

1H 2013

Trends in U.S. Life Sciences Venture Financings

2013, FIRST HALF

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Background

This survey reflects our analysis of the terms of venture financings for 149 life science companies headquartered in the United States that reported raising money during the first half of 2013, as well as our analysis of trends in venture capital financings, fundraising and exit events. The results are summarized below.

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Overview of Results

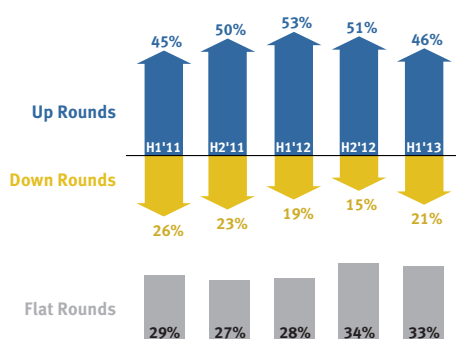
While the first half of 2013 saw a surge in initial public offerings (IPOs) by venture-backed biopharma companies, the overall financing environment for privately held life science companies remains slow.

The average valuation increase for life science companies receiving venture capital financing during the first half of 2013 was roughly even with 2012 results, and the percentage of “up round” financings declined slightly. Fundraising by life science venture capitalists continued to decline as well.

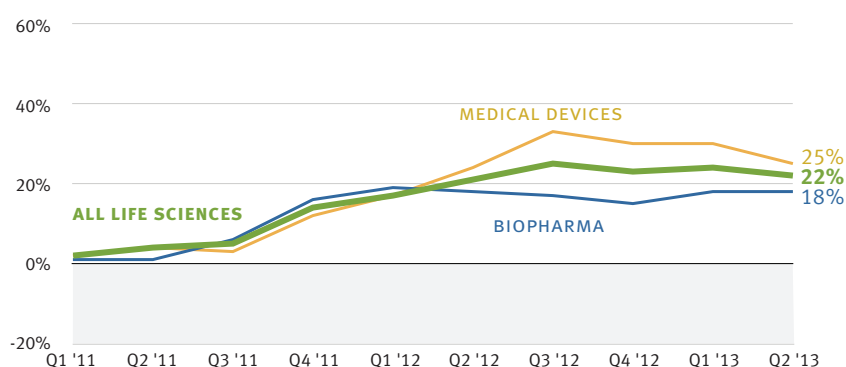
Key observations and highlights include the following:

- Up rounds outpaced down rounds 46% to 21% during the first half of 2013, representing a modest decline from 2012 results.
- The average round-to-round price increase for companies receiving venture financing, as measured by the Fenwick & West Life Science Venture Capital Barometer™, was 25% in Q1 of 2013 and 15% during Q2, bringing the four-quarter moving average to 22%. For comparison, average Barometer results for 2012 were 23%.
- Investments in venture-backed life science companies (as reported by VentureSource and the MoneyTree Report) remain on par with 2012 levels. Total dollar investment during the first half of 2013 was in line with five-year historical averages, but the number of deals was down by more than 10%.
- Fundraising by life science venture capitalists continued to decline during the first half of 2013. Our analysis indicates that the percentage of VC fundraising allocable to life sciences has declined from 27% of funds raised in 2008 to 11% of funds raised in the first half of 2013. In absolute dollar terms, we estimate that fundraising has fallen from an average of \$7.8 billion/year in 2007 and 2008 to \$1.3 billion in the first half of 2013 (representing an annualized rate of \$2.6 billion/year).
- Life science M&A activity during the first half of 2013 was slower in comparison to results reported for the same period in 2012.
- The life science IPO market was exceptionally strong during the first half of 2013. A total of 15 U.S.-based venture-backed life science companies (14 in the biopharma sector) went public during the period, raising a total of \$1.1 billion. Public market stock indexes for life science companies also significantly outpaced broader market averages.

Direction of Price Change, 2011–2013



Trend (Four-Quarter Moving Average) of Barometer Results, 2011–2013



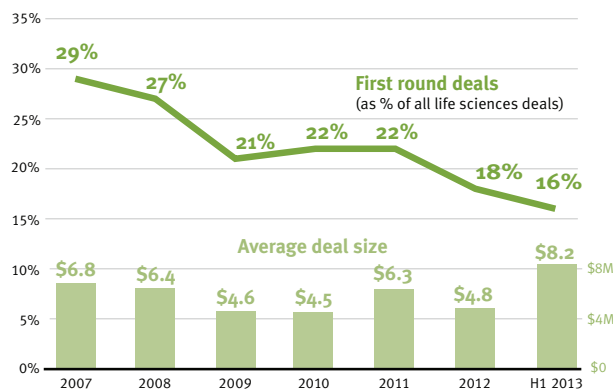
Overview of Results *(continued)*

- With regard to venture financing deal terms, senior and participating liquidation preferences remained a relatively common feature of life science venture financings during the first half of 2013, appearing in 45% (for senior preferences) and 56% (for participating preferences) of the financings we reviewed. This is in line with results observed during 2012, although the percentage of deals with participating liquidation preferences has declined modestly.
- Pay-to-play provisions are also a common feature of life science venture financings, appearing in 26% of financings during the first half of 2013, in comparison to an average of 21% of 2012 financings. A substantial majority of these pay-to-play provisions apply only to additional closings of the current financing round, indicating that they were implemented in connection with tranching or milestone-based financing structures.

Venture Capital Investment

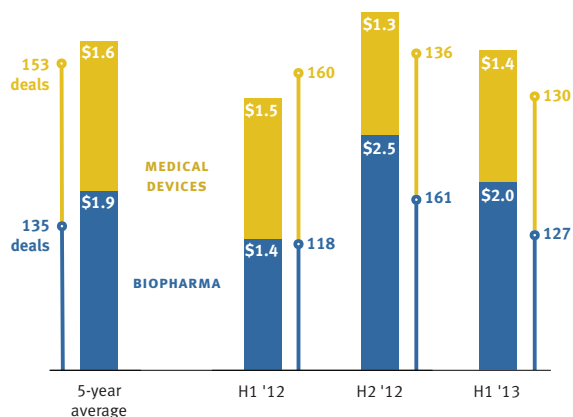
- Investments in venture-backed life science companies remain on par with 2012 levels. Activity during 1H 2013 was down somewhat from 2H 2012, but represented an improvement over the relatively slow 1H 2012.
- In comparison to five-year historical averages, total dollars investment into life science companies during 1H 2013 was in line with the average, but the number of deals was down more than 10%.
- Medical device investments continue to decline moderately, with 1H 2013 results generally below results from 2012 and below five-year historical averages. In a more encouraging sign, however, as noted below (under “Corporate Investment Trends”), industry sources are reporting increased medical device investment by corporate investors.
- The number of “first round” (initial) life science venture financings reported by the MoneyTree Report continued to decline, although average deal size increased.

First Round Life Sciences Deals Decline



Source: The Money Tree Report

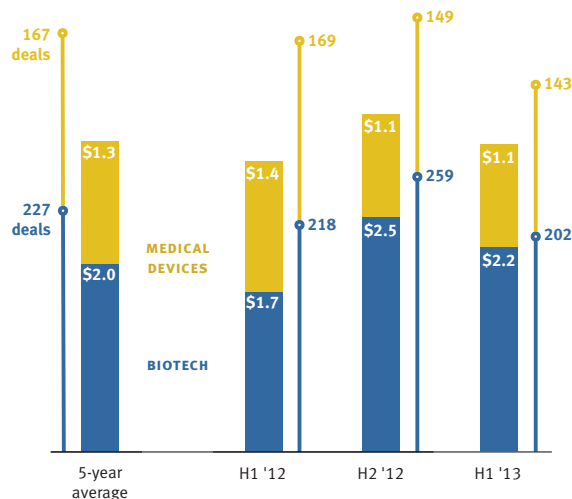
VentureSource Results



According to Dow Jones VentureSource (“VentureSource”), equity investments in U.S.-based venture-backed life science companies totaled \$3.4 billion across 257 deals during 1H 2013, a 12% increase in dollars in comparison to 1H 2012, but an 8% decrease in deals. Similarly, the PwC/NVCA MoneyTree Report based on data from Thomson Reuters (“the MoneyTree Report”) reported total investments of \$3.3 billion across 345 deals during 1H 2013, a 7% increase in dollars in comparison to 1H 2012, but a 12% decrease in deals.

Last year’s results from both VentureSource and the MoneyTree Report indicate that medical device investment activity was stronger during the first half of 2012, whereas

The MoneyTree Report Results



biopharma investment was stronger during the second half of the year. Accordingly, the relative performance of industry sectors during 1H 2013 varies depending on whether the comparison point is 1H 2012 or 2H 2012. The charts on this page summarize information reported by VentureSource and the MoneyTree Report for recent half-year periods and the five-year average for 1H 2009 through 1H 2013.

