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**Voice-Over:** The *BioWorld Insider* podcast.

**Lynn Yoffee:** This is the *BioWorld Insider* podcast. I'm Lynn Yoffee, *BioWorld*'s publisher. Our guest today is Pete O'Heeron. He's the CEO of Fibrobiologics, a company that decided the traditional way of going public isn't the best way to raise money. His board explored every option, a SPAC, a reverse merger, a traditional IPO. Instead, O'Heeron and his team took the entirely non-traditional route of going public on their own with no banks as underwriters. Fibrobiologics recently began trading on Nasdaq through a direct listing, something that's practically unheard of for a biopharma company. Welcome, Pete.

**Pete O'Heeron:** Thank you.

**Lynn:** He's here today talking with Lee Landenberger, a *BioWorld* staff writer and the *BioWorld Insider* host. Lee?

**Lee Landenberger:** Thank you, Lynn, and thank you, Pete. You two had met before about a year ago at Bio, so this is a first for me. Pete, thanks for joining us today. You've gone down a path with the company that's usually not taken for a biotech, so I wanted to get some details from you. Would you tell me about the company, what you do, and then what brought about the decision that made you decide to find a different fundraising path?

**Pete:** Sure. We deal with fibroblast cells. In cell therapy, there's two cell sources you can use to regenerate tissue and cure chronic disease. The stem cell, which everybody's heard about, and then there's a fibroblast, which almost nobody's heard about. The irony here is the fibroblasts are the most common cell in the human body and they outnumber stem cells 5,000 to 1.

The reason I think that we know more about stem cells is because they won the Nobel Prize in 2012 when Dr. Yamanaka created the first induced pluripotent stem cell. The second irony of the story is he used a fibroblast to do that. We like to take credit at Fibrobiologics that fibroblasts really created the entire stem cell revolution. While everyone was chasing stem cells, we were looking at fibroblasts. We've had literally an explosion of discovery.

In all of our comparative studies, fibroblasts outperformed stem cells dramatically, significantly, outperformed stem cells. They're easier to grow. They're easier to harvest. They're easier to store. They're easier to ship. They have more therapeutic value associated with them. They're a more potent cell source. It's an area that we have been focused on for a number of years.

When we were ready to start and move beyond, phase I trials and out of the lab into phase I/II trials, you have a need to raise additional capital. Most of our funding had been from family offices and surgeons really. Over the years, we've been funded exclusively with angels. We have taken no venture capital or institutional investment. We've had, I don't know, six or seven family offices.

When we looked at how to go public, one of the things that the top-tier banks look at is, "Do you have a big VC in your project? Do you have an RA capital in your project?" We didn't, so it was hard for those guys to get behind something. The other part of the traditional IPO is it takes you 10 months to prepare for it. The night before you go public, the banks can say, "Hey, market conditions, we need to recalibrate your valuation," and then you're really sunk because you couldn't have raised capital during those 10 months.

You're beholden to the investment banker to get you out there with reasonable terms, not always the best terms for the company. That was an avenue that we set aside. Then we looked at SPACs. When we started looking at SPACs, I think the redemption on SPACs at the time were about 40%. Within three months, it jumped to 95%. If you have a $200 million SPAC, the headline says that you did a deal with a $200 million SPAC.

The reality is when you go public, those companies inside of that SPAC or the investors inside the SPAC can redeem their position out on any deal. At a 95% redemption rate, you're ending up with about less than $10 million on a $200 million deal. You have to do another private offering on the side. It becomes really complicated. I didn't understand why anyone was even doing SPACs, why people were putting SPACs together with a 95% redemption rate.

Ruling out the traditional IPO, ruling out the SPAC, you get to a reverse merger into a public shell. I've done that before. The issue we saw with reverse mergers in the public shell is that there's always a chance that some shareholder will show up with a handwritten agreement on a restaurant napkin that assured them of non-dilutive for the rest of their life and you have to deal with how valid is that and how do we accommodate that shareholder even if you have a clean SPAC. We have a number of people approach us with clean SPACs, but I just don't think those exist.

It left us with a direct listing. We couldn't find anyone that had ever done one. When we looked at it, we qualified for it. We had over 400 accredited investors. We had a meeting with Nasdaq and we were off to the races with a direct listing. I can tell you, one of the reasons people don't do them is they're extraordinarily difficult to do. It's a round-the-clock effort for a good ... I guess it would probably be six or seven months to get it ready for listing. It's a very difficult process, but we saw it through. We couldn't be more happy with the outcome and the support we received from Nasdaq.

