

CASE STUDY: PHARMACEUTICAL COMPANY

Rapid valuation response helps
biopharmaceutical company save its IPO
and finance its future

Overview

A biopharmaceutical company had developed next-generation treatments for pulmonary and cardiac diseases, and was ready to start clinical trials in the U.S. and a commercial launch in Europe. The problem? They were running out of funding, and needed to complete an initial public offering (IPO) quickly to move forward.

The company was running out of cash, and traditional financing avenues were not an option. In June 2013, the company decided an IPO was its only option to generate the funding to support its vital U.S. clinical trials and European product launch. But the reporting requirements for a public offering are daunting. In order to meet the disclosure requirements in its S-1 filing, the company had to address a variety of complex valuation concerns. The window of opportunity for the IPO was tight — management needed an expedited solution.

Luckily, their internal counsel knew just where to turn. Having worked with RSM before, while at another Boston-based life sciences company, he turned to RSM for help again.

The company had been granting profits interests to its founders and key personnel over several years, but had never performed formal valuations to support the prices assigned to those grants. The company was also bridging its financings by issuing convertible debt and warrants, the combination of which required special liability accounting treatment, but that treatment had not been properly supported with valuations. Before the company could file its S-1, it had to establish the fair values of its profits interest grants and convertible debt instruments dating back two years.

RSM's approach

The first step was determining a valuation approach appropriate for the complexity of the company's capital structure and the unique features of the convertible notes. Drawing on its deep experience, the RSM team devised a valuation approach that was robust enough to address all of the company's securities, flexible enough to work within the tight time constraints of the project and consistent with the stringent demands of the Securities and Exchange Commission (SEC).

Under extreme time pressure, RSM's valuation professionals performed six retrospective and three contemporaneous valuations of the company's preferred stock, common stock, profits interests, common stock options, convertible notes and warrants. Given the importance of the IPO and the condensed timeline, the RSM team also coordinated the process with client management, the client's auditors, who had to review the valuations, and the client's legal counsel. When the valuations were complete, RSM also helped the client draft its S-1 and respond to SEC comments and inquiries.

Outcomes

In November 2013, the company successfully filed its public registration statement on Form S-1, and began preparing for its road show in early December. The client was so pleased with the experience, diligence and attention provided by the RSM valuation team that it has invited RSM to assist with the evaluation of the company's risk and controls, and financial reporting systems.

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