Development company

Rosalind Ltd

Rosalind Ltd is an independent unquoted company which is seeking to develop ground-breaking medical therapies and products. It is loss making and has no revenue. It relies on injections of cash through share subscriptions, primarily by professional investors (for example, institutional investors such as a private equity company or financial institution) for its continued operations. The future success of the business is not only dependent on achieving commercial success for its therapies and products but also its therapies and products passing rigorous clinical tests and securing key regulatory approvals. Rosalind Ltd wishes to incentivise employees through equity participation over its Ordinary shares.

The professional investors have subscribed for a different class of share which through a combination of the articles and other arrangements such as shareholder agreements, give these shareholders a package of rights which the Ordinary shareholders do not enjoy. These shares rank ahead of the Ordinary shares on a pay-out to shareholders such as a liquidation, share or asset sale or return of capital and their shareholders have the right to appoint specific directors to the Board and must consent to major changes in the running of the business. They also give the investor shareholders access to management information and the right to subscribe for further shares in priority to other potential investors.

Because the company is loss making and has no revenue, and any financial projections at this stage cannot be anchored in historical financial performance, conventional earnings-based valuations are not possible for assessing the market value of the Ordinary shares. The balance sheet of the company does not provide a basis for valuing the company as, in accordance with accounting standards, it does not include the value of the intellectual property the company may have developed and mainly consists of cash obtained from shareholders which is earmarked to fund the operations of the company. The only transactions that have occurred to date were the subscriptions made by the professional investors in the Investor class of shares, which may provide an indication of value of the Ordinary shares.

Although the goal of the founders and investors is to seek a realisation event such as an IPO or sale of the company within the next 3 to 5 years, the company has not been in discussion with any potential purchaser, there is no sale or flotation planned in the near future and no corporate finance house has been engaged to assist with a sale or IPO.

While the price paid by the investors for funding the company might give an implied value for the Ordinary shares over which options are to be granted, the following factors (which are not meant to be exhaustive) may have a bearing:

- The different rights of the shares held by the investors – including possible limits, or control on the level of senior management remuneration;
- The nature of a development company and its reliance on future successful commercial exploitation of a market for its products and regulatory approvals;
- The potential for the continued need for equity funding for the company to be able to remain in business while it is in its developmental stage;
- Risk and reward – often a very low entry cost for some share classes, but with the prospect of high returns in the future; and
- The spread of investors and the number of shares acquired by them.

The effect of these factors on the value of the Ordinary shares will vary from case to case but it may be reasonable to reflect a significant discount in the valuation of a small minority holding of the Ordinary shares over which options are to be granted. In most cases it is probable that the Ordinary shares will have an actual market value ("**AMV**") greater than their nominal value. The unrestricted market value may then sit at a premium to the AMV.