**Lee:** Were there any other companies that you could look over their shoulder in the past and see how they may have done it? I'm just curious. You probably took one look at the process and saw it was administratively heavy and went, "I don't know."

**Pete:** We didn't. We were blazing. Every day, it felt like we were blazing new ground. There were no biotechs that we could look at that had done a direct listing. I think there was a software company. Nasdaq said we were the second company in the history of their exchange in Texas to do a direct listing. One was a software company. That was a different listing because the insiders were selling their stock in that direct listing and we weren't selling our stock. When the insiders sell their stock in a direct listing, it's as if you're telling the market, "This is the best it's ever going to be." We had an entirely different feeling about Fibrobiologics. We're just getting started and it's upwards from here. We really didn't have a model to go after. Everything we did, we did manually and internally.

**Lee:** I'm curious about your board. It had to be a group decision ultimately, right?

**Pete:** The board is great. We handpicked each one of those people for their skill set. If you look at our board, you'll see that all of them are operational folks. There's no analyst on the board or no venture capitalist MBA type on the board. Not taking anything away from them, but we wanted people that were in the game. We have an operations expert, rollout expert. We have a generalist. We have a business development person. We have a clinical person. We have a CFO type. We have people that are currently in pharma right now working and doing deals. That was really important to me that we had people that were active in the field.

**Lee:** I'm curious about your market cap and how it might compare to companies who took a traditional IPO path.

**Pete:** That is a great question. What I can tell you is that we just saw-- as part of our annual proxy statement, we look at comps from other companies. We get a third party in here to pull comps. I think there was a list of 20 companies. We were the only one on that list with less than 15 employees with a $340 million market cap. I can't find someone to do a direct comparison. We have a platform technology. We have multiple shots on goal. We have an IND clearance. Finding another company in that space is very difficult. We have probably the highest market cap per employee of any public company right now.

**Lee:** In January, when you made your announcement that you were going to be listed on Nasdaq, there was this unusual sentence at the end of it where it says, "Fibrobiologics isn't raising any capital through the listing." When I saw that, I looked twice. Has anybody commented on that to you and said, "What are you guys doing?"

**Pete:** They have. They have. "Why aren't you raising money?" Well, then it would be a traditional IPO fully underwritten by an investment banker, and then we would be at the mercy of that investment banker. I have done an IPO that was pulled at the last minute. You're literally handing over the future of your company to the hands of a couple of people that are trying to get a great deal for their clients.

A lot of people traditionally do that, but they also have institutional big venture capitalists, big name brand people in their project that can give them a shield against bad behavior by an investment bank that's out to get their clients a really good deal. I don't mean to slam those people. That's just the dynamics. When I tell people that story in investment banking, they just smile and shake their head because they know. At the very last moment, you hear the market has changed and we need to recalibrate your valuation. We didn't want to go through that.

**Lee:** Had that happened to you before?

**Pete:** I had, yes. [laughs] I have had it happen back in 2000. I look at that and say that was right before the crash. Had we gone public and had we gone through the crash, the company probably would have gone under, wouldn't have survived that. It all ended up being for the best because we recapitalized internally and then ended up selling that company at a 950% return to our shareholders. That ended up being a much better deal for not going public.

**Lee:** Since you've listed doing it this way since January, can you talk to me a little bit about the upsides since then and if there are any downsides?

**Pete:** I think we saw a little volatility in the stock price where the market was trying to find that comfort zone to trade us in. When we opened, we opened at a $1 billion valuation. We closed at a $1 billion valuation. The stock settled in right around that $400 million market cap position. That's where we're trading right now. It feels like the market's waiting for another event from us or announcement for us that can elevate the value of what we're working on. It seems to have found its comfort zone right now.

**Lee:** Tell me about where you are in the development path and what those landmarks might be that the market's looking for.

**Pete:** Sure. We have a phase I/II trial coming up, January of 2025 in wound care, diabetic foot ulcers. Then after that, we have multiple sclerosis. Then after that, we have degenerative disease. By that, I mean they will be right on the heels of each other. Those are our three big rollout programs. Internally, we've seen really great results on psoriasis. I think you'll see something on that coming up. One of our more intriguing programs is thymic involution.

If you talk to 1,000 companies over the next month, you wouldn't hear one of them mention that they were working on the thymus gland. I think we're the only one in the world doing that. The thymus gland sits right below your breastplate and it's the teaching center for the immune system. You've heard of T cells. Those are thymic cells. As you get into your 50s, 60s, and 70s, that thymus gland starts to shut down by your 70s. It's almost 95% non-functioning. Well, you don't have more cancer in your 70s than you have in your 40s. It's just your thymus gland stops training the immune system.