For comparison, for overall venture capital investment activity (measured across all industry sectors), VentureSource reported total investment during 1H 2013 of \$14.6 billion across 1606 deals. Results from the MoneyTree Report were similar, with total investment of \$12.7 billion across 1809 deals. For both sources, the 1H 2013 figures represent a decline from corresponding figures from 1H 2012, but were even with five-year historical averages.

Corporate Investment Trends

Corporate investors participated in 18% of life science deals and provided 10.5% of the funding received by life science companies during the first half of 2013, based on [statistics reported by the National Venture Capital Association](#). This represents a slight increase from 2012 participation levels, where corporate investors participated in 17% of deals and provided 9.5% of funding, and was driven by increased corporate investor participation in medical device financings. Other news sources (e.g., “[Device Start-Ups Reap More Corporate Venture](#),” *Start-Up*, February 2013) also report increased corporate medical device investment.

Corporate investment is becoming increasingly important for sustaining early stage innovation in the life science sector, particularly in light of declining investment activity in the sector and the recent low levels of fundraising by life science venture capitalists (see below under “Venture Capital Fundraising”). As discussed in earlier editions of our survey (e.g., [1H 2012 Survey](#) and [Full Year 2012 Survey](#)), large life science companies have increased their funding to the life science sector, both through creative partnerships with life science startups and venture capital firms, and directly, through increased levels of corporate venture investment.

Healthcare IT and Digital Health Investment Trends

Investments in digital health and other healthcare-related information technologies continue to trend upward, with [digital health incubator Rock Health reporting](#) that venture capitalists invested \$849 million in the digital health sector during 1H 2013, representing a 12% increase in dollars (and a 25% increase in number of deals) in comparison to 1H 2012. According to Rock Health, two of the most active sectors for digital health investment during 1H 2013 were remote patient monitoring and big data analytics, both of which offer the potential to improve clinical trial processes and reduce the cost of biopharmaceutical and medical device R&D.

CB Insights, a firm that collects data on investments in private companies, also reported continued growth in digital health investment for the twelve-month period ended June 30, 2013 (“[Digital Health Venture Capital and Private Equity Funding Tops \\$1.5 Billion Last Year Across 362 Deals](#),” July 2013).

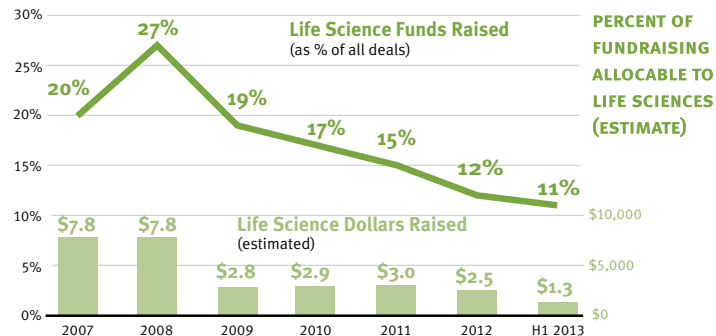
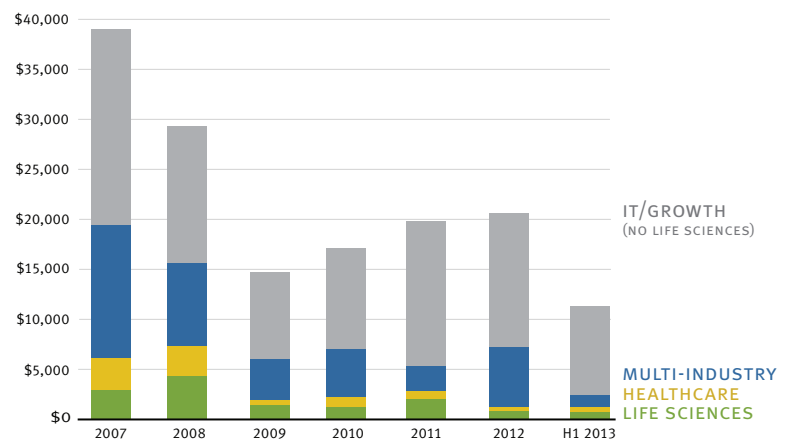
Venture Capital Fundraising

- Overall fundraising by venture capitalists during the first half of 2013 was similar to 2011 and 2012 results, but fundraising by life science–focused venture capitalists remains slow.
- We estimate that \$1.3 billion (i.e., 11%) of U.S. venture capital funds raised during 1H 2013 are likely to be deployed toward life science investments. This suggests that 2013 is shaping up to be similar to recent years, in which life science venture capitalists raised less than \$3.0 billion per year, in comparison to \$7.8 billion per year raised in 2007 and 2008.

In overall fundraising, Dow Jones reported that U.S. venture capital funds raised \$11.4 billion during 1H 2013, in comparison to \$13.1 billion raised during 1H 2012. Thomson/NVCA reported somewhat different results (due in part to several large transactions that were included in Dow Jones statistics but not in Thomson/NVCA), indicating that venture capital funds raised \$7.2 billion during 1H 2013, in comparison to \$11.1 billion raised during 1H 2012.

Our analysis of the underlying data from Dow Jones indicates that while overall venture capital fundraising has recovered somewhat from the 2009 recession, the portion of funds likely to be allocated to life science investment has continued to decline. We estimate that life science venture capitalists have raised less than \$3.0 billion per year since 2009, with 2013 on track for similar results. In contrast, investments into venture-backed life science companies have averaged approximately \$7.0 billion per year since 2009 (based on information reported by VentureSource), indicating a significant and continuing gap between funds raised and funds invested. We would note that neither our analysis nor the underlying fundraising statistics reported by Dow Jones and NVCA captures funding provided by non-venture capital sources (such as corporate investments from “captive” or evergreen funds, and investments by angel investors and disease foundations), which may account for some of the disparity we observe between funds raised and funds invested.

Venture Capital Fundraising By Fund Type



Source: Dow Jones; Fenwick & West Analysis

Merger and Acquisition Activity

- Life science M&A activity during 1H 2013 was slower in comparison to results reported for 1H 2012.
- In the biopharma sector, a more active market for initial public offerings (see “Initial Public Offerings” below) has opened up an alternative exit path for some venture-backed companies, and may be contributing to lower levels of biopharma M&A activity.
- Overall M&A activity (across all industry sectors) during 1H 2013 was also slow in comparison to 1H 2012.

As a measure of industry-wide activity, Burrill & Co., which reports on public and private company M&A activity for U.S.-based companies across a diversified set of life science sectors, reported total deal volume of \$38.5 billion for 1H 2013, an 18% decrease from the \$47.1 billion reported for 1H 2012.

In acquisitions of U.S.-based venture-backed life science companies, VentureSource reported 9 acquisitions of biopharma companies during 1H 2013, down from 14 acquisitions during 1H 2012. In the medical device sector, VentureSource reported 11 acquisitions during 1H 2013, in line with the 10 acquisitions reported during 1H 2012. The largest acquisition of the period was AstraZenica’s \$1.15 billion acquisition of respiratory drug maker Pearl Therapeutics.

For comparison, Dow Jones reported overall M&A activity for venture-backed companies (measured across all industries) consisting of 182 acquisitions with reported deal value of \$14.0 billion, a 40% decrease in dollar terms and a 28% decrease in number of deals over results reported for 1H 2012.

Initial Public Offerings

- Initial public offerings (IPOs) by U.S.-based venture-backed biopharma companies surged during the first half of 2013, with a total of 15 venture-backed life science companies (14 in the biopharma sector) going public during the period.
- A majority of the venture-backed life science IPOs during 1H 2013 priced within or above their target range, representing a notable improvement over prior periods.
- These IPOs were also completed faster, with the median time from first filing or confidential submission of a registration statement to pricing falling to 97 days.

A total of 15 U.S.-based venture-backed life science companies went public during the first half of 2013, raising a total of \$1.1 billion, based on our analysis of public information and reports from Standard & Poor's Capital IQ ("Capital IQ") and VentureSource. This puts 2013 on track for the largest number of venture-backed life science IPOs since 2004, when a total of 38 venture-backed life science companies went public.

Investor appetite for new public offerings has been driven in part by strong public market performance for growth-oriented biopharma and healthcare companies (see "Public Markets" below) and [a decade-high number of new drug approvals](#) by the Food and Drug Administration during 2012. (See, e.g., "[How Biotechs Got Hot](#)," *The Wall Street Journal*, July 2013.)

