



## ***FROM TCA STARTUP TO IPO***

anatomy of a pharmaceutical deal  
preserving founder's equity

Ned Israelsen  
TCA member/founder

# The miracle IPO

- ◆ Zentalis:
  - ◆ Spun out of Kalyra (TCA company) in 2014
  - ◆ Raised \$161M in Series A-C
  - ◆ 3 cancer drugs in human trials, many more in pipeline
  - ◆ SERD drug is best-in-class – potential \$2B+/year drug
  - ◆ Filed to go public in February
  - ◆ US shuts down, market crashes
  - ◆ First ever virtual roadshow
  - ◆ IPO on April 3, 2020, raised \$190M at \$18/share
  - ◆ Yesterday's close was \$26.79
  - ◆ Market Cap \$850M

# Bottom line for TCA investors

- ◆ ROI of 9.1x, based on current share price of \$26.79
  - ◆ \$25k investment = \$227K return
- ◆ Kalyra investors are largest shareholder of Zentalis (ZNTL) at 10.2%
- ◆ Lockup until October 2020
- ◆ Investors have at least two more shots on goal
  - ◆ Future milestones and royalties from licensed-out IP
  - ◆ Kalyra equity
- ◆ And now the origin story . . . .

# Kalyra Pharma Founders - 2011

## ◆ Kevin Bunker, Ph.D.

- ◆ Research Chemist, Pfizer, Inc.
  - ◆ Award winner
  - ◆ Invented new synthesis
- ◆ Postdoc, Scripps Research Inst.
- ◆ Ph.D., UCSD, Organic and Organometallic Chemistry

## ◆ Ned Israelsen

- ◆ TCA Member, Angel Investor
- ◆ Partner, Knobbe Martens
  - ◆ Intellectual property
  - ◆ Pharmaceuticals
- ◆ JD, George Washington University
- ◆ BS Chemistry, Utah State



**Investor Presentation**  
**June 2013**

**Confidential**



# Corporate Overview

## Technology

### Novel Chemical Building Blocks

- Range of proprietary building blocks to facilitate the rapid generation of optimized drug candidates
- Process is derisked through the use of scaffolds with established safety profiles
- Novel bioisosteres offer freedom-to-operate over most existing drug patents
- Competing technologies are well-financed and have attracted significant partnership validation

## Goal

### Self-Sustaining Platform

- Small molecule focus, agnostic to therapeutic area
- Internal development & licensing vs. partnership
- Can be applied to approved drugs or novel targets in development

## Focus

### Antimicrobials

- Enormous unmet medical need, due to the development of drug resistant strains
- Regulatory environment conducive to new drug development
- Associated with lower development risk and faster timelines than other therapeutic areas

## Fundraising

### Path Forward

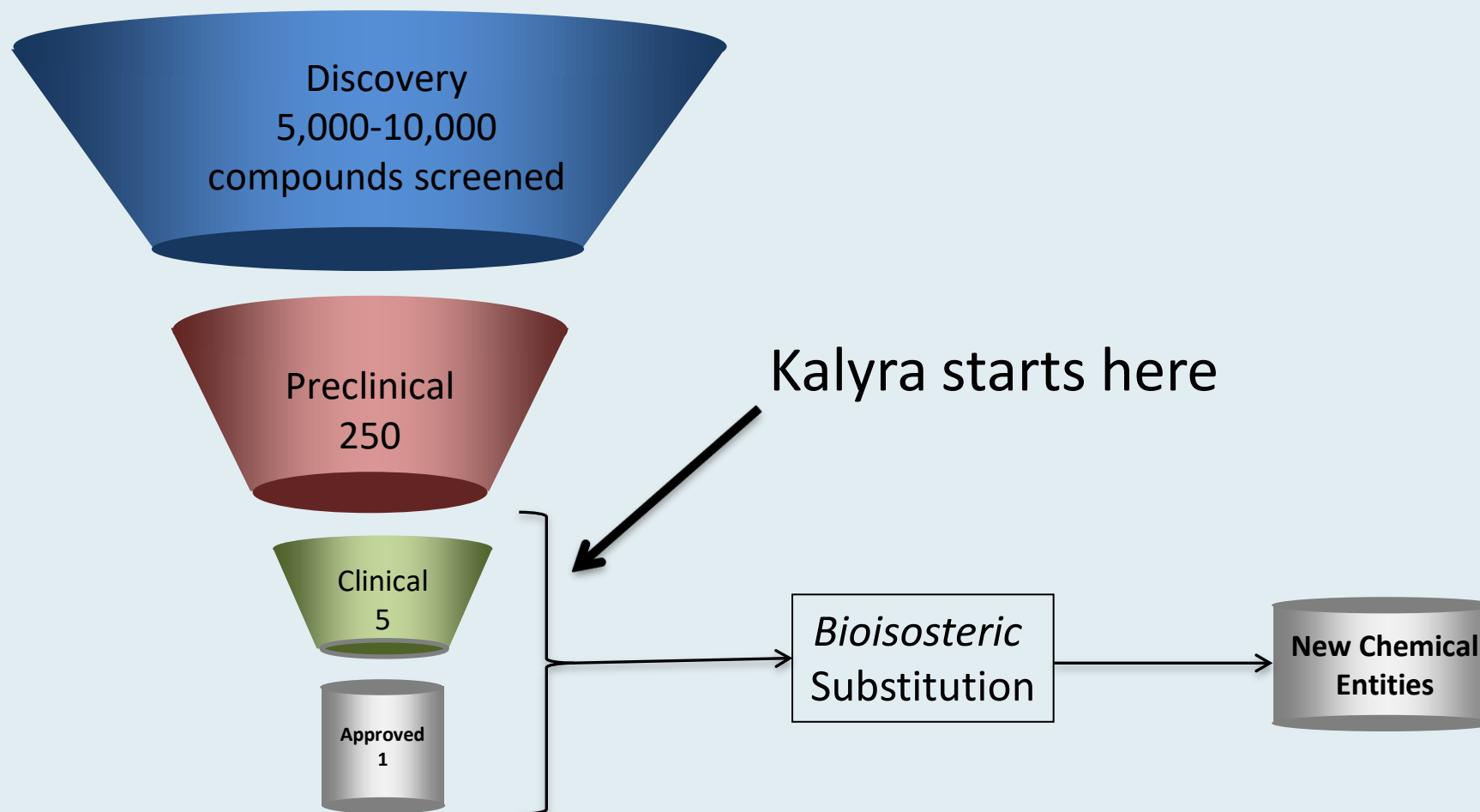
- Seeking a Series A
- *Projected financing: \$3.5M to partnerable antibiotic*
- *Additional financing up to \$5 million will allow expansion to a second therapeutic area*

