the Innovator

Q2 2021

Welcome to The Innovator

Welcome to the Q2 2021 issue of **The Innovator**, a quarterly newsletter for **iiM, LLC**. What is **iiM**? We are a funding platform for early-stage companies in the animal health, agriculture, and human health verticals. In this newsletter, we intend to share educational information, ideas, and a perspective on the investments we are making. If you do not want to receive this publication, please let us know and we will remove you from the list of recipients. Please enjoy this issue of **The Innovator.**

Lydia Kinkade, iiM Managing Director

SPAC Transactions on the Upswing

From a Research Paper Prepared by Deloitte – September 2020

Although special-purpose acquisition companies (SPACs) have been used for decades as alternative investment vehicles, they have recently come into vogue as seasoned investors and management teams have turned to SPACs to mitigate the increased market volatility risk of traditional initial public offerings (IPOs). In fact, 2020 has been a record-breaking year for SPAC IPOs; the proceeds raised in the first eight months of the year have already more than doubled those raised in 2019. This surge has been driven by the influx of high-profile investors and management teams entering the SPAC space, coupled with an abundance of uninvested capital that had largely been sitting out in the first half of 2020. However, SPAC transactions come with their own set of unique challenges, and it is essential for entities to have (1) an understanding of the risks associated with these investment vehicles and (2) a comprehensive project management plan to meet the demands of an accelerated merger timeline.

Recent market volatility, combined with the arrival of seasoned sponsors and management teams, has created a modern-day SPAC revolution. The abundance of funds held in trusts and the increased appetite for private investment in public equity (PIPE) transactions have thrust SPACs beyond the fringe of capital markets and into the mainstream as significant players for potential sponsors, investors, and target operating companies.

Introduction

A SPAC is a newly created company that uses a combination of IPO proceeds and additional financing (PIPEs have been common in recent times) to fund the acquisition of a private operating company. The proceeds raised in the IPO are placed in a trust account while the SPAC's management team seeks to complete an acquisition of an existing operating company ("target"), generally in a specific industry or geography, within the period stated in the SPAC's governing documents (typically, 18 to 24 months). If the SPAC successfully completes an acquisition, the private operating company target succeeds to the SPAC's public filing status and, as a result, the target effectively becomes a public company. If the SPAC is unable to complete an acquisition in the allotted timeframe, the cash held in its trust account is returned to its investors unless the SPAC extends its timeline via a proxy process.

Past and Present

Entities with similar characteristics to those of SPACs have existed for decades in various iterations as "blank check companies" or "public shells." The term "SPAC" was coined in the 1990s, with sponsors focusing on the technology, media, and health care industries. Since then, the popularity of SPAC offerings has ebbed and flowed, depending on economic conditions, trends in capital, and the general health of the IPO market. For example, SPACs gained popularity in the oil and gas industry in the mid-2010s as depressed commodity prices drove investors toward experienced management teams that were increasingly likely to find existing operating companies or mineral rights for a discount. The number of SPAC IPOs has increased steadily since 2013, and 2020 has been a banner year in terms of the volume and size of SPAC IPOs.

SPAC IPO Issuances Since 2013

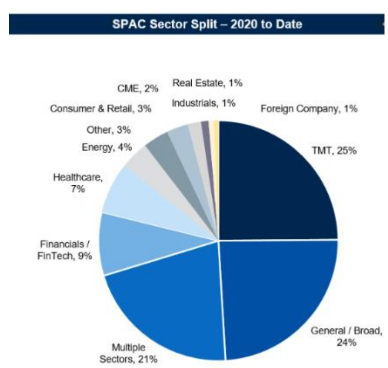
Year	Amount Raised ($ in billions)	Number of IPOs	Average Size ($ in millions)
2020 (to date)	33.1	81	408.7
2019	13.6	59	230.5
2018	10.8	46	233.7
2017	10.0	34	295.5
2016	3.5	13	269.2
2015	3.9	20	195.1
2014	1.8	12	144.9
2013	1.4	10	144.7

Data source: SPACInsider as of August 31, 2020.

This momentum is not showing any signs of slowing down, and the first eight months of 2020 have already been filled with landmark SPAC records, including:

- The highest number of SPAC IPOs in a year (81).
- The highest amount of SPAC proceeds raised in a year ($33.1 billion).
- The highest average SPAC IPO size in a year ($408.7 million).
- The largest SPAC IPO on record ($4 billion).

