

BioTransplant Inc. Initial Public Offering

Session 15

**Tom Kosnik
Fenwick and West Consulting Professor
Stanford Technology Ventures Program**

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Agenda

- **Announcements**
- **BioTransplant - Openings**
- **BioTransplant Discussion**
- **Epilogue**
- **IPO Pop Quiz**
- **IPO Process**
- **Pros and Cons of going public**

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BioTransplant's' Options and Decisions

Go Public Now

- Which lead underwriter?
- What offer price?
- Who on Mgt. team does what on IPO?
- How stay focused on central mission?

Delay IPO until Later

- Sit tight or pursue other funding?
- More VC funding?
- Private placement with institutional investors?
- R&D Alliances with Big Pharma firms?

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Initial Public Offering (IPO) Pop Quiz

- Initial public offering (IPO)
- Issuing company
- "Beauty contest" or "bake-off"
- Lead underwriter
- The syndicate
- Prospectus
- "Road show"
- Book-building
- Offer price
- "At the printer"
- The "pop"
- "Money left on the table"
- "Flipping" the stock
- The "quiet period"
- The "lockup period"

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The IPO Process: 12 month countdown

- Month 12: Recruit new management to run the public company - CEO, CFO, etc. Start compiling the financial information.
- Month 11: Start due diligence work - worthless assets are written off, inconsistencies with GAAP are resolved, etc.
- Month 10: Start drafting the prospectus. Coordinate the collection of data to minimize duplicative efforts.

http://www.exinfm.com/board/ipo_process.htm

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The IPO Process: 12 month countdown

- Month 9: Establish a board of directors for the newly formed public company.
- Month 8: Draft three-year historical financial statements.
- Month 7: Circulate draft prospectus for comments.

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The IPO Process: 12 month countdown

- Month 6: Establish transition contracts for services and products that will now be provided to the newly formed public company. Some new contracts will be needed, such as independent audits of financial statements.
- Month 5: Finalize historical financial statements. Start preparing interim (stub) financial statements for current period.
- Month 4: Finalize pro forma and interim financial statements. Make revisions to draft prospectus.

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The IPO Process: 12 month countdown

- Month 3: Convene new board of directors. Audit of interim financials should be complete.
- Month 2: Outside auditors opinion is issued. Membership with stock exchange is complete.
- Month 1: File prospectus with SEC (Securities Exchange Commission). Issue press release and sell the company to investors.

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Pros and Cons of Going Public

Pros:

- Access to capital
- Analyst coverage is free advertising
- Liquidity for founders
- Ditto for investors
- Financial incentives for employees
- Fame for executives in good times

Cons:

- Cost of the IPO
- Analyst pressure for short term returns
- Increased scrutiny by politicians
- Less autonomy
- Cost of Sarbanes Oxley compliance
- Infamy in bad times

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Initial Public Offerings Appendix

Buzzwords and Basics of IPOs

Source:

<http://www.pbs.org/wgbh/pages/frontline/shows/dotcon/thinking/primer.html>

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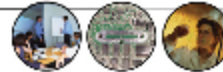
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Buzzwords and Basics of IPOs

- IPO = Initial Public Offering
- The underwriter = an investment bank to price and market the IPO
- The bank that manages the IPO becomes the "lead underwriter," and the group of banks participating in the deal are called the "syndicate."
- Prospectus = legal document required by the SEC
- The "road show" = multi-city tour. Company pitches its business plan to potential investors.
- Pricing and allocating the IPO
- The "pop" versus "money left on the table"

<http://www.pbs.org/wgbh/pages/frontline/shows/dotcon/thinking/primer.html>

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Buzzwords and Basics of IPOs

- "Flipping" the stock = An investor buying stock in an IPO at the offering price and quickly selling it for a profit when it starts trading
- The "quiet period" = Begins when a company files a preliminary prospectus with the SEC and ends usually 25 days after the stock starts trading. During this period the company is prohibited by the SEC from distributing any information about the company not included in the prospectus.
- The "lockup period" = The period during which company insiders are prohibited from selling their shares. U.S. law mandates that the lockup period last for 90 days after the stock is first publicly traded. This period is often extended to 180 days to satisfy potential investors.

<http://www.pbs.org/wgbh/pages/frontline/shows/dotcon/thinking/primer.html>

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Can individuals Invest in an IPO?

- Underwriters typically allot IPO shares to their best clients, including hedge funds, large institutional investors, and some wealthy individuals. Therefore, shares are difficult -- though not impossible -- for the average individual investor to obtain.
- Online investment banks are another option for individual investors seeking IPO shares. Several online investment banks, such as Soundview Technology Group (formerly known as Wit Capital), E*Trade, or W. R Hambrecht & Co. offer IPO shares directly to retail customers. Charles Schwab also offers IPO shares to retail clients who meet certain eligibility requirements.

<http://www.pbs.org/wgbh/pages/frontline/shows/dotcon/thinking/primer.html>

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