# Kalyra: The Drug Reconstruction Company

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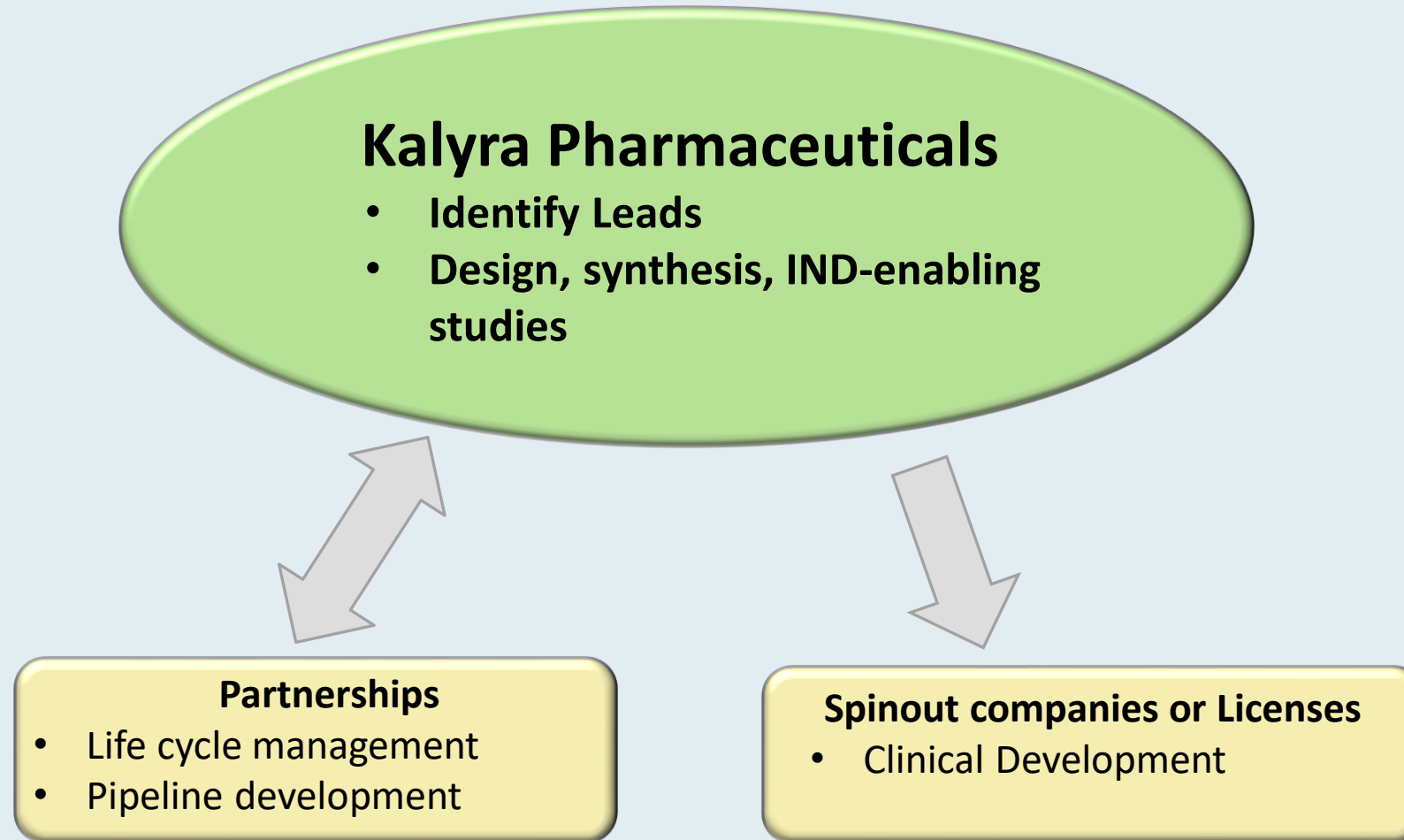
- Kalyra has developed proprietary chemical building blocks, or bioisosteres, to enable efficient drug reconstruction
  - Creating drugs with improved properties at lower risk, cost and in less time than traditional drug development
- Bioisosteres can be applied to many small molecule drugs across all therapeutic areas
  - Applicable to approved drugs as well as novel targets
- Bioisosteres provide multiple tiers of IP protection
  - Synthetic process and composition-of-matter (COM) patents filed
  - Moreover, compounds created using these bioisosteres are new chemical entities (NCE) with new COM patents
- Ability to generate multiple leads for in-house development and external partnerships

# Reducing Risk: Start With A Validated Structure





# Kalyra's Self-Sustaining Model



# TCA Investment – Dec. 2013

- ◆ Submitted application to TCA in June, 2013
  - ◆ Seeking \$3.5M
- ◆ Jeff Friedman – Deal Lead
- ◆ Dinner presentation in October, 2013
  - ◆ Had \$6M committed already
  - ◆ Focus on antibiotics and fibrosis
- ◆ Closed \$7M round in December 2013 (about \$500k TCA)
- ◆ Investors included Jeff F, Sergio G, Don R, Allan K, Rick C, Jeff D

