

## Electrical Geodesics, Inc. Raises \$12 Million in AIM IPO

### Overview

Eugene, Oregon-based Electrical Geodesics, Inc. (EGI) raised \$12 million in its recent IPO on the London Stock Exchange's AIM.

EGI is a medical device company that designs, develops and commercializes a range of non-invasive neurodiagnostic hardware and software products used to monitor and interpret brain activity. A key component of these products is EGI's proprietary dense array electroencephalography (dEEG) platform technology. The dense array method gathers brain activity data from many more electrodes than conventional EEG products, generating significantly higher-quality and more precise levels of information. EGI has over 500 customers in 30 countries, including leading researchers and clinical opinion leaders in a broad range of applications such as epilepsy, autism, stroke, traumatic brain injury and sleep disorders.

The Company's technology has been increasingly adopted as a powerful research tool and, more recently, as a cost-effective and patient-friendly clinical neurodiagnostic platform. In March 2013, EGI was awarded a three-year group purchasing organization (GPO) contract with Premier, Inc., the operator of a North American healthcare alliance, providing access to Premier's customer base of 2,800 hospitals. This is the first time dEEG products have been made available in North America through a GPO contract.

EGI was founded in 1992 to commercialize advanced EEG products invented by the Company's Co-Founder, Chairman & CEO in the Brain Electrophysiology Laboratory at the University of Oregon. Since inception, the Company has largely been financed via grants, which have amounted to over \$25 million. EGI has 78 employees; 72 in Eugene, Oregon, four in England and one each in India and Switzerland, working in R&D (30), manufacturing (18), sales (16), administration (11) and executive (3) functions.

EGI's technology has advanced steadily over the last 20 years, with regulatory clearance from the U.S. FDA, EU MDD/CE and a number of other major international regulatory bodies. Barriers-to-entry include reliance on trade secrets and know-how as well as patents, particularly with respect to the myriad technologies surrounding electrical brain imaging. The Company owns six patents and another patent has been exclusively licensed from UCLA. Since inception, over 1,000 peer-reviewed publications have cited use of an EGI system, with over 200 articles published since the beginning of 2012.

The Company's business model is based around the initial sale, directly and through distributors, of the dEEG system, with additional revenues generated from the sale of expandable hardware and software modules. Recurring revenues are generated from the sale of consumables and annual support contracts.

### Key Financial Metrics

(in USD millions)	Y/E 12/31/10	Y/E 12/31/11	Y/E 12/31/12	Δ '10 - '11	Δ '11 - '12
Revenue	\$9.0	\$11.8	\$12.5	+31%	+6%
Cost of Goods Sold	3.0	4.0	4.7	+33%	+18%
Operating Expenses	5.5	7.0	7.7	+27%	+10%
Tax (Expense)/Benefit	(0.1)	(0.2)	0.1	+100%	-150%
Net Income	0.4	0.6	0.2	+50%	-67%
EBITDA	0.8	1.2	0.6	+50%	-50%
Total Assets	5.2	6.3	7.4	+21%	+17%
Working Capital	1.4	1.1	1.6	-21%	+45%
Cash	0.6	1.2	0.7	+100%	-42%

The geographical spread of the Company's revenue during 2012 was 52% North America, 35% Europe and 13% Rest-of-World, with no one customer accounting for more than 10% of sales.

### **Key Listing Metrics**

- \$12.1m gross was raised, \$10.4m net of offering costs, intended to be used for:
  - \$3.1m – Sales and marketing
  - \$2.6m – Working capital
  - \$2.1m – Engineering staff
  - \$1.6m – R&D and launch of next generation products
  - \$1.0m – Manufacturing and support
  
- Offering costs amounted to 14.0% of the gross capital raised for the Company
  - The offering was undertaken on a 'best efforts' basis, as opposed to being underwritten
    - Broking commission of 4.0%
    - Corporate finance fee of £150k (\$227k)
  
- Opening market capitalization of \$44.3m
- Dilution to existing shareholders of 27.3%
- Free float of 35.5%
  
- Trailing pre-money revenue multiple of 2.6
- Trailing pre-money EBITDA multiple of 53.7<sup>1</sup>
- Trailing pre-money P/E ratio of 161.0<sup>1</sup>

### **Shareholder Base**

The Company had 17.8 million shares outstanding prior to the IPO and issued 6.7 million new shares for cash in the IPO, leaving the Company with 24.5 million shares outstanding. The table below details those who held 3% or more of the Company prior to and/or after the IPO, along with the collective ownership of the Current and Former Employees and the Other New U.K. Investors and the Non-Executive Director.

Shareholder	Pre-IPO %	Post-IPO %
Co-Founder, Chairman, CEO and Director	78.73	57.26 <sup>2</sup>
Co-Founder, President, COO and Director	9.84	7.16 <sup>2</sup>
Scientific/Academic Collaborator	4.92	3.58 <sup>3</sup>
Scientific/Academic Collaborator	4.92	3.58 <sup>3</sup>
Current and Former Employees	1.59	1.15
Global Institution (Various Funds)	-	10.00
London Technology Fund Manager	-	6.82
London Institution (Insurance and Pension Funds)	-	3.75
Global Institution (Various Funds)	-	3.41
Other New U.K. Investors	-	3.17
Non-Executive Director	-	0.12
Totals	100.00	100.00

<sup>1</sup> Not particularly meaningful given the relatively small denominators.