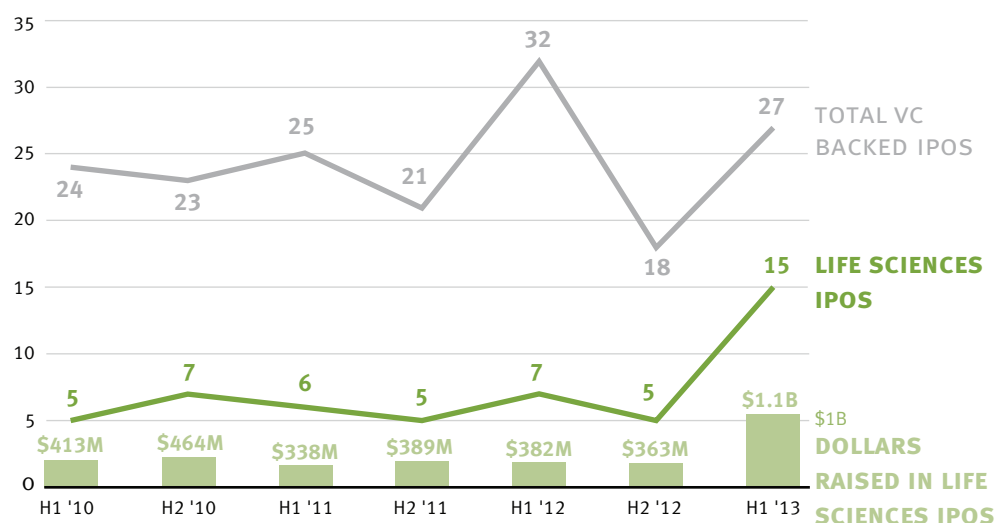
In addition, changes to the IPO process implemented by the Jumpstart Our Business Startups Act ("JOBS Act") enacted April 2012 also appear to be playing a part. The JOBS Act, [described in a Fenwick & West publication available here](#), allows "emerging growth companies" (a category that includes most venture-backed life science companies) to:

- **Initiate the IPO process confidentially**, by submitting an initial draft registration statement to the Securities and Exchange Commission for nonpublic review. [As industry commentators have noted](#), this allows companies to begin the IPO process in a focused, cost-efficient and confidential manner. The draft registration statement (and all amendments) must be filed publically at least 21 days before beginning a road show. Substantially all of the venture-backed life science IPOs initiated after enactment of the JOBS Act used the confidential submission process, and for this group the median time from first public filing to pricing was 39 days.
- **"Test the waters" with potential public market investors**, by engaging in two-way dialogue with qualified institutional investors before (and after) publically filing a registration statement. Our experience and anecdotal reports indicate that many life science companies considering an IPO are using these relaxed communication provisions to better understand investors' perspectives, and to gauge whether and when to commence the public phase of an IPO process.

Initial Public Offerings *(continued)*

Statistics on recent venture-backed life science IPO activity are summarized in the table below, and detailed information on IPOs since 2011 is included in the table on the following page.

Venture-Backed IPO Activity



H1 10	H2 10	H1 11	H2 11	H1 12	H2 12	H1 13	
105	77(3)	152	143	111	117	97	MEDIAN DAYS FROM INITIAL SUBMISSION/FILING TO PRICING (1)
0%	17%	17%	25%	33%	40%	53%	PERCENTAGE OF IPOs PRICED WITHIN OR ABOVE TARGET RANGE
31%	23%	23%	22%	33%	20%	19%	WEIGHTED AVERAGE INSIDER PARTICIPATION (2)

Sources: Capital IQ, VentureSource, Fenwick & West analysis (4)

1 “Median Days from Initial Submission/Filing to Pricing” means the median number of days from the initial confidential submission of a registration statement to the SEC (for emerging growth companies that submit confidentially) or from the initial filing of a registration statement (for other IPO filers) to final pricing of the IPO.

2 “Weighted Average Insider Participation” means the percentage (calculated on a weighted average basis across all IPOs during the period) of the total amount raised by IPO issuers during the period that was provided by affiliated purchasers, such as existing venture investors.

3 Note that three of the seven IPOs during 2H 2010 involved companies that had previously filed an IPO registration statement during the 2007/2008 period and then subsequently withdrawn it before completing the offering.

4 The data presented in this survey differs slightly from the life science IPO data presented in Fenwick’s broader [IPO survey](#). In particular, the statistics included in this survey include only venture-backed biopharma and medical device companies. In contrast, the IPO survey takes a broader view of the market, and includes all IPOs, venture-backed or not, and uses a broader definition of life sciences that includes industrial biotech, healthcare services/IT and life science research tool companies.

Initial Public Offerings (continued)

Venture-Backed Life Sciences IPOs, 2011–2013

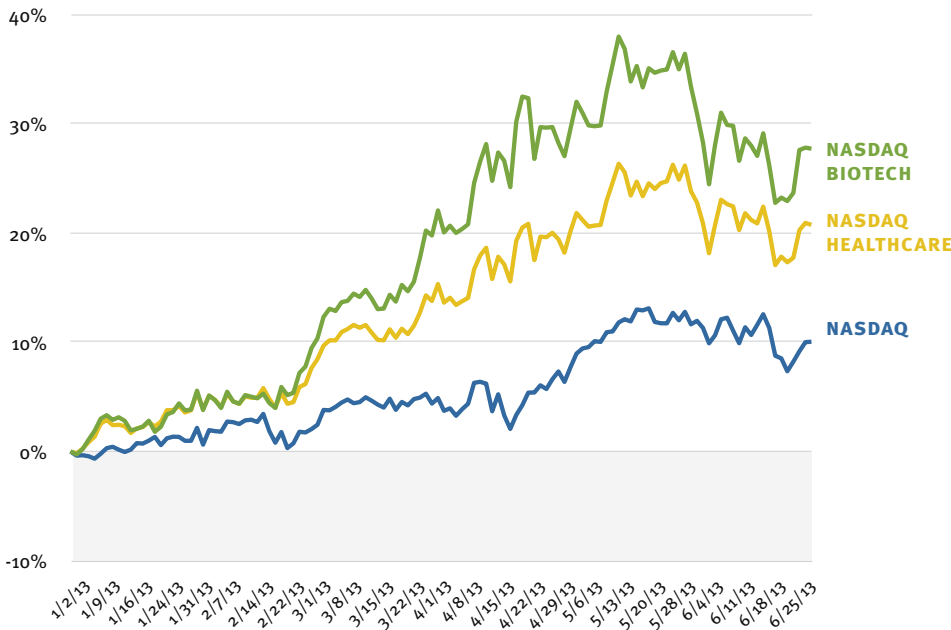
COMPANY NAME	IPO DATE	OFFERING SIZE	MARKET CAP (POST-IPO)	EXCHANGE	TICKER SYMBOL	SUBCLASS
2H 2011 — Total 6						
Pacira Pharmaceuticals, Inc.	02/03/11	\$42.0	\$120.6	NASDAQ	PCRX	Biopharmaceuticals
BG Medicine, Inc.	02/04/11	\$35.0	\$128.8	NASDAQ	BGMD	Biopharmaceuticals
Endocyte, Inc.	02/04/11	\$75.0	\$166.2	NASDAQ	ECYT	Biopharmaceuticals
AcelRx Pharmaceuticals, Inc.	02/11/11	\$40.0	\$96.9	NASDAQ	ACRX	Biopharmaceuticals
Tranzyme, Inc.	04/04/11	\$54.0	\$94.8	NASDAQ	TZYM	Biopharmaceuticals
Sagent Pharmaceuticals, Inc.	04/20/11	\$92.0	\$429.6	NASDAQ	SGNT	Biopharmaceuticals
2H 2011 — Total 5						
Horizon Pharma, Inc.	07/28/11	\$49.5	\$175.8	NASDAQ	HZNP	Biopharmaceuticals
GI Dynamics	09/02/11	\$74.9	\$284.9	ASX	GID	Medical Device
ZELTIQ Aesthetics, Inc.	10/19/11	\$91.0	\$425.9	NASDAQ	ZLTQ	Medical Device
NewLink Genetics Corporation	11/14/11	\$43.4	\$144.1	NASDAQ	NLNK	Biopharmaceuticals
Clovis Oncology, Inc.	11/16/11	\$130.0	\$281.6	NASDAQ	CLVS	Biopharmaceuticals
1H 2012 — Total 7						
Verastem, Inc.	01/27/12	\$55.0	\$202.3	NASDAQ	VSTM	Biopharmaceuticals
Cempra, Inc.	02/03/12	\$50.4	\$118.6	NASDAQ	CEMP	Biopharmaceuticals
ChemoCentryx, Inc.	02/08/12	\$45.0	\$352.5	NASDAQ	CCXI	Biopharmaceuticals
Merrimack Pharmaceuticals, Inc.	03/29/12	\$100.1	\$646.8	NASDAQ	MACK	Biopharmaceuticals
Osprey Medical	04/02/12	N/A	N/A	ASX	OSP	Medical Device
Supernus Pharmaceuticals, Inc.	05/01/12	\$50.0	\$119.6	NASDAQ	SUPN	Biopharmaceuticals
Tesaro, Inc.	06/28/12	\$81.0	\$360.1	NASDAQ	TSRO	Biopharmaceuticals
2H 2012 — Total 5						
Durata Therapeutics, Inc.	07/19/12	\$67.5	\$155.2	NASDAQ	DRTX	Biopharmaceuticals
Hyperion Therapeutics, Inc.	07/26/12	\$50.0	\$158.4	NASDAQ	HPTX	Biopharmaceuticals
Globus Medical, Inc.	08/03/12	\$100.0	\$1,084.7	NYSE	GMED	Medical Device
Intercept Pharmaceuticals, Inc.	10/11/12	\$75.0	\$236.0	NASDAQ	ICPT	Biopharmaceuticals
Kythera Biopharmaceuticals, Inc.	10/11/12	\$70.4	\$277.9	NASDAQ	KYTH	Biopharmaceuticals
1H 2013 — Total 15						
LipoScience, Inc.	01/28/13	\$45.0	\$125.0	NASDAQ	LPDX	Medical Device
Stemline Therapeutics, Inc.	01/30/13	\$33.2	\$69.6	NASDAQ	STML	Biopharmaceuticals
KaloBios Pharmaceuticals, Inc.	01/31/13	\$70.0	\$193.0	NASDAQ	KBIO	Biopharmaceuticals
Tetraphase Pharmaceuticals, Inc.	03/20/13	\$75.0	\$139.1	NASDAQ	TTPH	Biopharmaceuticals
Enanta Pharmaceuticals, Inc.	03/21/13	\$56.0	\$235.7	NASDAQ	ENTA	Biopharmaceuticals
Chimerix, Inc.	04/11/13	\$105.0	\$341.7	NASDAQ	CMRX	Biopharmaceuticals
Omthera Pharmaceuticals, Inc.	04/11/13	\$64.0	\$195.3	NASDAQ	OMTH	Biopharmaceuticals
Receptos, Inc.	05/10/13	\$72.8	\$246.5	NASDAQ	RCPT	Biopharmaceuticals
Ambit Biosciences Corporation	05/16/13	\$65.0	\$141.7	NASDAQ	AMBI	Biopharmaceuticals
Portola Pharmaceuticals, Inc.	5/22/13	\$122.1	\$491.3	NASDAQ	PTLA	Biopharmaceuticals
Epizyme, Inc.	5/31/13	\$77.1	\$414.7	NASDAQ	EPZM	Biopharmaceuticals
bluebird bio, Inc.	6/19/13	\$101.0	\$387.8	NASDAQ	BLUE	Biopharmaceuticals
PTC Therapeutics Inc.	6/20/13	\$125.6	\$355.2	NASDAQ	PTCT	Biopharmaceuticals
Esperion Therapeutics, Inc.	6/26/13	\$70.0	\$204.1	NASDAQ	ESPR	Biopharmaceuticals
Aratana Therapeutics, Inc.	6/27/13	\$33.0	\$119.2	NASDAQ	PETX	Biopharmaceuticals