# Pivots and Spinouts: 2014-15

- ◇ Cancer
  - ◇ Spinout cancer indications to Zeno Pharmaceuticals
    - ◇ License IP to Zeno for milestones & royalties; Receive 45% of Zeno Equity
- ◇ Pain
  - ◇ Acetaminophen analogs discovered, more potent than morphine
    - ◇ Ultimately awarded \$6M in nondilutive grants
- ◇ Antibiotics
  - ◇ Data promising but not much better than competition
  - ◇ Tetraphase raises capital; competitive compounds in clinic
- ◇ Fibrosis
  - ◇ Promising compounds, NIH grant
- ◇ **FOCUS SHIFTS TO PAIN AND CANCER; KALYRA IS ZENO RESEARCH ARM**

# Corporate structures evolve 2014-2016

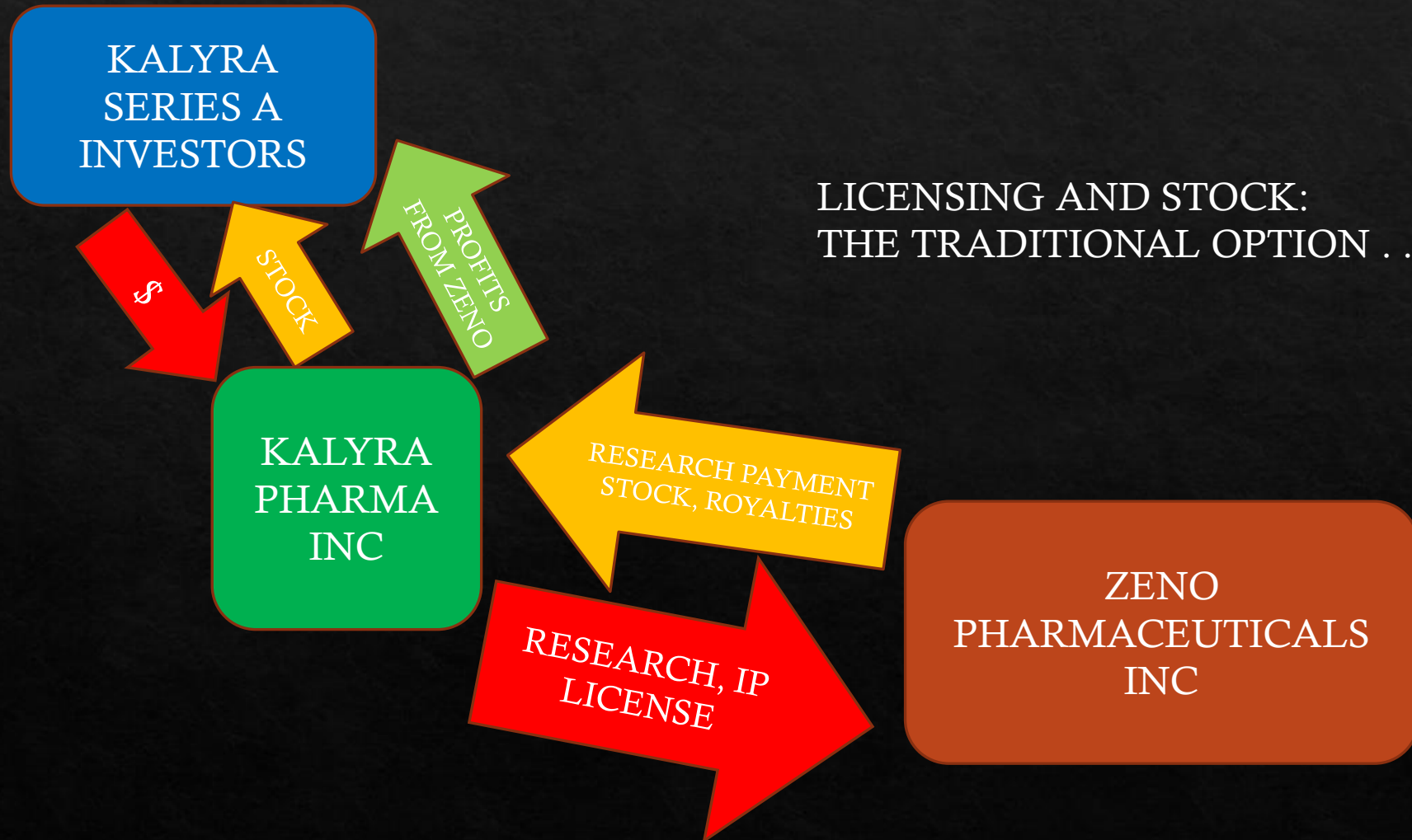




# Corporate structures evolve 2014-2016



# Corporate structures evolve 2014-2016



# Corporate structures evolve 2014-2016

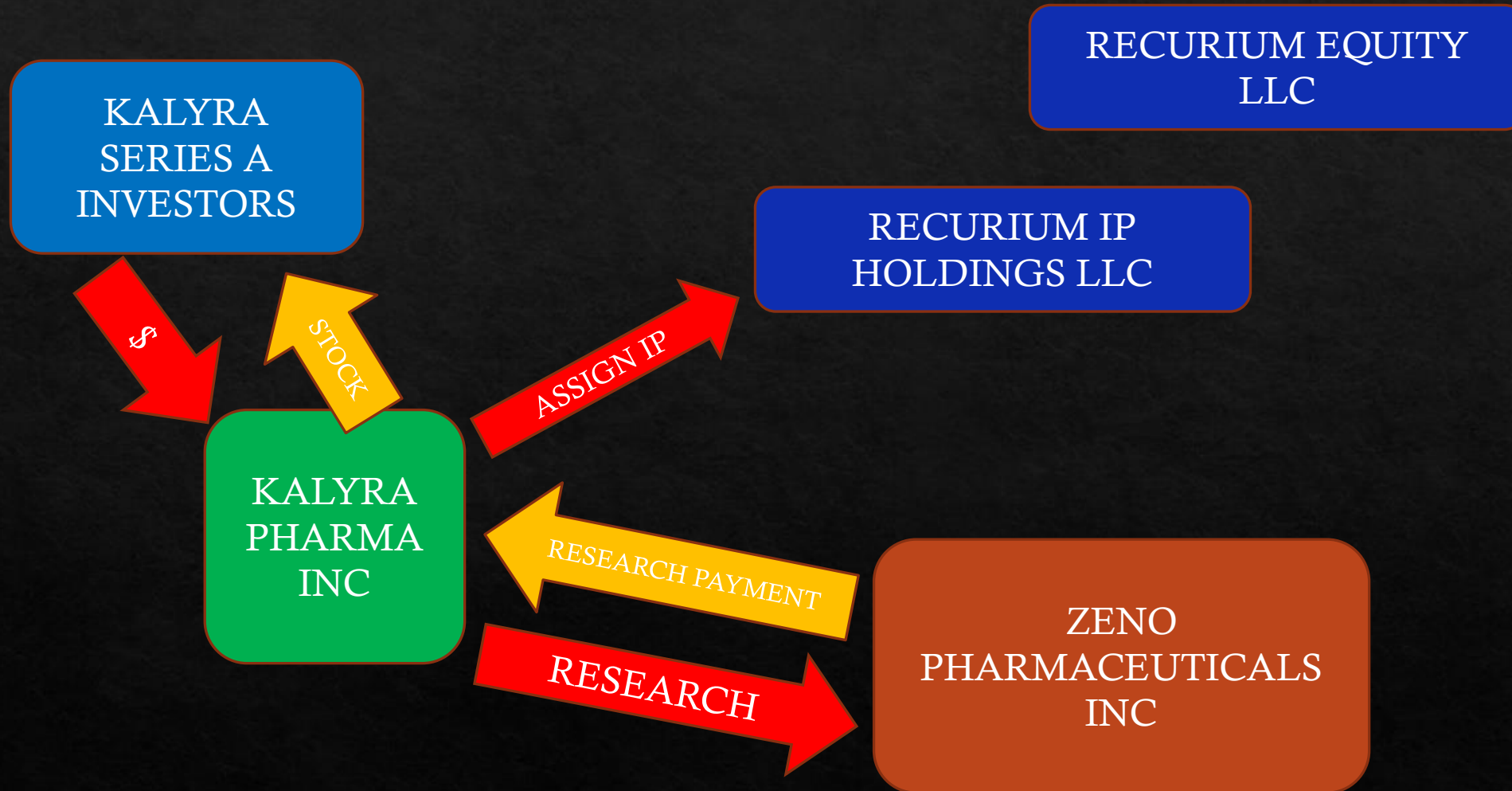


**\*DOUBLE TAXATION OF ZENO REVENUES**

**\*INVESTORS MIGHT NOT ALWAYS CONTROL KALYRA**

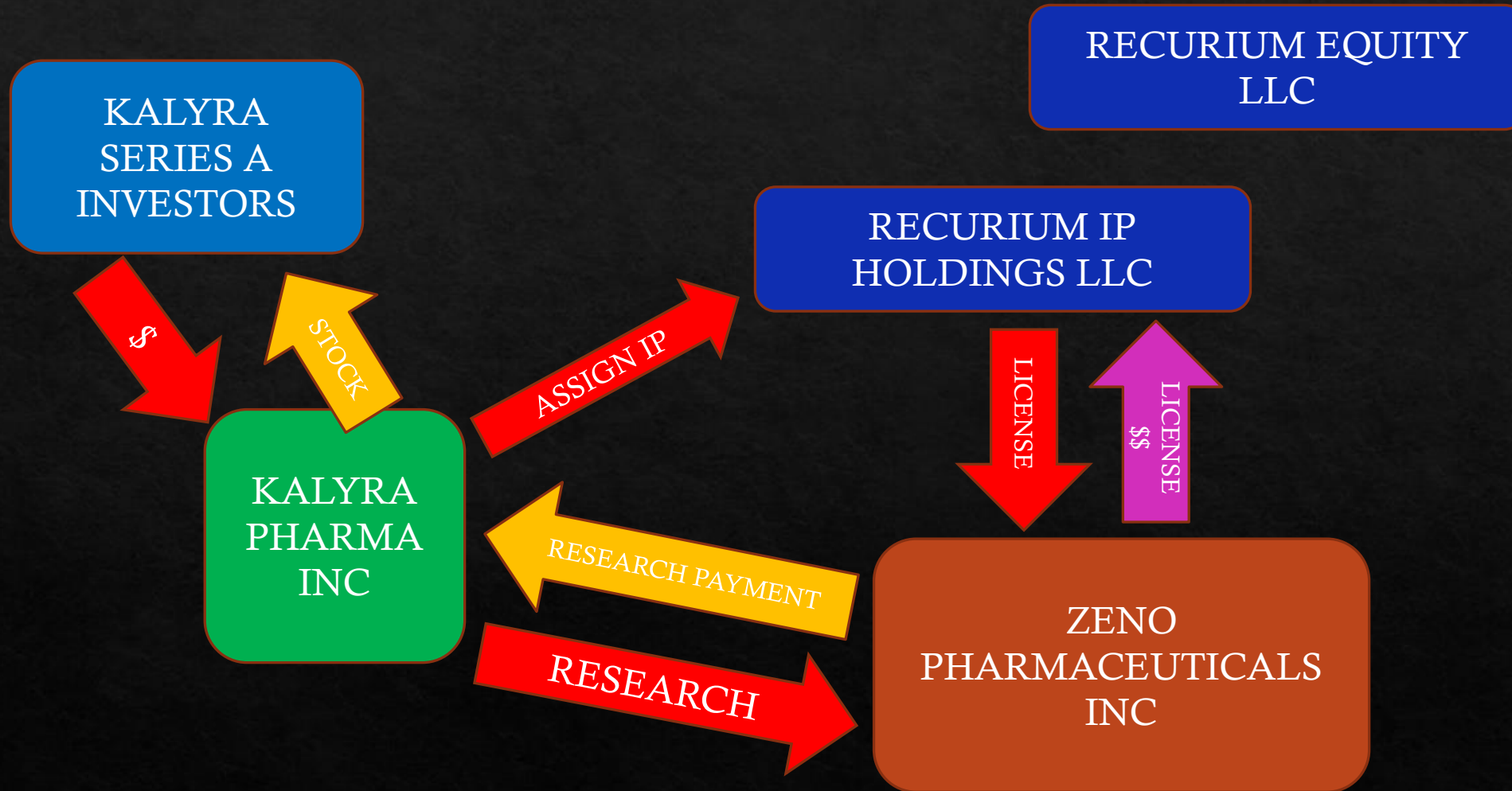
**\*FUTURE DILUTION OF KALYRA AND ZENO STOCK**

