

Private Investment for Private Equity (PIPE) and Secondary Financing replacement an intelligent alternative

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PIPE/Secondary Financing Private Investment for Private Equity (PIPE) and Secondary Financing. For years PIPEs were considered a capital raising instrument of the last resort for the truly desperate. The PIPEs market for the past several years has been getting a makeover. In the process its image has shifted from the "final effort" of the dot com era to the "best option" for some issuers. In a PIPE transaction, investors typically purchase securities directly from a publicly traded company in a private placement. Depending on the structure of the transaction, this can be done at a premium to, or at a discount from the market price of the company's common stock. Because the sale of the securities is not pre-registered with the Securities and Exchange Commission, the securities are restricted and can't be immediately resold by the investor into the public market. Accordingly, the company will usually agree as part of the PIPE transaction to register the restricted securities with the Securities and Exchange Commission. Thus, the PIPE transaction can offer the company the speed and predictability of a private placement, while providing investors with a nearly liquid security. Many PIPE transactions have the potential for significant shareholder dilution. Such "toxic" transactions typically involve securities sold at a discount, this provides a built-in economic gain, which creates the incentive immediately to sell the securities purchased instead of holding them. As the company's stock price drops, the company is required to issue more stock. These cause further downward pressure, and the price of the common stock enters a downward spiral. Our intelligent alternative avoids many of the pitfalls of a regular PIPE transaction and we are still able to do it at a lower cost and quicker than a typical PIPE.

An Intelligent Alternative

Example ABC Bioresearch has a drug in early stages of approval. As with most BioTech companies their capital is starting to run low. They are going to need five million dollars in addition capital in order to pay for the additional costs they have incurred. ABC researches its options and finds that an Intelligent Alternative is their best option for several reasons:

- Quicker Funding - Their competition has a similar drug but are a year behind them. A PIPE would takes months where as an Intelligent Alternative will take two weeks.
- Lower Costs - With the Intelligent Alternative they will avoid registration fees and they high cost of the PIPE transaction.
- Securities go to friendly hands - ABC will be approaching current shareholders not new shareholders that might not have their best interest at hand. They will issue warrants typically at 110% 115% of the market price and lower their risk of downward pressure. ABC decides to meet with it's largest shareholders to demonstrate to them how an they have an alternative which is beneficial to them both.

The issuer will be able to help the company and himself through the following features:

- 80% Loan to Value - The share holder will pledge \$6.2 million worth of his position in ABC in order to receive the \$5 million required by ABC
- 9% Debt Service - Since the borrower will receive a note in exchange for the capital at the same 9%, the debt service will be covered by the coupon of the note.
- Warrants - Shareholder will receive warrants typically at a 10% to 15% premium. If company performs well he will be able to increase his position in the company.
- Appreciation - The \$6.2 million will still participate in any appreciation.

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