Public Markets

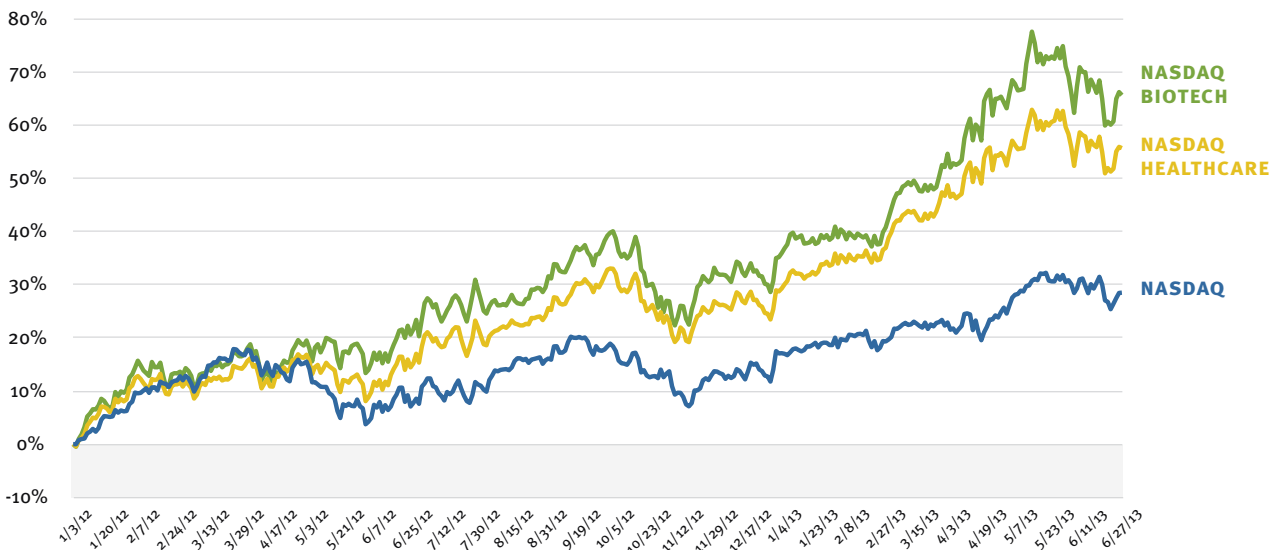
In the NASDAQ public markets, life science stocks significantly outperformed the broader market index during the first half of 2013. The NASDAQ Composite (IXIC) increased 13% during the first half of 2013. In comparison, the NASDAQ Biotech Index (NBI) increased 27% during the same period, and the broader NASDAQ Healthcare Index (IXHC) increased 24%.

The declines in all three indexes during June 2013 (which were more pronounced for the NBI and IXHC) were subsequently reversed during July and August of 2013.

NASDAQ Market Indexes, Percentage Change First Half 2013



NASDAQ Market Indexes, Percentage Change 2012–1H 2013



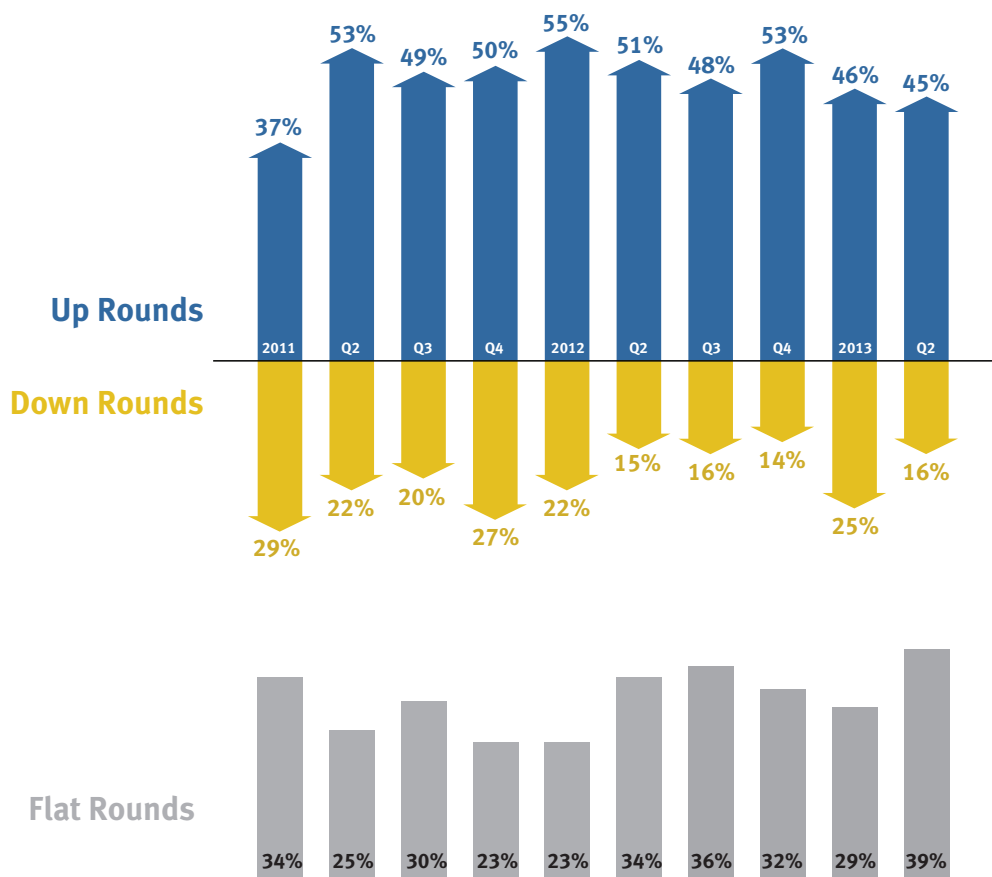
Valuation – Direction of Price Change

Up rounds outpaced down rounds during 1H 2013, with a substantial number of flat rounds in each quarter. This is similar to the pattern from 2012 results, although there were slightly fewer up rounds during 2013.