# Corporate structures evolve 2014-2016

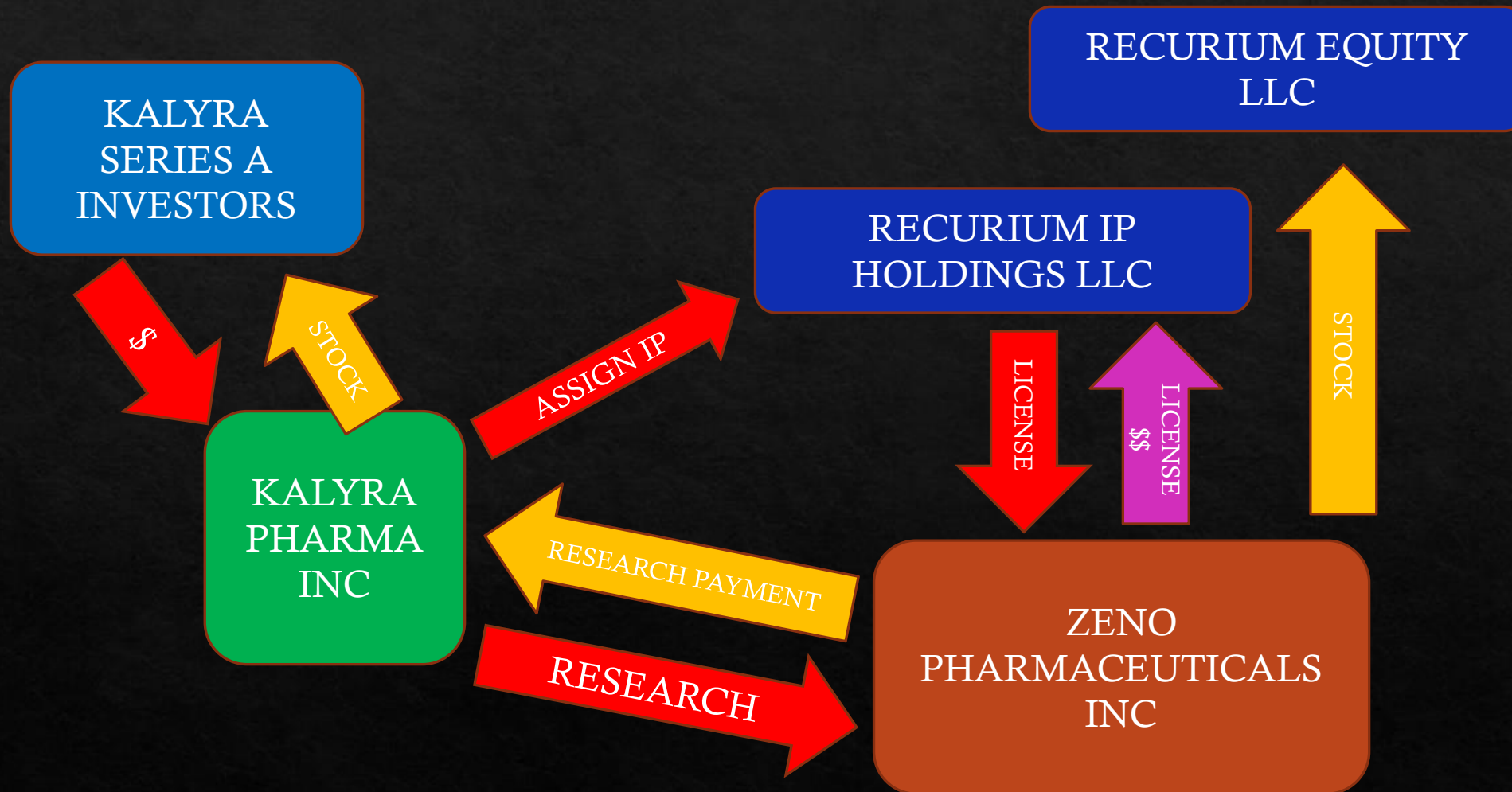




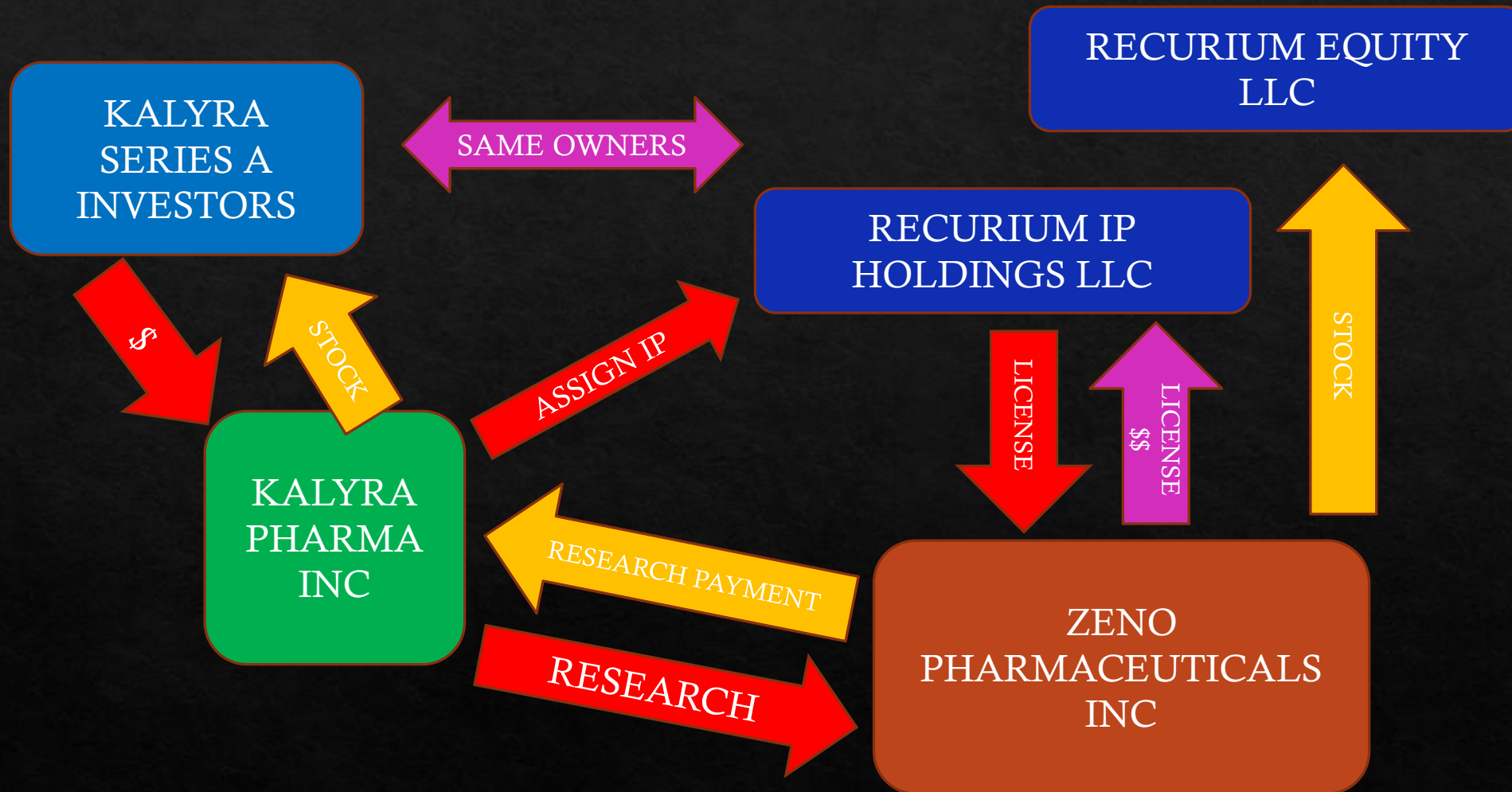
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