

Caveat browser warning on Internet IPOs

Internet initial public offerings (IPOs) are the latest way for early-stage companies to raise capital without losing chunks of the company to venture capitalists or having to pay large underwriting fees associated with administering a traditional IPO. The first biotechnology company to have followed this path is Ixion Biotechnology (Alachua, FL), which is attempting to raise \$4 million by selling 400,000 units of stock value for \$10 each over the Internet.

However, some are skeptical about Ixion's success. The absence of professional due diligence—a basic level of quality control for a company—does not instill long-term confidence. The traditional stock market warning, caveat emptor—buyer beware—still applies. Ixion has complicated the investors' decision still further by emphasizing that, for tax purposes, an investment with the company will be regarded as a charitable donation.

Ixion spun out of the University of Florida (Gainesville, FL) in 1993 with various technologies, primarily aimed at the treatment of diabetes and the prevention of kidney stones. The firm, which claims to be the first biotechnology company to undergo an Internet IPO, went public at the end of last year and to date has raised only \$340,000—around 8.5% of the \$4 million it had intended. (Biotechnology companies raised an average of around \$30 million in traditional IPOs last year.) Ixion sells its shares directly to investors, although the company advertises itself on the Direct Stock Market (DSM; www.dsm.com). This is an online advertisement board that supplies a range of facilities allowing traders to download prospectuses and learn about companies over the Internet. DSM launched itself in April 1996, having acquired Scor-Net, the original Internet stock market, which went live in August 1995.

The long-term success of biotechnology companies using the Internet to raise money is still unclear. Didier Duhem, chair of the European Association of Securities Dealers (Brussels), which oversees the operations of the Easdaq (a European stock exchange with close affiliation to Nasdaq), cannot see good prospects for these companies. Comparing Internet IPOs with a listing on the OTC (over-the-counter) exchange in France, he says, "These [OTC] offerings have no [backing from] investment banks and the deals are considered risky. The companies do pretty badly because if you don't find venture capital there's something wrong with the company." Duhem points out that 80% of companies on the OTC fail. "Only individual investors buy the stocks as traditional investors steer well clear of [these] high risk companies," he says.

The chairman and CEO of Ixion, Weaver Gaines, does not believe that a lack of invest-

ment bank backing is necessarily a sign of high risk. He claims that venture capital is hard to find in Florida and so an Internet IPO is an appropriate alternative to raise money. Although Florida is the fourth largest

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Ixion CEO Weaver Gaines cites the dearth of Florida venture capital as a reason to raise money via an Internet IPO.

US state by population, it receives only around 2% of US venture capital. Gaines claims the dearth of Florida venture capital investments is well known locally, but not throughout the United States. However, Gaines acknowledges the benefits of venture capital for future developments of a company. "Venture capital has a gatekeeper function which we would prefer to have."

The problem with Internet IPOs is one of credibility. To attract sufficiently large numbers of investors in order to fund a product pipeline, a company needs to instill confidence. This is hard if the company was unable to enthruse a venture capital firm at inception. In addition, an investment bank acts as a mediator between company and market, and has the resources to plug a new company to potential punters. Because of these reasons, Duhem cannot envisage seeing such companies as Ixion progressing to a full listing on Easdaq or similar exchanges.

Furthermore, investors may be confused by Ixion's mechanism, called charitable benefit warrants (CBWs), to tempt investors by offering tax relief incentives through donations to charity. Ixion invented the CBWs in attempt to attract money that might alternatively be donated to charity: A minimum investment in Ixion of \$1000 buys 100 units, which breaks down to 100 common shares and 25 CBWs. Investors, who must donate the CBWs to charities with similar interests to Ixion's (diabetes and kidney-related diseases), can reclaim the tax on the whole investment because the CBWs are considered charitable donations. The donated CBW allows a charity to buy one common share of Ixion for \$20. Currently, this is twice the price of the common shares, but Ixion anticipates the share price increasing beyond \$20, allowing the charity to cash shares at a profit as Ixion matures.

However, some charities are not convinced the CBWs will go in their favor. "There's no guarantee that charity gets any money," says Marge Dwyer, a speaker for Joslin Diabetes Center (Boston, MA). Even if the charity does receive CBWs from Ixion investors, and the share price rises beyond \$20, it is still not the way that Joslin would like to receive donations. "We would prefer to have the money come directly as this allows us to budget and control our activities," says Dwyer.

Nonetheless, Robert Moulthrop, associate director of government relations at the Juvenile Diabetes Foundation (New York), says, "There's room for every type of investment." He thinks investors have different reasons for making investments, therefore allowing both corporate and charitable organizations to receive money. "People who are interested in monetary return will be looking at biotechnology, but those keen to fund a cure for diabetes will donate to charity."

Adam Michael

Europeans hothouse genomics

The research ministries of both Germany and France are attempting to stimulate plant genomics in their respective countries by establishing networks of related projects involving academic and industrial researchers on the one hand, and model and crop plants on the other. In the near future, the two countries want to link their networks.

Germany's Ministry of Education, Research, Science, and Technology (BMBF; Bonn) is discussing the structure of a possible

network of plant-genomics projects with the German Federation of Private Plant Breeders (Gemeinschaft zur Förderung der privaten Pflanzenzüchtung [GFP]; Bonn).

The model for the network could be a functional genomics project called ZIGIA (Centre for the Identification of Gene Functions using Insertion Mutagenesis in *Arabidopsis thaliana*) that BMBF agreed at the end of March to fund. ZIGIA started at the Max-Planck-Institute for Plant Breeding Research (MPIZ) in Cologne in