Results from this survey and our multi-industry Silicon Valley surveys indicate that flat rounds occur more often in life science deals, as compared to other industry sectors. This is likely due to the higher percentage of life science financings that are “inside led” (i.e., where funding is provided entirely by existing investors, without a new outside party setting the valuation).

Direction of Price Change

Percentage of deals in which the direction of price change was up, down or flat



Note: In some cases results may sum to more or less than 100% due to rounding.

Valuation – Magnitude of Price Change (Barometer)

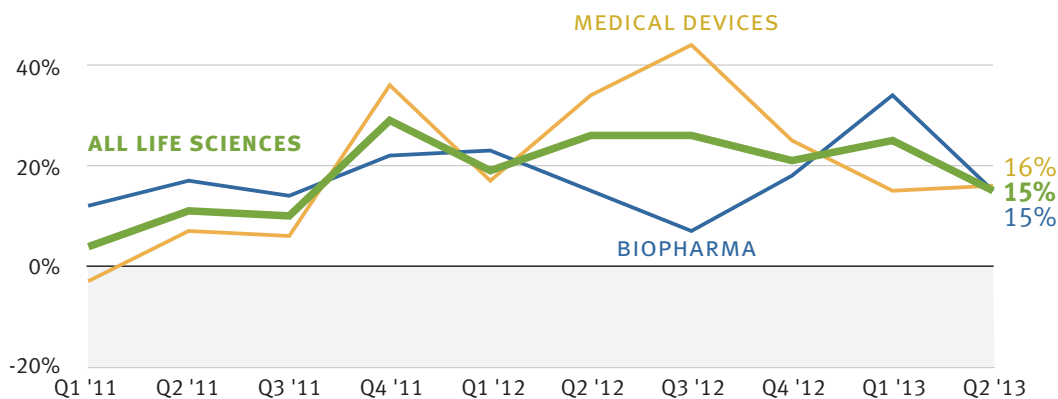
The Fenwick & West Life Science Venture Capital Barometer™ showed average round-to-round price increases of 25% and 15% for Q1 and Q2 of 2013. The four-quarter moving average remained approximately even, ending 1H 2013 at 22%, in comparison to a four-quarter moving average of 22% as of Q4 2012. (For an explanation of how the Barometer is calculated, see “Notes on Methodology” at the end of this survey.)

Within life science industry sectors, Barometer results for biopharma and medical device companies remain fairly similar, with the four-quarter moving average for medical device companies slightly higher than the average for biopharma companies.

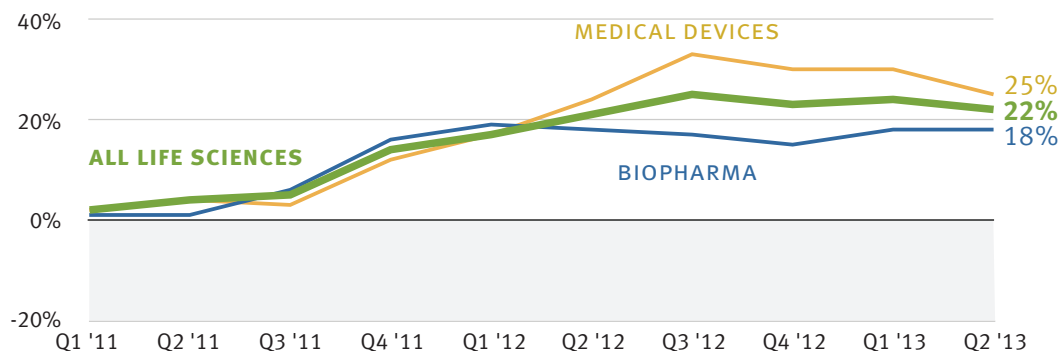
The graph immediately below shows the average percentage change between the price per share at which companies raised funds in a given period, compared to the price per share at which such companies raised funds in their prior round of financing, which is a calculation we refer to as the Fenwick & West Life Sciences Venture Capital Barometer. Subsequent graphs show a four-quarter moving average of Barometer results and results by series of financing.

Fenwick & West Life Sciences Venture Capital Barometer™

Average percentage change in per-share price for companies raising financing during the quarter



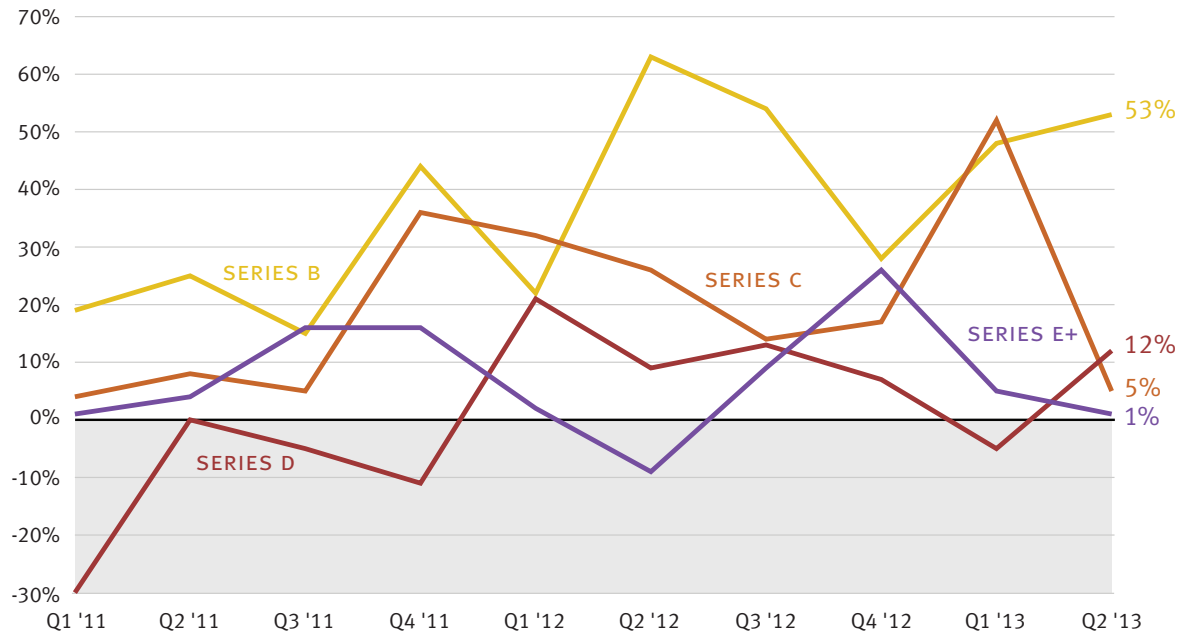
Trend (Four-Quarter Moving Average) of Barometer Results, 2011–1H 2013