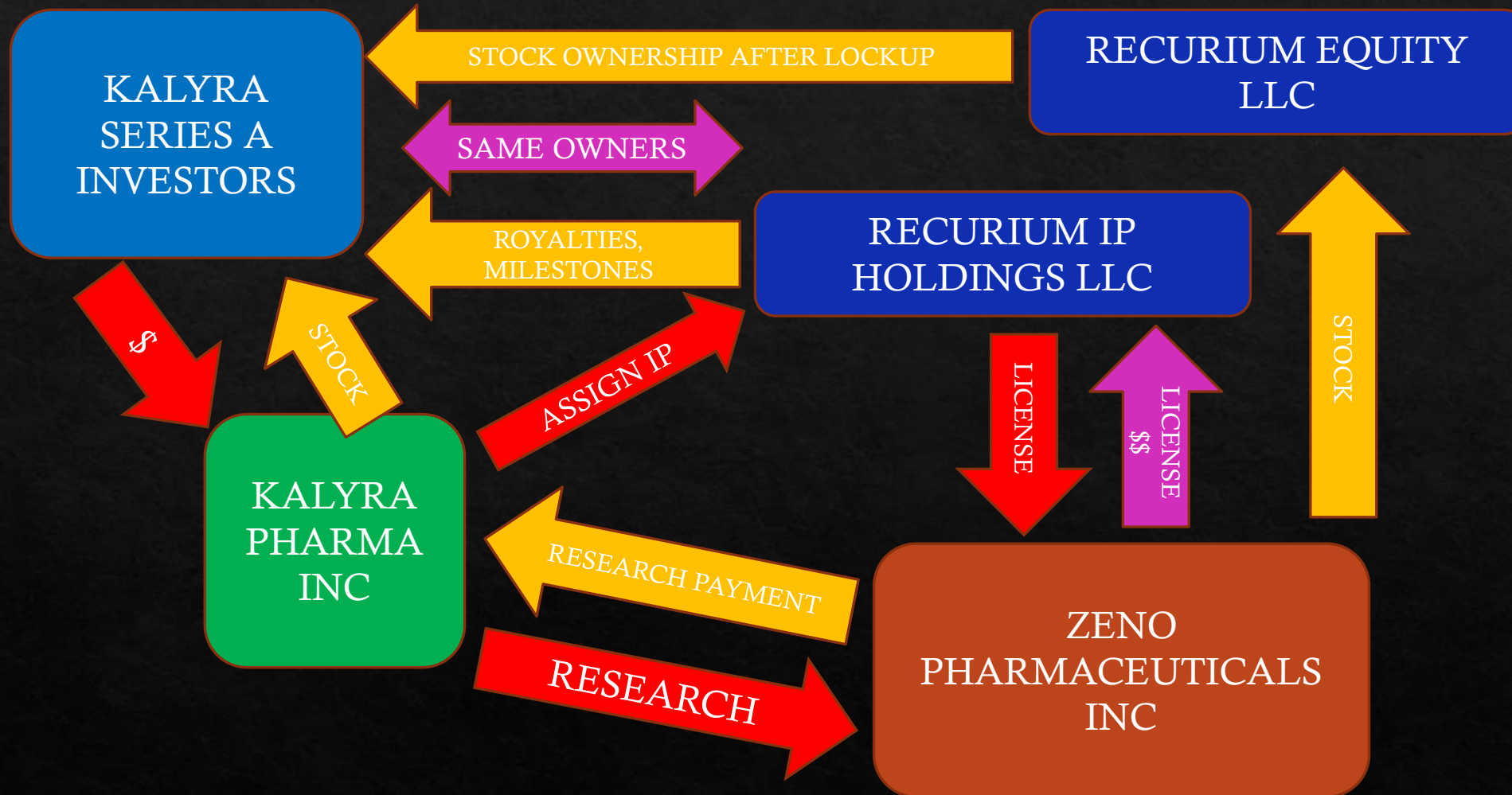
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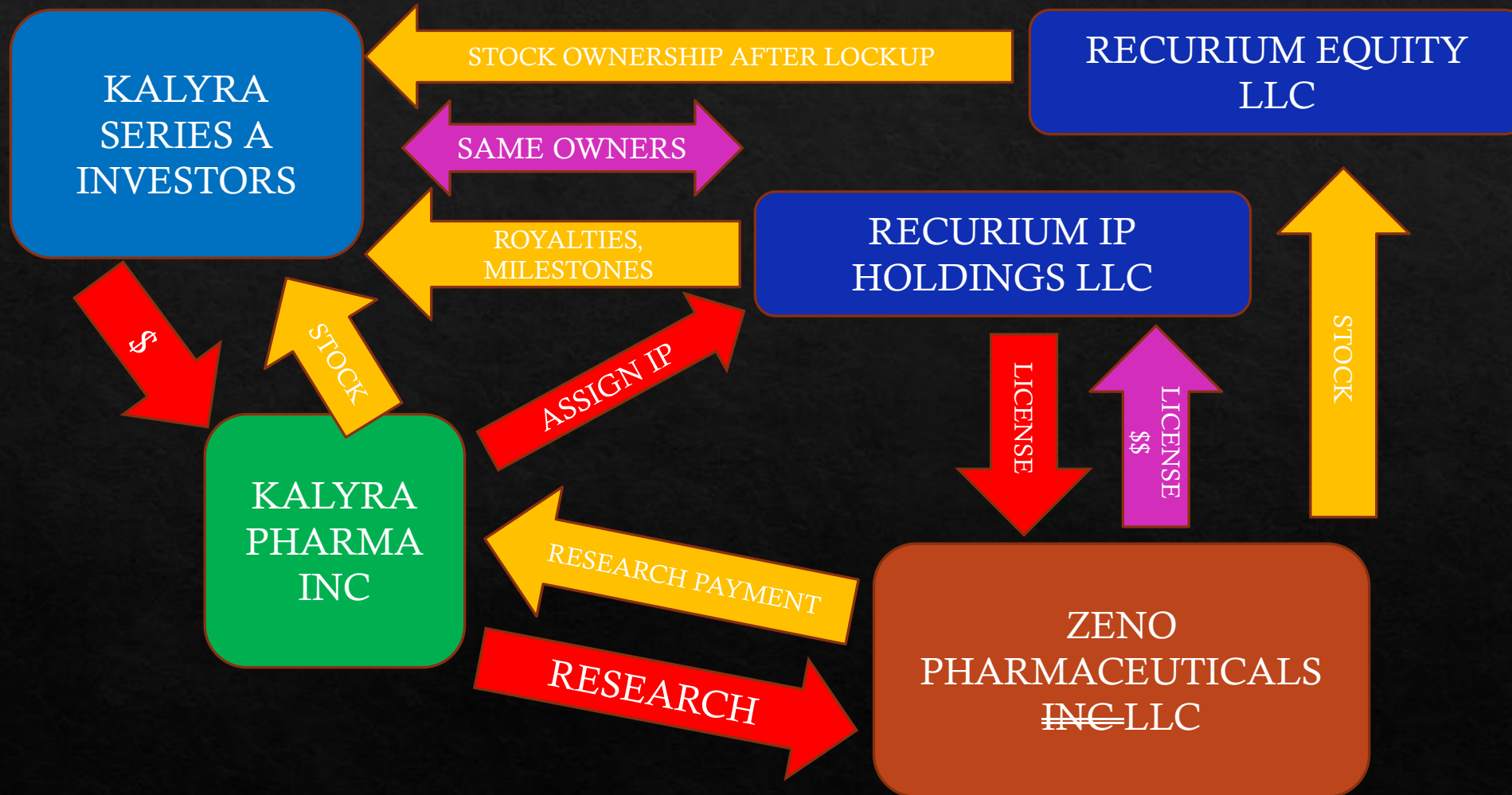


