AIM Advisers, Inc.
Maximizing Present & Future Value

1223 Wilshire Blvd., Suite 1855, Santa Monica, CA 90403
mmcgowan@aimadvisers.com
+1 310 903 0322

Verseon Corporation Raises $100 Million in AIM IPO

Overview

Fremont, California-based Verseon Corporation raised $100 million in its recent IPO on the London Stock Exchange's AIM and commanded an opening market capitalization of $460 million.

Verseon is a technology-based pharmaceutical company that employs its proprietary technology to design novel therapeutics for today's challenging diseases. The Company was founded in 2002, is pre-revenue and $34 million has been invested since inception.

Verseon's proprietary drug discovery platform is the first systematic, computationally-driven solution to achieve the molecular modeling accuracy necessary for rapid and cost-effective drug discovery. The Company generates multiple, chemically-diverse drug candidates for each discovery program and, as such, is not reliant on the success or failure of just a single drug candidate in the clinic. Verseon's drug discovery platform can be used to find drugs for a multitude of diseases that are now well-defined due to advances made in genomics and proteomics research over the last two decades, including the mapping of the human genome. The platform can consistently design novel drugs that are unlikely to be found using conventional methods. The Company is currently advancing three drug discovery programs that target medical conditions with very large markets. Verseon initially intends to out-license drug candidates at early stages of clinical development to pharmaceutical companies. As the business matures, it is expected that these out-licensing deals will be struck at progressively later stages of clinical development.

Verseon's drug discovery and development process entails designing virtual, novel, drug-like, synthetic compounds, using a proprietary, computer-based molecule creation engine in numbers that are far in excess of the distinct, synthesized compounds currently in the corporate collections of today's pharmaceutical companies. These virtual compounds are then assessed *in silico* (i.e. computationally) against a disease-causing target protein by leveraging Verseon's proprietary breakthroughs in physics-based molecular modeling of protein-drug interactions in water and sophisticated optimization algorithms that can be deployed in parallel across a large dedicated, private computing cloud. Virtual compounds that are predicted by the platform to interact or bind strongly with the target protein can then be synthesized in the laboratory and subjected to a battery of biochemical assays for assessment of *in vitro* (in glass) bioactivity and further biological characterization. Promising candidates are further characterized via *in vivo* (in animals) assessment of pharmacokinetics, efficacy and safety. Further computational design facilitates lead optimization for a discovery program. This process leads to new variants of compounds to be synthesized for laboratory assessment. The expected end products for each discovery program are multiple, novel, chemically-diverse candidates for entry into clinical development.

In the high-tech industry, Moore's Law predicts a doubling of computing power per unit cost every two years as new innovations drive progress and costs decline. Conversely, the pharmaceutical industry has seen an opposite relationship between R&D spending and drug approvals. The number of new drugs approved each year per $1 billion spent on R&D has dropped by half roughly every nine years since 1950 such that $1 billion is spent on R&D for each new approved drug. This is due in large part to a significant bottleneck in traditional drug discovery associated with the industry's continued reliance, for 15 or more years, on high-throughput screening to test a comparatively small pool of drug-like compounds against target proteins. An extrapolation of the observed, declining return-on-investment is an unsustainable position for the global pharmaceutical industry, especially as many high revenue drugs continue to lose patent protection. The Company's platform has the potential to change this negative outlook.

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Verseon has used its platform to build its drug portfolio, which comprises three different programs at various stages of discovery and preclinical development; anticoagulation, diabetic macular edema and oncology (solid tumor).

The development of novel anticoagulants (blood thinning drugs) is the Company's most advanced program for the treatment of vascular disorders such as stroke prevention for atrial fibrillation patients, venous thromboembolism, which includes deep vein thrombosis and pulmonary embolism, and acute coronary syndrome. Warfarin has dominated the oral anticoagulant drug market for many decades but shortcomings involving the need for constant monitoring and undesirable drug-drug and drug-food interactions have led to the development of novel oral anticoagulants (NOACs) such as Pradaxa, Xarelto and Eliquis, however these suffer from serious side effects mainly associated with risks of major bleeding. The global market for NOACs in 2013 was $4 billion and is forecast to grow to $24 billion by 2019.

Degenerative diseases of the eye, and in particular the development of novel therapeutics for the treatment of diabetic macular edema (DME), is Verseon's second most advanced program. Conventional therapies for DME require injection directly into the eye on a regular basis. Despite this, two therapeutic products, which are injected directly into the eye on a monthly or bi-monthly basis, control the majority of the market. Unlike existing therapies which treat downstream symptoms of DME via anti-angiogenesis (i.e. undesired blood vessel growth), the Company has taken a different approach and is focusing on the development of plasma kallikrein inhibitors that could potentially be delivered via topical eye drops for the local ocular disruption of the kallikrein-kinin system, which is indicated in the DME pathway. Several other companies are also pursuing plasma kallikrein inhibitors for DME treatment, however, unlike Verseon's candidates, these currently still must be administered via injection into the eye. The global market for DME in 2009 was $3 billion and is forecast to grow to $7 billion by 2017.

