

*Best Possible Returns***VCs Eye Bargain IPOs as Option for New Investment****By Brian Orelli****BioWorld Insight Contributing Writer**

It's become routine for current venture capital (VC) investors to buy additional shares when a biotech goes public. Initial public offerings (IPO) are no longer an exit strategy, but a further round of funding to get the insiders to the end game. The extra cash from insiders reduces the amount that needs to be raised, helps support the price and, with recent IPO pricing difficulty, has been a way for insiders to reduce their cost base.

Before Verastem Inc. raised \$55 million in an IPO last week, existing shareholders Advanced Technology Ventures, Bessemer Venture Partners, Longwood Fund and MPM Bioventures pledged to purchase \$16.3 million of the offering. Ditto for Cembra Holdings LLC, where existing securities holders pledged to buy 20 percent of the IPO when it occurs.

But some VCs are interested in initiating an investment at the IPO stage, given the bargain-basement pricing on recent IPOs.

"As private company valuations are being compressed, if one is able to back companies that are going public and enter a position that's attractive, it could be compelling for venture investors," Jim Healy, general partner at Sofinnova Ventures, told *BioWorld Insight*.

Investing in public companies provides liquidity that isn't available in the private firms VCs typically back. But Healy said that would just serve as a bonus rather than lowering the expected return on investment.

The strategy of investing in public companies isn't all that new. In late 2010, Anthera Pharmaceuticals Inc.'s chief financial officer Chris Lowe told *BioWorld Insight* that Anthera's IPO had received a lot of interest from VCs who weren't existing investors in the company. (See *BioWorld Insight*, Dec. 6, 2010.)

And before that, VCs were making private investments in public equity (PIPE) in companies that were already on the market because of the compelling potential returns. In 2009, Sofinnova Ventures and others participated in a \$70 million investment in Amarin Corp. plc. (See *BioWorld Today*, Oct. 20, 2009.)

"There was an attractive valuation at the time we invested in addition to a robust clinical plan. And that same type of pattern could play out here for potential investors in IPOs," Healy said.

Healy doesn't see investments in public companies as a sign that the venture capital model is broken, but rather that funds are just going after the best possible returns. The Amarin PIPE "generated nice returns for us," he said.

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Investing at the IPO stage might result in less control of the investment, since it's difficult if not impossible for IPO investors to get a seat on a board of directors. Healy said a PIPE investor might be able to negotiate a seat on the board in exchange for contributing capital, although with a quality management team in place, he doesn't see it as a necessity.

VCs have to consider how a passive investment might be perceived by limited partners (LP) in their fund though. "Joining an IPO when anyone can put up their hand is probably not something that would make you friends in the LP community," Bob More, general partner with Frazier Healthcare Ventures, told *BioWorld Insight*.

Not to mention, he quips, "VC's are pretty bad at public market timing." ■

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