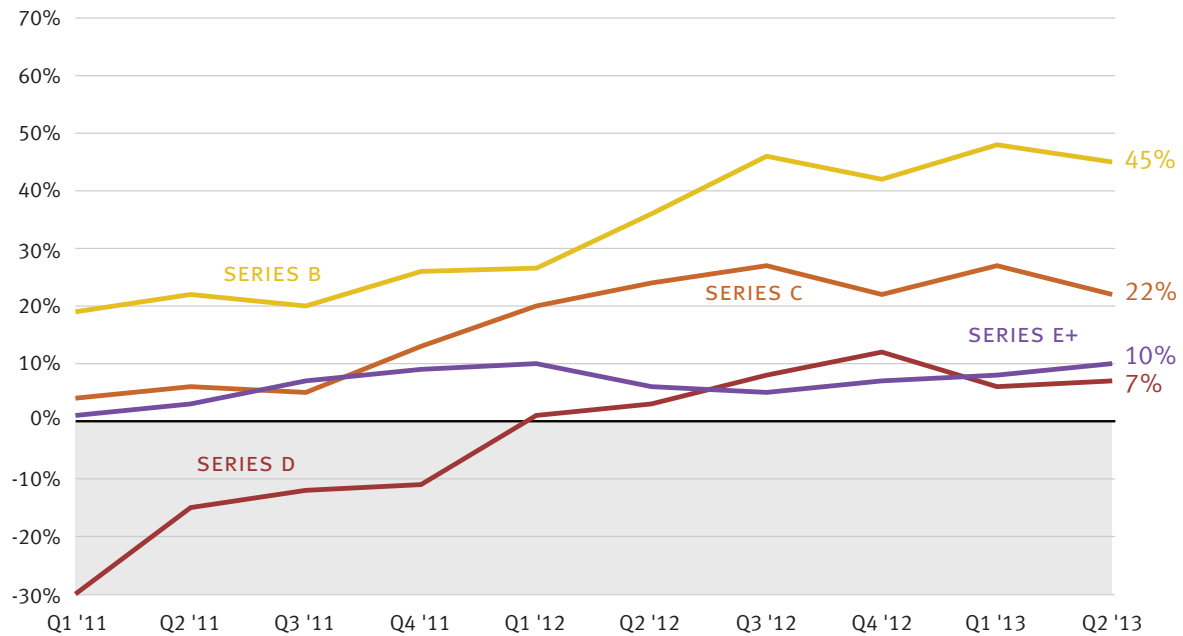
Valuation – Magnitude of Price Change (Barometer) *(continued)*

Barometer Results by Series of Financing

Average percentage change in per-share price for companies raising financing of a given series during the quarter



Trend (Four-Quarter Moving Average) of Barometer Results by Series, 2011–1H 2013

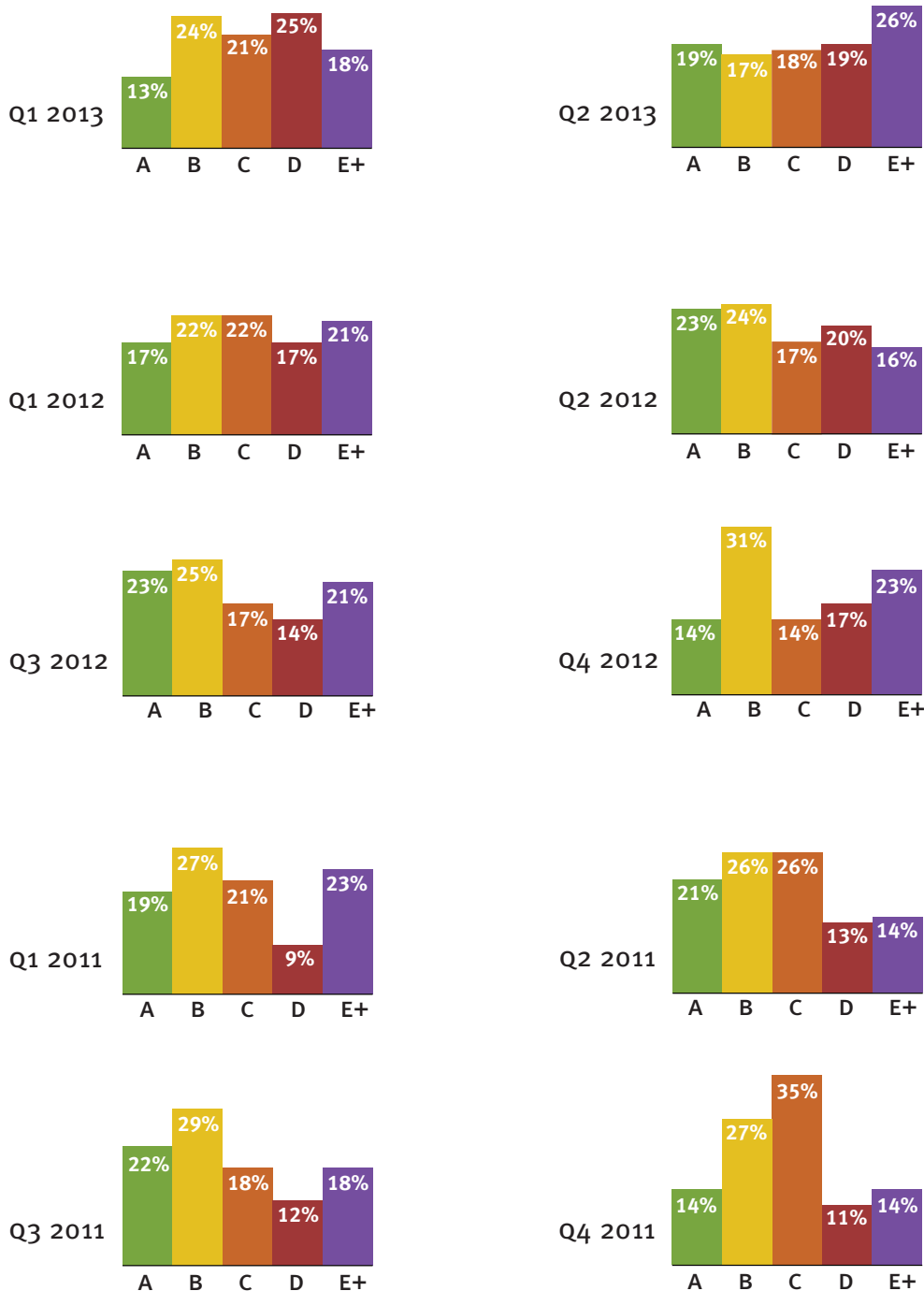


Financing Rounds Included in Survey

The financing deals covered by this survey broke down by series as shown in the graphs below.

Financing Rounds Surveyed

Detail on proportion of deals included in survey from each financing round



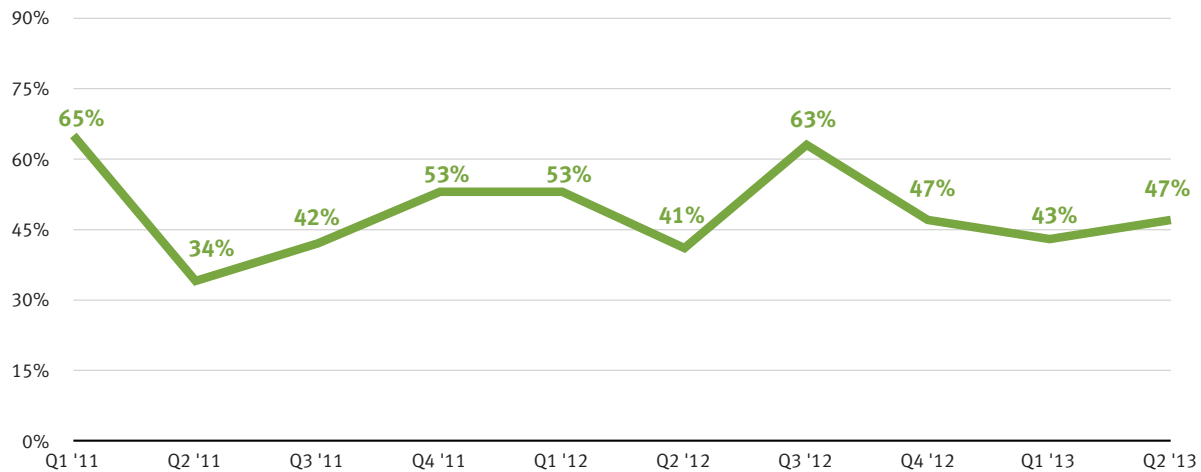
Terms – Liquidation Preference

Senior liquidation preferences appear in a substantial portion of life science deals, and are more frequent in later rounds of financing. Participation rights are also common, appearing in an average of 56% of life science deals during 1H 2013, and uncapped in an average of 70% of the deals in which they are used.

The following graphs show the percentage of deals in which senior liquidation preferences were used, both overall and by series of financing.