Solid tumor oncology is the Company's third program, which is in the discovery stage, for the development of novel angiogenesis inhibitors (AGIs). AGIs are an important part of oncology treatments for many cancers with a significant share of the oncology market. Conventional AGIs target vascular endothelial growth factor (VEGF) or other growth-related kinases in order to restrict blood flow into a solid tumor, reducing supply of nutrients. These drugs are often combined with other anti-cancer agents in a cancer treatment protocol, however, conventional AGIs have serious side effects, are toxic and frequently fail to prevent cancer progression once cancer cells develop resistance to such treatment. Verseon's drug candidates represent a new class of AGIs that do not inhibit VEGF or other growth-related kinases.

The Company's intellectual property portfolio consists of a combination of patents and trade secrets. Verseon has 10 patent families with issued or pending patents and several more provisional patent application. These patents cover certain methods associated with the Company's technology as well as composition of matter patents covering the Company's new chemical candidates for its current drug programs. Trade secrets form an important part of the Company's strategy to enhance and protect its technological advantage in the industry. Some critical features of the technology will remain trade secrets so that the patent portfolio alone will be insufficient for any competitor to reconstruct Verseon's platform. Additionally, the Company does not plan to license its technology, only the resulting drug molecules, which adds to the difficulties for competitors to copy or reverse-engineer the technology.

Verseon has 15 employees, the majority of whom have advanced degrees and expertise in fields such as mathematics, physics, bioinformatics, molecular modeling, medicinal chemistry, molecular biology, biochemical assay development and the design and implementation of complex mathematical and computational algorithms. The Company outsources the majority of its synthetic chemistry to India.

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Historic Financial Information

Verseon was founded in 2002 and is pre-revenue. As of the end of 2014, the Company had $128,000 of assets, $2.45 million of current liabilities, $2.02 million of long-term debt and an accumulated deficit of $33.56 million.

Key Listing Metrics

- $100 million gross was raised, $92.25 million net of offering costs, intended to be used for:
  - Funding current drug programs to the point of out-licensing or progression into the clinic
  - Initiating additional drug programs to further build the Company's pipeline of assets
  - Continuing development of the Company's proprietary drug discovery platform
  - Building a new supercomputer cluster and expanding laboratory infrastructure
  - Expanding the Company's intellectual property portfolio
  - Working capital for business development and other general corporate purposes

- Offering costs amounted to 7.75% of the gross capital raised
  - The offering was undertaken on a 'best efforts' basis, as opposed to being underwritten
    - Broking commission of 4%
    - Corporate finance fee of £500,000 ($760,000)
    - Five-year warrant over 0.35% of the enlarged share capital
      - Struck at a 30% premium to the IPO price

- Opening market capitalization of $460 million
- Dilution to existing shareholders of 21.75%
- Free float of 30.5%

Shareholder Base

The Company had 111.5 million shares outstanding prior to the AIM IPO, issued 32.6 million new shares for cash in the IPO, issued 5.0 million shares to reestablish a majority stake in the subsidiary that was established as a vehicle to fund the research and development of the Company's anti-coagulation program and issued 0.6 million shares to exchange convertible notes, leaving the Company with 149.7 million shares outstanding. The table below details those who held 3% or more of the Company prior to and after the IPO, along with other holdings that are of interest.

Shareholder	Pre-IPO %	Post-IPO %
Co-Founder & CEO	28.27	21.06[1]
Co-Founder, COO & CFO	27.80	20.70[1]
Co-Founder & VP, R&D	16.28	12.13[2]
Strategic Investor	6.00	4.47
Director, R&D	3.13	2.33[2]
Other Historic Investors	18.52	13.78[2]
London-based Institution (Investment Trust)	-	10.49
Other New U.K. Investors	-	8.21
Edinburgh-based Institution (Various Funds)	-	3.05
Former majority holders of one of the Company's subsidiaries	-	3.36
Former convertible noteholders	-	0.25
Other Directors	-	0.17[1]
Totals	100.00	100.00

[1] Subject to an 18-month lock-in and customary orderly market provisions for a further 12 months.
[2] Subject to a 12-month lock-in and customary orderly market provisions for a further 12 months.

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As a result of the AIM IPO, the Company now has an adequate amount of capital to progress the business towards commercial success via out-licensing and/or into the clinic and further build and solidify its platform technology in the market. The new, U.K.-based, blue-chip investors have broadened the shareholder base and provided a substantial amount of patient long-term capital, from whom, if necessary, additional capital can be raised. The Company has adopted a Share Option plan so as to enhance its ability to attract, recruit and retain a talented workforce with equity-based incentives.

Board of Directors and Corporate Governance

The Board consists of two Executive Directors (two of the three Co-Founders), an independent Non-Executive Chairman (NEC) and two independent Non-Executive Directors (NEDs); all with solid resumes and a good blend of complementary experiences and skill sets. The Board is divided into three classes.

