**Table 1** How PIPEs differ from VIPEs

| Investment aspects | PIPE | VIPE |
|---|---|---|
| Typical new-investor profile | Specialized institutional; private equity | Venture capital syndicate |
| Size of financing | Intermediate, with further financings expected later | Large-scale, taking company through development stages |
| Share of company equity taken | 5–10% | 20–50% (including warrants) |
| Time to exit[a] | 1–2 years | 5–7 years |
| Exit strategy | Unload shares on open market after lock-up period | Exit at key inflection point, e.g., trade sale or licensing agreement |
| Target exit multiple | 50–100% | 2.5–3× |
| Role of investors in management | Passive | Active |
| Impact on existing investors | Moderately diluting | Highly diluting |

[a]Return on investment.

February 2009 when it joined a $35 million fundraising by Algeta, a Norwegian biotech company based in Oslo. Last October, it participated in a similar fundraising by Amarin of Dublin worth $70 million. Then, in April this year, it sealed its third VIPE deal with Epigenomics.

For a microcap public biotech, one of the advantages of receiving a VC investment, says Anderson, is that it raises the company's profile and improves its negotiating position. Take Algeta: it had good phase 2 data on its radiopharmaceutical therapeutic, yet at that stage no pharma company was prepared to pick up the assets, because of Algeta's weak cash position. But once cash had been inserted in the financing round of March 2009, to which Abingworth contributed its VIPE funding, Algeta could progress to phase 3. This enabled it to attract a pharma partner, Bayer, of Leverkusen, Germany. Algeta signed a big licensing deal on favorable terms, says Anderson. "If they'd been in a weaker position, they might have been driven by expediency [to make a less favorable deal]," he notes.

Another biotech company that took $35 million of private equity cash last October in a financing round that included VC firm Frazier is Threshold Pharmaceuticals, located in Redwood City, California. The biotech's CEO Barry Selick is upbeat about the new VC interest in post-IPO companies. "It has increased the pool of potential funding for our companies and driven competition for deals, which I believe has led to better financing terms," he says. Previously, he says, only a very few institutional investors were willing to invest in microcap biotechs, and they were very choosy. Moreover, he says, an investment from a high-quality VC firm is important validation of a company's prospects to the financial markets in general.

Company management, however, must also be prepared for the additional strings that come attached to VIPE funding and the complexities of close ties with VC firms. Thus, according to Selick, "VC investors also tend to want to play an active role in advising and helping to build the company, and they are generally quite good at it," but they also want to preserve their ability to trade stock, which raises insider trading issues.

"In some cases, we will bring an investor 'over the wall', with a confidentiality agreement that prevents them from trading our shares [while sensitive issues are being resolved]," says Selick. In other cases, the VC investor is such a valuable asset that he joins the biotech firm's board and is thus automatically bound by rules governing commercial confidentiality and share trading restrictions.

Abingworth concedes, however, that fundraising via the VIPE route may not be to every biotech's taste. "We want our company to raise a substantial sum to get to the endgame, and not just a sum sufficient to get them through to the next stepping stone," Anderson says. "Not all companies want to do that when their share price is still at a very low level, because of the [severe] dilution for existing shareholders."

VC firms' demands for extra 'warrants' exacerbate the dilution effect. (Warrants are options for the firm to take up yet more shares in future, at a favorable price.) "The warrant coverage is sometimes as high as 100% in these deals," says Pinniger. "That can often put off new investors, as the true current value (or cost for a prospective new buyer) is increased significantly." On the other hand, Frazier's Topper points out that a VC concern would only convert the warrants if the company is succeeding and the stock has gone up, limiting the damage to other investors.

Another risk emerges if a VC investor distributes the shares directly to its limited partners (LPs), rather than husbanding them and distributing the proceeds in a thoughtful and controlled fashion. "When this happens, there is always a risk that the LPs will sell the stock in a less organized fashion and cause pressure on the stock price," says Selick, noting that some institutional investors may be sensitive to this.

Another downside of a VIPE is that a sudden sale of a large chunk of company stock could affect the liquidity of the remaining shareholders. Frazier's Topper concedes that this is a possibility but again stresses that VC exits typically occur only when the company's stock is riding high. Moreover, exit instability is limited by the fact that venture capitalists prefer not to take too large a holding in public equity; for example, Abingworth has acquired ~20% in each of its three VIPEs so far, whereas Frazier has taken only 5–10%.

"Overall, I think, the benefits provided by VC investors far outweigh the perceived risk," says Selick. "And suddenly the range of biotech companies that can secure financing has broadened considerably."

**Peter Mitchell** *London*

## Italian GM rebels


G. Fidenato

Libertarian farmer Giorgio Fidenato and former journalist, Leonardo Facco, have sown six genetically modified seeds in an act of civil disobedience. Fidenato, who grows conventional corn, is one of a few hundred farmers wanting to plant genetically modified crops in Italy. The MON810 variety seedlings are growing in an undisclosed site near Vivaro, in the north of Italy, and their progress is being posted on YouTube. Although MON810 is approved for planting in the EU, it is still unclear whether the six GM plants are legal, since the Italian Ministry of Agriculture never authorized the sowing but neither did it invoke a safeguard clause in directive 2001/18 to enforce a ban. The symbolic harvest is expected for mid-September and will be displayed on YouTube (http://www.youtube.com/watch?v=JS7nEDL3CzE).

**Anna Meldolesi**