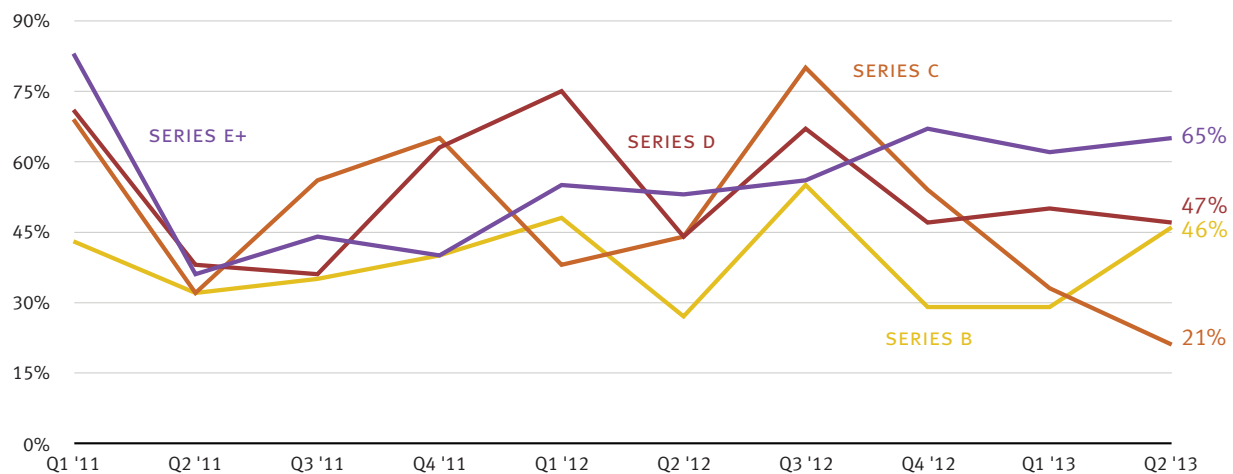
Senior Liquidation Preferences

Percentage of non-Series A deals involving senior liquidation preferences



Senior Liquidation Preferences by Series

Percentage of deals of a given series involving senior liquidation preferences

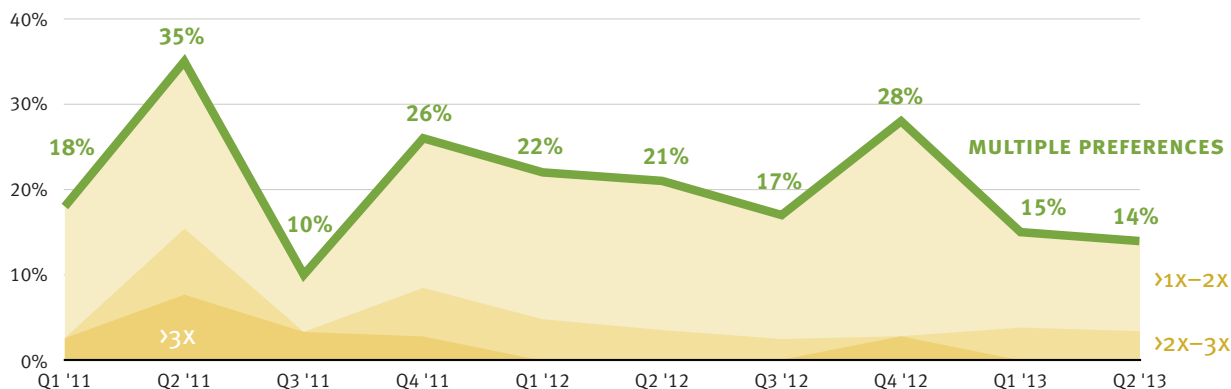


Terms – Liquidation Preference *(continued)*

The following graph shows the percentage of deals involving senior liquidation preferences in which the preference was greater than the investors' purchase price (i.e., involving multiple preferences). The color bands indicate the proportion of multiple liquidation preference deals in which the total preference was 1–2x, 2–3x or greater than 3x the investors' purchase price.

Multiple Preferences

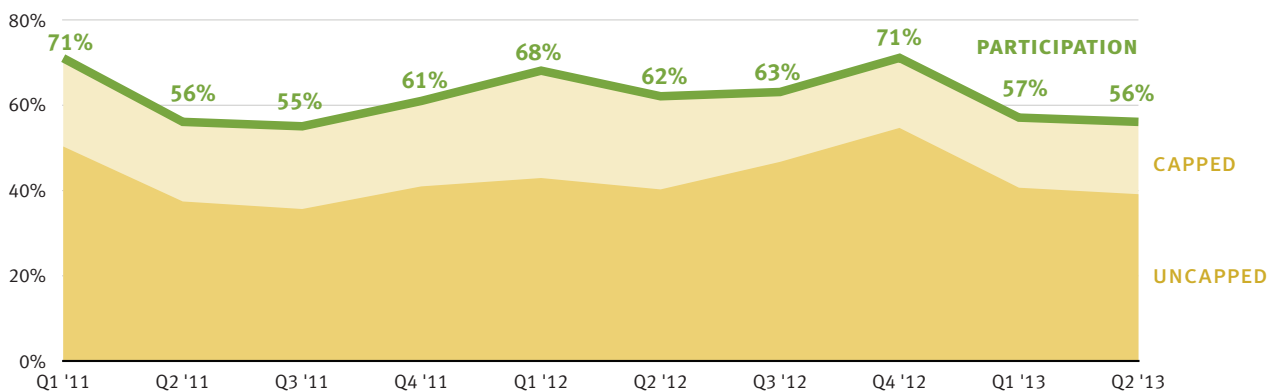
Percentage of senior liquidation preference deals involving multiple preferences



The following graph shows the percentage of deals involving participation rights. The color bands indicate the proportion of participation rights deals in which the participation rights were capped (i.e., limited to a specific multiple of liquidation preferences or other amount) and uncapped.

Participation Rights in Liquidation

Percentage of deals involving participation rights



Terms – Pay-to-Play Provisions

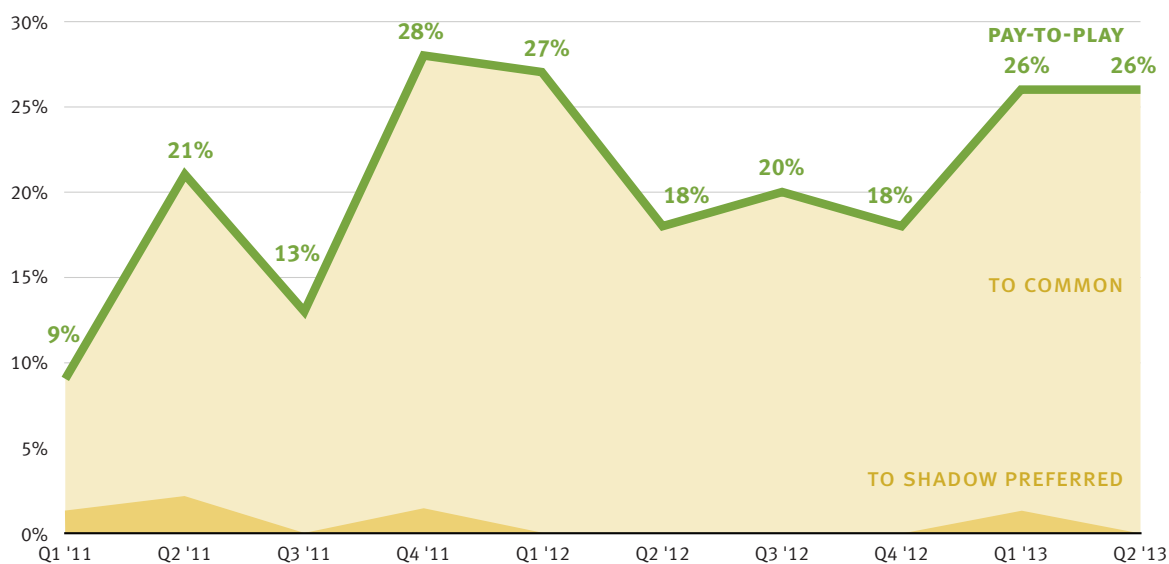
Pay-to-play provisions appeared in an average of 26% of life science deals during 2012. Nearly all of the pay-to-play provisions included in the 2013 results provided for conversion to common stock, as opposed to a shadow series of preferred stock.

Based on our analysis of the underlying data, a substantial majority of the pay-to-play provisions used in 2012 and 2013 financings apply only to additional closings of the current financing round. This indicates that these pay-to-play provisions were most likely implemented in connection with tranching or milestone-based financings, and were intended in part as a means of enforcing “syndicate discipline” by creating a consequence for syndicate participants that fail to participate in additional closings of the financing.

The following graph shows the percentage of deals involving pay-to-play provisions. The color bands indicate the proportion of pay-to-play provisions that involve conversion to common stock and shadow preferred stock.