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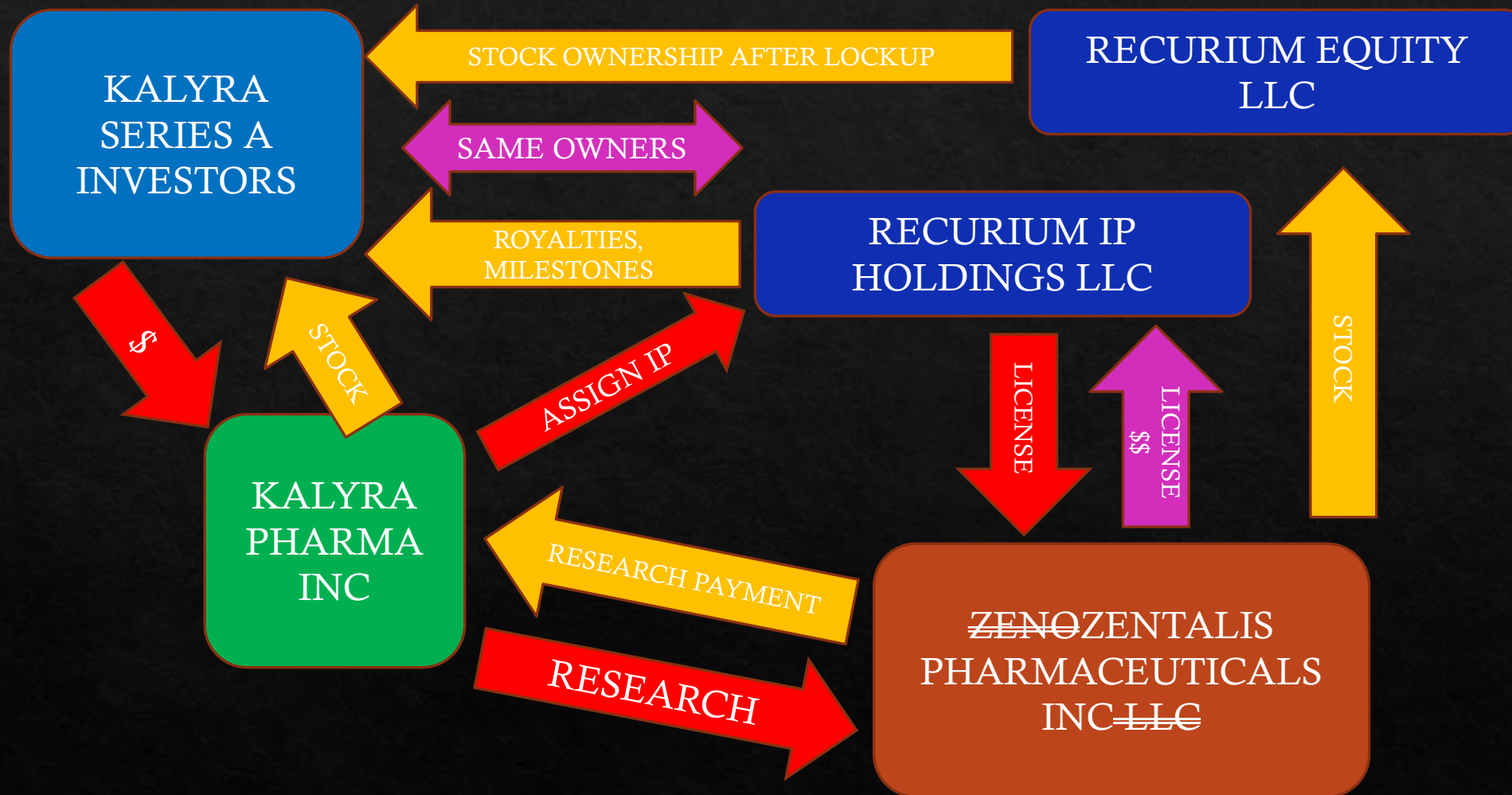




