The Anatomy of a Deal

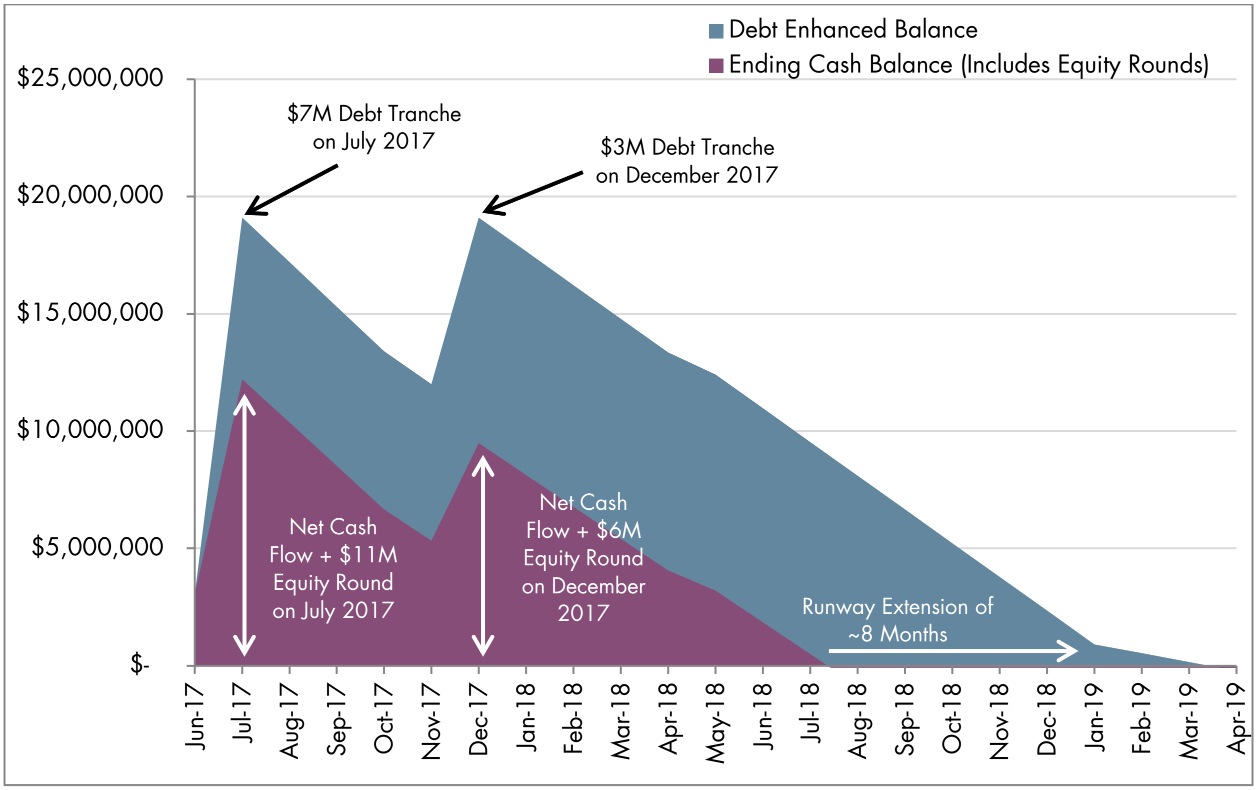
Challenge

Capital Advisors Group ("CAG"), was engaged by a late clinical stage biotech firm (the "company") with a strong investor syndicate that was seeking debt financing to supplement a recent equity raise and bridge through a projected potential acquisition date. The option to acquire the biotech firm was part of an exclusive R&D collaboration with a large pharma that could be executed at the end of the period in 2018. With only the knowledge of a single near-term equity financing of $11 million, CAG set out to help determine the appropriate capital structure (including debt and necessary future equity financings) that would support the company out to, and slightly beyond, this important inflection point outlined in the collaboration agreement.