When you look at extension of life and the telomere extensions, lengthening of telomeres or calorie restrictions, all those other ones that you've read about, we can't think of anything that'll be more complete for the health of an individual in extending human life than a healthy immune system. We're working on regrowing that thymus gland, regenerating the thymus gland, taking it back to when you were in your 30s and 40s. It was a fully functioning part of the immune system. That is really exciting. This summer, we're kicking off our cancer platform.

**Lee:** When you're looking at the process for getting funding just in the past few months and if somebody else was considering this, is there anything that you would change in the process or something that you would tell them, "Well, look out for this," or "Be wary of that," or even take advantage of this?

**Pete:** I think that I would probably come to the market with $20 million cash in the bank so that your reference price was not dictated by someone else or they didn't use your cash balance to beat you up. I guess I would say that. It's hard because when you start the process, you really can't raise capital during the process. You're in a full burn on your cash balance. You can't replenish it with a raise, right?

When you get ready to go public, then that cash balance can be used against you. I would probably start with a little bit higher cash balance, and then we're doing a follow-on offering right now for $20 million. We're out doing a roadshow for that and getting a great response. I think one of the bankers called it a delayed IPO. We went public trading. Now, we're doing a follow-on.

**Lee:** [chuckles] Is this path good just for Fibrobiologics because of the way it's structured and what your development path is or might it be good for any biotech?

**Pete:** I think if you can get over the threshold for credit investors, I think it would work for anyone. That's the hard part. When you do the traditional route, I had a major top venture capitalist actually come to town after we did our direct listing and met with myself and our CFO and said, "Wow, this is--" because he felt that he was under the thumb of the investment bankers that they work with, which is interesting because I'd never would have thought that.

I would have thought that they had enough leverage that they could dictate their own IPOs. He said, "I'm interested in doing a direct listing." The issue they have in those venture capitalists is that there's only a handful of guys in the project. You may have a project where you have 100 employees in the company, but there's only a core of 10 investors because they're all venture capitalists. You can't do it with 10. You have to have over 100 accredited investors to be able to qualify to do a direct listing.

When we were talking with larger investors, they would say, "Well, you have too many shareholders." I used to say, "We'll put them in a box, set them off to the side, give them certain rights, but you don't have to include them if you do your investment." They used to say, "No, we don't want to get in a project with that many shareholders at that time." I think there were 200 or 300 surgeons. Well, that they saw was a weakness for us ended up being our biggest strength because, now, we have enough accredited investors to not just list on NASDAQ but list on their highest exchange, their global exchange.

I think that's the hurdle if someone wants to do a direct listing to get over. How can you get over that? You can go out and raise money through a Reg CF, through a Reg A, through a start engine platform or something like that, and really build your shareholder base right before you go public. I think for 99% of the companies that want to do a direct listing, they're going to hit that minimum shareholder threshold and not have the number of shareholders they need to go public.

**Lee:** Got it. Lynn, did you have any questions you wanted to ask Pete?

**Lynn:** I don't. I think you did a great job. Pete, I think you have blazed a trail that's going to be a model for other companies out there looking for a new path.

**Pete:** Well, [chuckles] we did it out of necessity. If it's helpful to other groups to follow and look what we did and maybe use as a template, I wish him well, I wish him luck. We think cell therapy is the future of medicine. We would love to have everyone be successful in this field. If direct listing is something they want to pursue, I would say it's well worth pursuing. I think at the end of the day, "Would you do it again?" is the question you have to ask when you do some major initiative and you do a debrief on the other side. The true test is, would you do it again? Myself and my CFO ask that all the time. Yes, I would do it again in exactly the same way.

**Lee:** Well, great. We want to wish you the best of luck. I look forward to talking to you again, maybe in a year, see how you guys are doing.

**Pete:** Oh, great. I'd love that. Thanks. Now, if any of you guys are at Bio, love to see you and shake your hand.

**Lee:** Terrific. Pete, thanks for your time and your insight. Lynn?

**Lynn:** That's our show for today. As always, *BioWorld* will continue to keep you informed of all the most important scientific, clinical, regulatory, and business updates in the biotech space. We're a daily new service covering the development of the most innovative human therapeutics designed to improve the human condition. If you need to track the development of drugs, turn to bioworld.com. Follow us on LinkedIn or X. If you want to share news with us, drop us an email at [newsdesk@bioworld.com](mailto:newsdesk@bioworld.com). Also, if you're enjoying this podcast, don't forget to subscribe via your favorite platform. Thanks for joining us today.

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