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Too Little of A Good Thing

FINANCE: **Second Sight smash IPO may have been underpriced.**

By ELLIOT GOLAN *Staff Reporter*

The initial public offering of Second Sight Medical Products Inc. was a smash success by at least one measure: the stock popped, closing some 120 percent higher than its offering price.

But that leads to the question of whether the Nov. 19 IPO was underpriced, shortchanging the promising Sylmar company.

The underwriter, Dallas-based MDB Capital Group, priced the 3.5 million shares issued at $9 but opening bids came in at $17 – and the stock closed at $19.92. The underwriter also exercised its option for an additional 525,000 shares priced at $11.25.

That raised the total value of the IPO to $36.2 million, though Second Sight will net less after fees and expenses.

MDB Chief Executive Christopher Marlett told the Business Journal his firm received no serious interest from institutional investors during the company's road show, which led to the low pricing. However, Marlett said public interest just took over, given the goal of curing blindness.

Second Sight makes a prosthetic sight system with a camera mounted on eyeglasses and an implant that stimulates the optic nerve.

"Did they leave any money on the table? In hindsight, yes, but I don't think they're upset about it," he said. "Institutions said we were overpricing the deal. As smart as we may be, we can't predict what the public thinks."

Alfred Mann

It also didn't hurt that the company is the latest public offering from billionaire entrepreneur Alfred Mann, whose resume includes groundbreaking biotechs, such as insulin pump maker Mini Med, sold to Medtronic Inc. for $3.6 billion. He also is in the midst of a worldwide roll out of an inhalable insulin device made by MannKind Corp., a publicly traded Valencia company that recently received FDA approval for its device after years of struggles. Mann invested some $900 million of his own money into the company.

Mann representatives did not return requests for comment and Second Sight Chief Executive Robert Greenberg declined comment on the IPO.

Mann has a 32.3 percent stake in Second Sight, which is now worth $198 million given the stock's Nov. 25 closing price of $17.91. The next largest stockholder is board member Gregg Williams, son of one of the co-founders, with a 17.5 percent stake. In total, insiders own about 66 percent of the company.

Proceeds of the IPO will fund commercialization of the company's products and further product research and development, in addition to providing working capital.

Since 1998, Second Sight has received more than $29 million in direct grant support from various U.S. federal agencies, but has suffered the expected financial shortcomings of an R&D firm. Second Sight recorded a net loss of $23 million last year and $22 million in the first nine months of this year. In its prospectus, the company said it had invested more than $124 million in research and development as of Sept. 30.

Lloyd Greif, chief executive of boutique L.A. investment bank Greif & Co., had little criticism for MDB despite the underpricing.

"Pricing IPOs like this is more art than science. This is a company with barely any revenue, let alone earnings, so you can't relate the pricing to any quantifiable statistic," he said. "Yeah, the underwriters missed, but if Al Mann felt the price wasn't right, he would've told them to pound sand and demanded a higher offering price. But he signed off on it."

