
Reznick Group																				0%	
Rothstein, Kass																				0%	

*Ranked by penetration rate, selection based on revenue from Accounting Today
**U.S. bookrun IPOs (excluding SPACs and closed-end funds)

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43

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44

Do you have any questions / comments?



Type your questions /
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What's the bottom line?



Summary

You should now be able to...

- ü Describe economic challenges and funding options for life sciences companies in the current business environment
- ü Identify opportunities for traditional and non-traditional funding strategies



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47

Feel free to contact us...

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48



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