<sup>2</sup> Subject to a lock-in until the Company publishes its December 31, 2013 financial statements and customary orderly market provisions for a further six months.

<sup>3</sup> Subject to customary orderly market provisions until one month after the Company announces its December 31, 2013 preliminary financial results.

The Co-Founders have largely financed the Company since inception in 1992 via grants aggregating \$25 million from U.S. governmental agencies such as the National Institutes of Health, the Defense Advanced Research Projects Agency, the National Geospatial-Intelligence Agency and the Office of Naval Research. Early success in the NIH's Small Business Innovation Research grant program, together with sales of prototype systems to research customers, allowed the Company to release its first complete product in 1994. In January 2013, the European Commission announced a €1 billion, 10-year grant for the Human Brain Project, the goal of which is to improve diagnosis and treatment for brain diseases. In the U.S., there have been media reports suggesting the potential availability of funding for brain research. EGI believes it is well-placed to benefit from such initiatives. In addition to grant funding, the Company has received some relatively small federal and state tax research credits and has access to \$2 million of banking facilities.

The IPO has provided the Company with growth capital to expand its sales and marketing activities, augment its engineering staff and continue its R&D efforts. With a solid base of blue-chip Institutional and Other U.K. Investors, the Company is well-positioned to raise additional capital, if necessary. In fact, the Company has received advance assurance from the U.K. taxing authorities that it should be a qualifying company for tax-advantaged Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) investors. In order for a company to be VCT/EIS eligible, it must, amongst other things, create a permanent establishment in the U.K., which the Company already had given its four English employees. Finally, in order to better align the interests of the Company's employees, directors and consultants with the shareholders, an Equity Incentive Plan was established amounting to 7% of the outstanding shares.

### **Board of Directors and Corporate Governance**

The Board consists of three Executive Directors (the Co-Founder, Chairman and CEO, the other Co-Founder, President and COO and the CFO) and one independent Non-Executive Director (NED); all with solid resumes and a good blend of complementary experiences and skill sets. The Company intends to appoint a second, suitably qualified NED post-IPO. The Board will meet at least six times per year.

Companies listed on AIM are not required to comply with the U.K. Corporate Governance Code, which is mandatory for companies listed on the Main Market; however, as is typical, the Company intends to take into account, so far as is practicable and appropriate in the Board's determination for a public company of the Company's size, board structure, stage-of-development and resources, the Corporate Governance Guidelines for Smaller Quoted Companies, which are published by the Quoted Companies Alliance. The overarching principle of such guidance is to ensure that a company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the long term.

Since the Company's Co-Founder, Chairman and CEO is not deemed to be independent by virtue of his substantial shareholding and executive position, he entered into a Relationship Agreement with the Company. The Relationship Agreement regulates certain aspects of the continuing relationship between the Company and the Chairman to ensure that the Company is capable of carrying on its business independently of the Chairman and that future transactions between the Company and the Chairman are commercially normal and conducted on arm's-length terms.

The Company has established an Audit Committee and a Remuneration Committee. The Audit Committee is chaired by the independent NED with the Co-Founder, President and COO serving as the other member. The Remuneration Committee is also chaired by the independent NED with the CFO serving as the other member. Both committees will meet at least twice a year.

### **Legal Considerations**

The Company was initially incorporated in the State of Oregon and reincorporated in the State of Delaware a couple weeks before the IPO. Since the Company is not incorporated in the U.K. or one of its Crown Dependencies, the Channel Islands and the Isle of Man, 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 75% of them for, the issuance of shares for cash of more than 10% of the then outstanding shares during any 12-month period.<sup>4</sup>
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. 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) are not eligible for dematerialization and, as such, are always 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 Isle of Man, its shares that are not subject to Reg. S are not eligible for trading within CREST; the most common electronic system for the holding and transfer of shares in the U.K., however, a Depository could be appointed and Depository Interests (DIs), which represent an entitlement to shares, could be created, allowing for the immediate trading of these non-Reg S. DIs within CREST. Nevertheless, the Company is planning to appoint a Depository and create DIs for all of its shares, except those held by affiliates, following the expiration of the one-year distribution compliance period (i.e. one year after the IPO).

### **Accounting Considerations**

Even though the Company did not re-domicile into a European Economic Area country, which includes the U.K., they chose to report using IFRS. Since the vast majority of the Company's revenues are earned 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 Reporting Accountant while the U.S. Member Firm of another international accountancy network audited the 2010 - 2012 financials. Since the IPO completed within nine months of the latest audited financial statements, audited, comparative stub period financials were not required and management chose not to provide unaudited, comparative management accounts for the three months ended March 31, 2013 and 2012.

---

<sup>4</sup> 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.