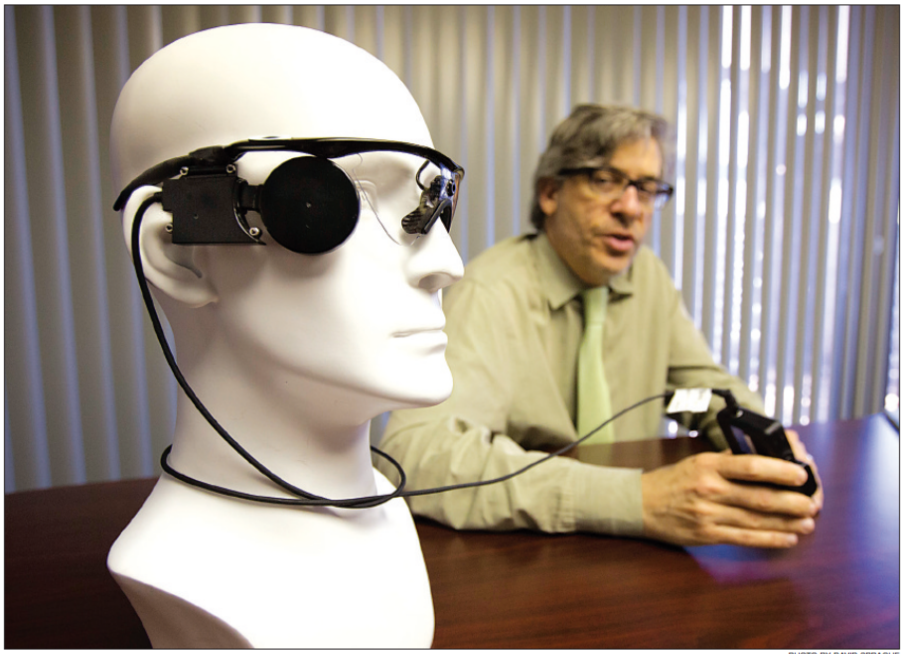

PHOTO BY DAVID SPRAGUE

Show and Tell: Second Sight CEO Robert Greenberg displays Argus system at Sylmar headquarters, in file photo.

Novel technology

MDB said it took a 4 percent cash fee on the IPO, about half of what is considered industry standard. That brought the firm about $1.4 million in cash on the deal. In addition, MDB has warrants on about 805,000 shares at $11.25 a share.

Marlett said the company is not able to sell those warrants for at least 12 months. “We’re betting along with the shareholders,” he added.

If the stock is at the exact same price in 12 months and MDB decides to exercise its warrants, the company would pull in about $5.7 million, making its total take in the neighborhood of $7.1 million.

Greif said the real winners in the IPO are the initial subscribers. When MDB was conducting its road show and locking in private investors to buy at $9 a share, it was likely with the hope those investors would sit on the stock and be long-term holders. But when the stock popped, many cashed in.

“The clients who subscribed to the offering ahead of time are the ones who made the money. There will always be a percentage who want to turn around and make a quick killing by flipping the shares in the after market,” he said.

Second Sight was founded in 1998 by Mann, Gunnar Bjorg and Dr. Sam Williams, founder of Williams International, a Commerce Township, Mich. company that designs and builds small, efficient turbofan jet engines. Bjorg is not listed on the company’s management or board and has no equity in the company, according to its prospectus, and Williams, who was blind from retinitis pigmentosa, the very disease Second Sight was targeting, has since died.

As of Sept. 30, the company employed 126, which includes 18 at a European office in Lausanne, Switzerland. Greenberg has been chief executive since the company’s founding.

The first version of the company’s technology, called Argus, was tested in humans about five years ago. It was nearly twice the size of the current device and had just eight receptors compared to the 64 now in use. This means the improvement to a patient’s vision has gone from shades of grey to enough enhancement that users can actually read large letters. The device gets implanted behind the eye and then communicates wirelessly with an external, glasses-mounted camera.

So far the company has implanted 90 of the updated Argus II systems, which are approved for insurance reimbursement only in Germany and France. According to a Business Journal story last year, the cost for the device was $96,000 in Europe and could run as high as $150,000 in the U.S.

The largest challenge for the company, aside from the need to make technical enhancements that will improve visual acuity, will be sales given the device’s high price. In its prospectus, the company said insurance coverage is key.

“If we are unable to obtain reimbursement or our product is not adequately reimbursed, we will experience reduced sales, our revenues likely will be adversely affected, and we may not become profitable,” the prospectus stated.

Still, Marlett from MDB said Second Sight is in a good position coming out of the IPO, and he considers the offering a success. “We tell these companies they have to sell the elevated goal to the public. Obviously the public wants to be involved in this,” he said.

Greif said investors should expect Second Sight to look for more funding in the next year.

“At any stage of the process, Al is only going to raise what he needs. When he goes to the well next time, it’ll be priced higher,” he said. “If the stock performs post-offering, they can go back to market in six or nine months and sell shares of a winning stock.”