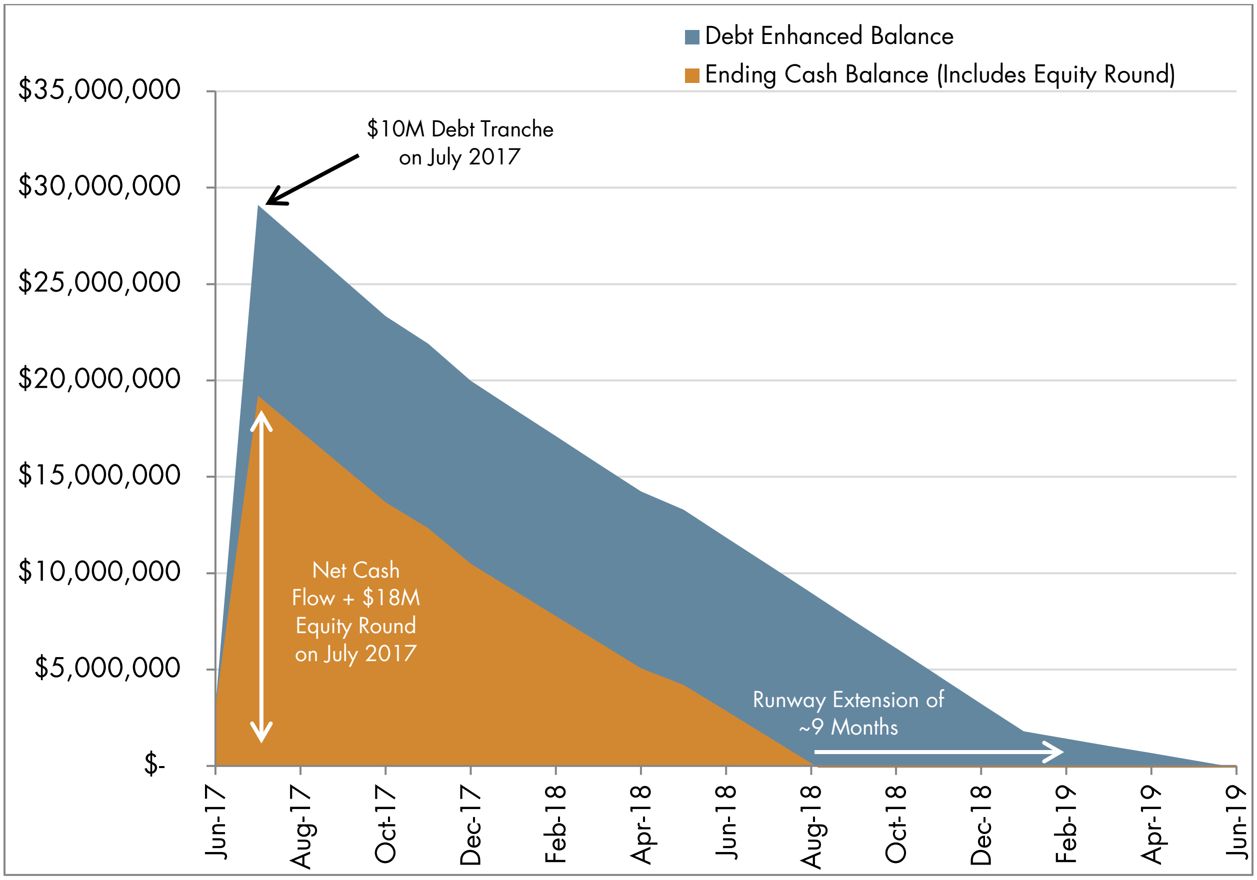
Process

With the limited visibility into plans for future equity financing options for the company, but with the goal of limiting further dilution, CAG delivered various financing options via our "Cash Runway Analysis." The benefit of the cash runway analysis process is that prior to initiating a formal debt financing investigation, CAG can pull debt financing terms from past transactions from its proprietary Debt Database to provide clients likely terms that might be available from lenders. CAG provided several runway models that included various loan amounts, single and multi-tranche loan structures and the future equity raise(s) that would be required to support the corresponding leverage via debt.

Scenario 1: Runway Analysis ($7M+$3M)*



Scenario 2: Runway Analysis ($10M)*



After several meetings and revisions to cash flow projections, CAG determined the client would greatly benefit from a $10 million, multi-tranche loan that would require another $7 million in equity from investors. The resulting combination of equity and debt would provide a five to six-month cash runway extension and liquidity cushion beyond the targeted acquisition date. As in this case, CAG recommends its clients employ the use of debt financing to reach critical milestones to increase the company's valuation. The company and its investors agreed this would be a suitable course of action and directed CAG to pursue the debt financing.

With the knowledge that the company was working to obtain funding with the goal of a potential exit, CAG knew the company would be sensitive to any cost associated in terminating the debt facility. Therefore, CAG pursued a short list of lenders that could provide significant flexibility on items such as warrants/success fees, prepayment penalties, and final fees or payments.

Results

In early May 2017, CAG issued its request for proposal to multiple lenders, including venture debt providers and banks that would be suitable for an early-stage biotech deal. As proof to the benefit of running a broad process involving multiple lenders, feedback varied widely on this transaction. CAG received some tepid initial responses due to the relatively early stage of the company, but also some more aggressive proposals based on several factors including the strong investor syndicate. With each set of proposals, CAG provided the company a comparative analysis evaluating the proposals against each other. Eventually, CAG and the company narrowed down the proposals to a list of three lenders that met the client's expectations but also had additional room to provide better terms to ultimately win the company's business.

After one of the lenders was unable to meet the strongest terms presented to the company, CAG was able to narrow down the process to two finalist lenders. With final proposals in hand, CAG presented the company's CEO and CFO two options outlining a breakdown of the total cost of each proposal. Option one, provided a breakdown based on the biotech firm being acquired and paying off the loan before the maturity date, and option two provided a breakdown if the company was not acquired and took the loan to term.

After reviewing and negotiating multiple proposals, CAG was able to help negotiate to a winning bid within four weeks of initiating the process. The winning bid was priced-competitively to market terms with a flexible deal structure that provided enough capital for the biotech firm to remain funded substantially beyond the target date into 2019.

- The final loan terms met or improved upon every characteristic of the prevailing market terms CAG tracks in its debt database:
    - Funding contingencies for each tranche were negotiated to be set at milestones that were suitable to both the lender and the company
    - Low cost of capital with flexibility on draw periods
    - Low to no final fee
    - Very reasonable facility fee and deposit requirements
    - Low to no prepayment penalties
    - No financial covenants
    - Low success fee versus an option for warrant coverage

The flexible deal structure will allow the company to now turn its focus to executing on its programs in the pipeline with the confidence it will be funded through a major milestone and potential exit in 2018.

*All scenarios and corresponding data are intended for illustrative purposes only and are not indicative of future outcomes.

About Us

Capital Advisors Group's debt consulting division has provided early-stage corporate debt solutions to clients since 2003. We also manage customized separate cash accounts that seek to protect principal and maximize risk adjusted returns within the context of each client's investment guidelines and specific liquidity needs. We provide FundIQ® money market fund research, and our CounterpartyIQ® service provides aggregation and credit analysis of counterparty exposures and risk assessment on short-term fixed income securities and portfolios

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