Pay-to-Play Provisions

Percentage of deals involving pay-to-play provisions

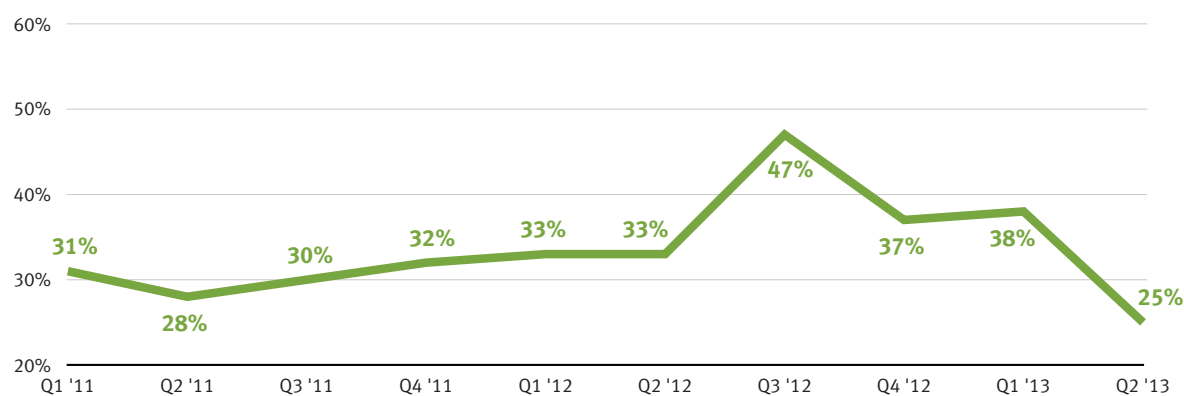


Terms – Other Provisions

Cumulative dividends and redemption rights appeared in an average of 31% and 40%, respectively, of life science deals during 1H 2013. Antidilution provisions were predominantly weighted average.

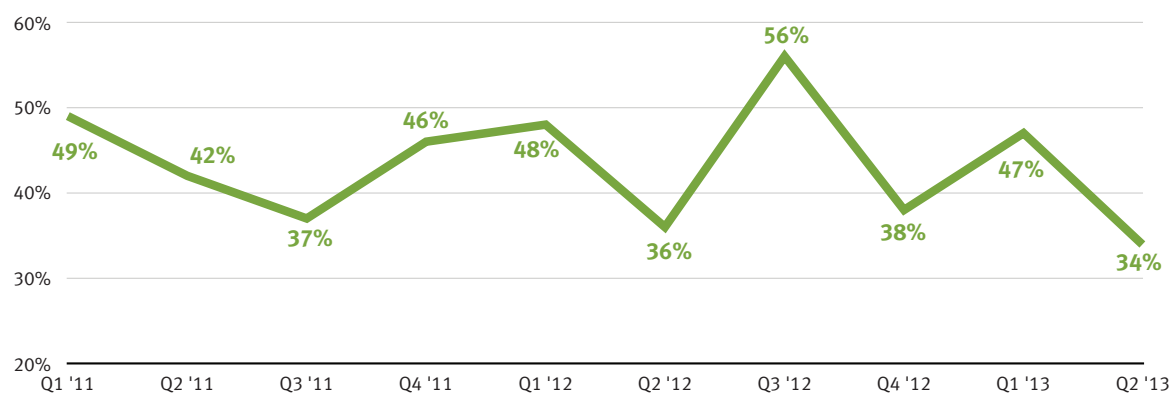
Cumulative Dividends

Percentage of deals involving cumulative dividends



Redemption Rights

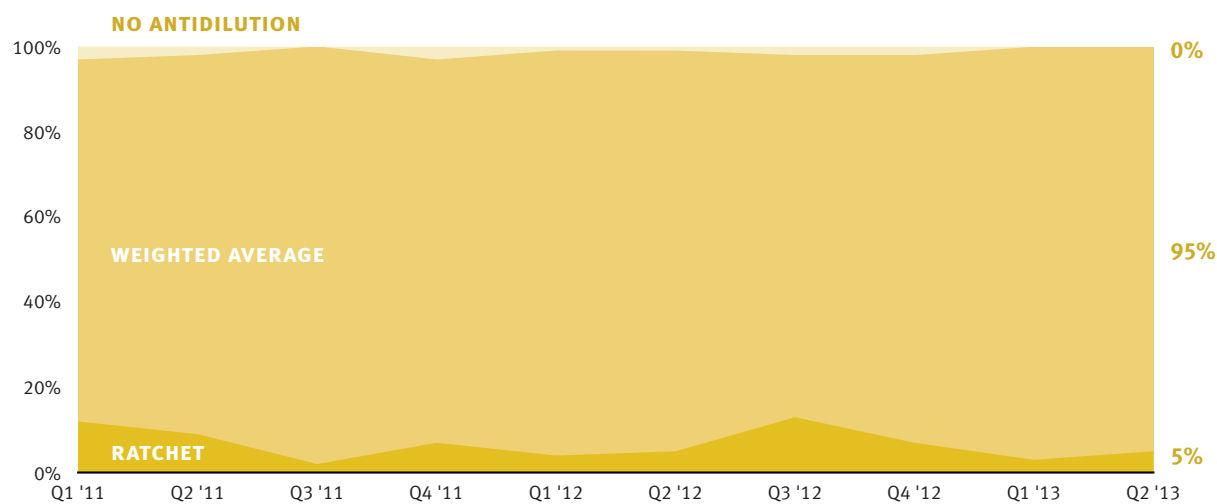
Percentage of deals involving mandatory redemption or redemption at the option of the investor



Terms – Other Provisions *(continued)*

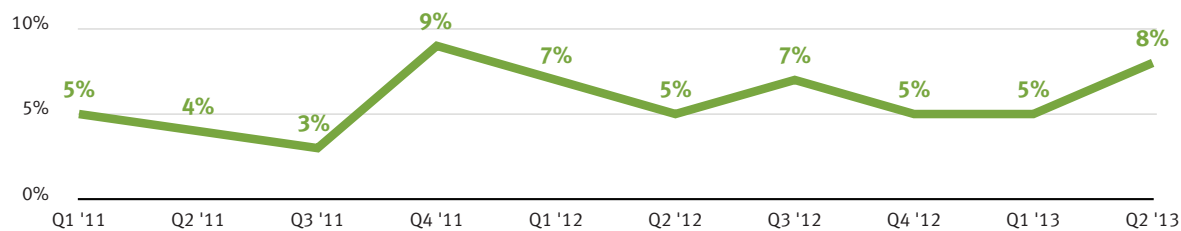
Antidilution Provisions

Percentage of deals involving weighted average, full ratchet or no antidilution



Corporate Reorganizations

Percentage of post-Series A financings involving a corporate reorganization



Notes on Methodology

For purposes of this survey, we use the term “life sciences” to refer to companies operating in the traditionally FDA-regulated biopharmaceutical and medical device sectors. We recognize that companies operating in adjacent sectors such as healthcare IT or biofuel production also comprise part of the life sciences industry, broadly defined. But because companies in these sectors are subject to different regulatory requirements and business conditions, and often are funded by venture capital firms that do not participate in the biopharmaceutical and medical device sectors, we have elected to exclude these companies from the survey to provide more comparable and relevant results.

The Fenwick & West Life Sciences Venture Capital Barometer™ measures the average percentage change between the price per share at which companies raised funds in a given period, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the average, all rounds (up, down and flat) are included, and results are not weighted for the amount raised in a financing. When interpreting the Barometer results please bear in mind that the results reflect the average price increase of companies raising money in a given quarter compared to their prior round of financing, which was in general 12–18 months prior. Given that venture capitalists (and their investors) generally look for at least a 20% IRR to justify the risk that they are taking, and that by definition we are not taking into account those companies that were unable to raise a new financing (and that likely resulted in a loss to investors), a Barometer increase in the 30–40% range should be considered normal.

In order to estimate life science–related fundraising, we categorized funds based on their stated investment objectives, as either dedicated life science funds (i.e., focusing exclusively on traditional FDA-regulated life sciences), healthcare funds (i.e., making both traditional life sciences and healthcare IT/services investments), multi-industry funds (i.e., making both healthcare and IT/growth investments) or pure IT/growth funds. We then assumed that one half of the amount raised healthcare funds and one quarter of the amount raised by multi-industry funds would be allocated to life science investment.

About the Firm

Fenwick & West provides comprehensive legal services to technology and life sciences clients of national and international prominence. Fenwick is committed to providing innovative, cost-effective and practical legal services that focus on global technology industries and issues. We have built internationally recognized practices in a wide spectrum of corporate, intellectual property, tax and litigation areas, all focused on the unique business needs of emerging and established companies, investors and research institutions. Over 40% of the attorneys in our life sciences group have advanced degrees in disciplines such as molecular biology, organic chemistry, electrical engineering and immunology, as well as business or research experience prior to their legal careers. Fenwick attorneys differentiate themselves by having a deep understanding of our clients' technologies, industry environments and business needs.

About the Authors

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