Companies listed on AIM are not required to comply with the U.K. Corporate Governance Code published by the Financial Reporting Council, which is mandatory for companies listed on the Main Market of the London Stock Exchange. AIM listed companies typically comply with, and the Company intends, in so far as is practicable given its size, stage-of-development and resources, the main provisions of the Quoted Companies Alliance's Corporate Governance Guidelines for Smaller Quoted Companies. The overarching principle of corporate governance on AIM is to ensure that companies are managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the long term.

Since the Company's Co-Founder & CEO and the Co-Founder, COO & CFO are husband and wife and collectively own 41.76% of the Company, they entered into a Relationship Agreement with the Company. The Relationship Agreement regulates aspects of the continuing relationship between them and the Company to ensure that the Company is capable, at all times, of carrying on its business independently and that any future transactions between them and the Company are conducted at arm's-length and on normal commercial terms.

The Company has established an Audit Committee and a Remuneration Committee but does not believe it is necessary to establish a separate Nominations Committee since all members of the Board would be consulted on the potential appointment of a new Director. The Audit Committee is chaired by one of the NEDs with the other NED and the NEC serving as the other members. The Audit Committee will meet at least three times a year and otherwise as required and meet with the external auditors as necessary. The Remuneration Committee is chaired by one of the NEDs with the NEC serving as the other member. The Remuneration Committee will meet as and when necessary.

Accounting Considerations

Since the Company is incorporated in Delaware, and did not re-domicile into a European Economic Area country, which includes the U.K., they chose to report using U.S. GAAP. Since all of the Company's expenses are in U.S. Dollars, the U.S. Dollar is the functional currency and was also chosen as the reporting currency.

The U.K. Member Firm of an international accountancy network acted as Auditor and Reporting Accountant. Since the Company's annual audited financial statements were more than nine months old, unaudited, comparative, stub period financials were required. In this case, stub period financials were provided to and for the nine months ended September 30th.

An unaudited pro forma statement of net assets is never required in connection with an AIM IPO, however, one was provided in this instance, although the effect of the net proceeds from the IPO on the net assets of the Company is quite obvious.

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Legal Considerations

Since the Company is not incorporated in the U.K. or one of its Crown Dependencies, the Channel Islands and the Isle of Man, but rather in Delaware, and its 'place of central management and control' is also outside these jurisdictions, the three most important elements of English corporate law do not automatically apply. As is customary, the Company amended its constitutional documents for these three main differences as outlined below.

1. Pre-emption rights (i.e. anti-dilution) – Shareholders may participate in, or the Company has to obtain approval from at least two-thirds of them for, the issuance of shares for cash of more than 10% of the then outstanding shares during any 12-month period.[3]

2. Notifiable Interests – Shareholders are required to notify the Company of, and the Company is required to publicly announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.

3. Takeovers (i.e. mandatory offer) – If any party, or parties acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other shareholders at the highest price they paid for the Company's shares during the last 12 months.

The Company relied on the safe harbor afforded by Regulation S of the U.S. Securities Act of 1933 so as to not have to file a registration statement with the U.S. SEC. At the time of the Company's IPO, shares subject to Reg. S (generally, those issued in the IPO for a period of one year, issued within one year prior to the IPO and/or held by affiliates) were not eligible for dematerialization and were therefore initially held and traded in certificated form.

Since the Company did not re-domicile into the U.K. or one of its Crown Dependencies, the Channel Islands and the Isle of Man, its shares that are not subject to Reg. S are not eligible for direct trading within CREST; the most common electronic system for the holding and transfer of shares in the U.K., however, at the time of the Company's IPO, a Depository could have been appointed and Depository Interests (DIs), which represent an entitlement to shares, could have been created, allowing for the immediate trading of these non-Reg. S DIs within CREST. Since the Company did not institute such a facility, these shares were also initially held and traded in certificated form.

Article 3(2) of the EU Regulation on Central Securities Depositories, which was published on August 28, 2014, requires that all AIM-listed shares be dematerialized and eligible for electronic trading and settlement no later than September 1, 2015. The London Stock Exchange worked with the companies who own and manage CREST on the technology solution necessary to accommodate 'restricted securities'. In late August 2015, the Company announced a Restricted DI program so that all of its shares can be evidenced in CREST and are therefore eligible for electronic trading and settlement as DIs. Shortly before the expiration of the one year Reg. S distribution compliance period on May 7, 2016, the Company intends to institute an Unrestricted DI program into which eligible certificated shares may be placed and eligible Restricted DIs may be transferred. This should facilitate trading in the Company's shares by eliminating regulatory burdens placed upon the seller and eliminating limitations on who may purchase the shares.

[3] This is the typical level at which AIM-listed companies seek an annual standing authorization from their shareholders for the issuance of additional shares for cash. This flexibility increases the certainty and speed of small capital raises during the year and reduces transaction costs, since further communications with, and approvals from, shareholders are not required.