# Corporate structures evolve 2014-2016



# Corporate structures evolve 2014-2016



# BENEFITS OF FINAL STRUCTURE

- ◇ No double taxation. Recurium entities are pass-through entities
- ◇ Capital gains rates apply to Zentalis stock
- ◇ Original investors have seen dilution in Zentalis
  - ◇ Owned 45% at spinout, 10.2% after series A, B, C and IPO
  - ◇ IP License compensates for equity dilution
    - ◇ Milestones and royalties increase as ownership of Zentalis decreases
- ◇ But ownership in Recurium entities won't be diluted
  - ◇ No risk from ownership, management, acquisition, or dilution of Kalyra
  - ◇ No dilution of ownership of IP
- ~~◇ Qualified small business stock: no federal tax on Zentalis stock~~

# Lessons learned

- ◆ **Find a way to stand out from the crowd**
  - ◆ Hook up with past winners
    - ◆ Cam Garner; Dirk Thye; Scott Glenn



# Lessons learned

- ◆ Find a way to stand out from the crowd
  - ◆ Hook up with past winners
- ◆ **Be ready to pivot**
  - ◆ Antibiotics looked OK but not awesome
    - ◆ Regulatory issues developed
    - ◆ Arch-competitor has a failed drug on market
    - ◆ (\$10,000 in 2013 would be worth \$90 today).

## ▶ Antibiotic maker Tetraphase goes cheap

AcelRx Pharmaceuticals, an opioid-drug maker, is buying Tetraphase Pharmaceuticals for a mere \$14.4 million. Tetraphase sells Xerava, a tetracycline antibiotic administered via injection to treat multi-drug-resistant infections. When Xerava was approved in August 2018, the firm's stock rose to more than \$70 a share; earlier this month it was trading for less than \$1. Tetraphase has amassed losses of \$600 million and sold only \$3.6 million worth of Xerava in 2019.—RYAN CROSS

# Lessons learned

- ◊ Find a way to stand out from the crowd
  - ◊ Hook up with past winners
- ◊ Be ready to pivot
  - ◊ Antibiotics looked OK but not awesome
    - ◊ Arch-competitor has a failed drug on market
  - ◊ **Cancer=great field; Tony Sun=great CEO**
- ◊ Raise nondilutive capital (\$8M in grants)
- ◊ Think about tax consequences
- ◊ Think about corporate control
- ◊ Get an experienced board/advisors
- ◊ Get excellent legal advice
- ◊ Go big!

# Fun future possibilities

- ◆ Potential milestones and royalties:
  - ◆ Depend on whether Recurium Equity has more than 10% of ZNTL
  - ◆ Milestones: from \$16.5M to 44.5M per product through FDA approval
  - ◆ Royalties: If SERD drug sells \$2B/yr for 10 yrs,
    - ◆ Recurium gets ~\$1.5B
    - ◆ TCA \$25K investor gets \$3M (120x return)
  - ◆ Big Pharma likely to buy out the license for an up-front payment
- ◆ Kalyra has a pain drug in the clinic (Phase 1)
  - ◆ More potent than morphine
  - ◆ No opioid receptor activity
  - ◆ (Must raise more money)

QUESTIONS?