

Pedestrian Oncology: The Cost of Proof

It was another early walk to the office for Pedestrian Oncology CEO, Max Alucinator. In twenty minutes he would be meeting with Jan Worthington, the company's CFO and the two of them would need to outline funding options for the proof of concept studies that had been recommended by the company's Scientific Advisory Board. Like most of his management team, Max lived within a few blocks of the office, and most mornings, the walk was therapeutic. He was proud to be building a company within an urban setting, but he was now afraid that what had once seemed a clever and iconoclastic choice for the company's name would become an uncomfortable but apt reference to the company's prospects.

Budgeting the Cost of Proving

Max was confident when he first reviewed the clinical plan for PED-001. He had a very experienced team who had outlined a very solid and thorough Phase 2 proof of concept program. PED-001 would likely be the second, or at worst, the third compound to be tested as an inhibitor of a newly identified target thought to influence rapid cell growth in multiple types of solid tumors. The team outlined a \$60M clinical program that included a pivotal study in pancreatic cancer and early studies in two other organ systems. He had heard rumors that one competitor was getting traction with investors while raising \$40M or more.

The challenge emerged when Max began comparing the requirement for \$60M with estimates for the premoney valuation of Pedestrian Oncology. When Max reviewed a set of what he thought were reasonable comparator companies, he struggled to reach a conclusion on whether Pedestrian would be assigned numbers similar to the pre-money Series B value of those companies or if Pedestrian had advanced to the level those companies had achieved when they completed a Series C round or an IPO. One thing he did know was that the capital needed for the development plan was closer to the amounts raised in those later events.

Max also recognized that his company would not receive the pre-money valuation of the new generation of platform companies like Juno and Kite. When reviewing benchmarks, he looked longingly, but futilely at those public offering successes. Despite Pedestrian's obvious differences, more than one of his board members had forwarded BioCentury articles about those IPOs—one had playfully struck a line through the word "Kite" and written in "Pedestrian." The optimistic board member had scribbled, "just a matter of time" above the headline.

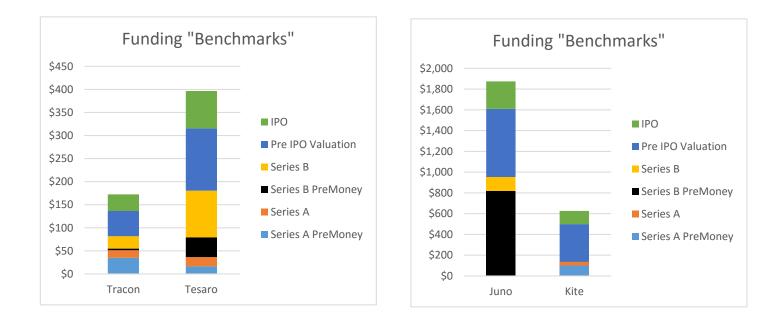
Max's success in appropriately positioning Pedestrian would be one of the most important events in the history of the company. A pre-money valuation somewhere in the range of \$60M would mean the new investment would represent 50% of the company's value. On the other hand, Max wondered, "was Pedestrian ready to be a public company?" Even if he believed that the company's progress should support an IPO, he kept hearing about the "closing window." With pressure—and potential dilution---building, should he consider other approaches? If he could find alternative funding sources, the company could demonstrate



Forging the Next Generation of Biotechnology Leadership

more clinical progress, and build a stronger case for a higher valuation—but this would mean paring back the recommended development plan to accommodate a smaller raise.

Jan was already in the office when Max arrived. Together, they were going to need to develop a strategy for moving forward. If a new share offering was going to be the best approach, they were going to need to be prepared to explain to the board how the corresponding pre-money valuation was in their interest, even if it didn't recognize everything Pedestrian Oncology had accomplished.



2 This case study is fictional and developed solely for the purpose of stimulating thoughtful discussion at the Biotech CEO Summit. Any similarity to any company or individual is merely coincidental.