Rise in SPAC Use



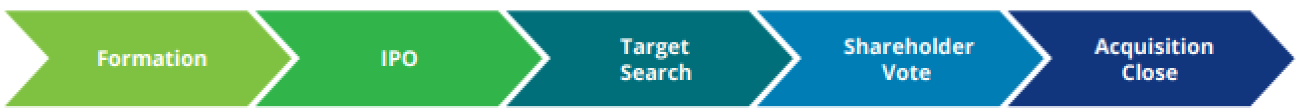
The increase in the use of SPAC IPOs as alternatives to traditional IPOs is the result of a confluence of factors. First, unspent committed capital, or "dry powder," held by private equity was estimated to be near $1.45 trillion as of June 2020, which bolstered the supply of capital that had mostly been sitting on the sidelines in the first part of year. Second, while pricing for a traditional IPO is affected by market volatility and broader investor sentiment, which can vary significantly leading up to the time of pricing, SPAC mergers provide more certainty because of up-front pricing and valuation that is in large part determined through negotiations that typically occur months before the transaction closes. The recent rise in market volatility, which is largely attributable to the coronavirus disease 2019 pandemic and the upcoming U.S. presidential election, has therefore prompted some companies to forego the traditional IPO route for the up-front price discovery and potential accelerated timeline offered by a SPAC transaction. Furthermore, SPAC mergers give sponsors the opportunity to raise additional capital through PIPEs to finance a significant portion of the target's acquisition price and to provide post-merger operating cash.

As the use of SPACs increased, a number of well-known investors and hedge fund managers entered the SPAC space, and some high-profile SPAC acquisitions lent credibility to the structure as a reputable investment vehicle. In many cases, these sophisticated sponsors have remained involved with the target company to provide ongoing support after the merger was consummated. The influx of seasoned managers with proven track records, coupled with better alignment of sponsor incentives with investor returns, has increased investor confidence in SPACs, enabling them to raise significant capital to be used in targeting larger and more mature companies. In addition, the SPAC market has benefitted from the entrance of retail investors that have looked toward post-IPO SPACs as a means of finding suitable returns in the recently volatile market.

Life Cycle of a SPAC

A SPAC's life begins with its initial formation, followed by its IPO, its search for a target, a shareholder merger vote, and, finally, the close of an acquisition (or the return of the SPAC's proceeds to investors). The SPAC process differs from that of a traditional IPO in that the target company (which eventually becomes the public company post-acquisition) is not involved in the formation of the SPAC or the IPO phases. However, the terms of the units offered in a SPAC IPO and the agreements the SPAC has with its sponsor and management team ultimately influence the value that target company investors extract from a SPAC merger.

The phases of a SPAC's life cycle are outlined below.



Venture Investing Terminology

There are many terms in the venture capital world that can be confusing. As we look at various companies and meet with their founders, you may hear us use some of this terminology. Here are a few such terms and what they mean.

Investor's Rights Agreement – An agreement that is frequently required by early, or large, investors in a company. This agreement may include many provisions, such as "First Offer" (the right, but not the obligation, to participate in future fundraising rounds and "Observer Rights' (the right to observe board meetings). This provision is relevant to shareholders because it may include a separate right of first refusal for investors.

No Shop Clause – The clause in a term sheet that states to the founder they are not to share the term sheet with other investors to receive a competing offer. This is a standard clause. The etiquette in venture is to give founders about a week or less for a decision on a term sheet to limit the time founders must unofficially 'shop around' the deal.

Piggyback Registration Rights – The right of investors to have shares included in a public offering the company plans to conduct for itself or another shareholder. Usually, this applies to an unlimited number of offerings until the registration rights terminate.

Preemptive Rights – Similar to rights of first refusal. The term preemptive rights refers to the right to purchase a company's new shares before they are offered to anyone else. In term sheets the preemptive rights provision may be titled "Right to Participate Pro Rata in Future Rounds". This is standard in term sheets.

Estate Planning Ideas for Venture Investors

By Robert Kirkland, Attorney-at-Law and iiM Investor Member

The Democratic sweep in the 2020 elections has brought to the forefront the discussion of sweeping tax law changes. Specifically, the Biden administration has proposed a decrease in the lifetime gift tax/estate tax exemption from $11,700,000 to $3,500,000. Many taxpayers feel they are faced with a "use it or lose it" proposition with respect to this exemption.

Many have completed or are considering techniques which utilize the present exemption level now to transfer wealth to lower generations on tax favorable basis. If a transfer of wealth which amounts to more than the proposed $3,500,000 exemption is made during life, you can claim the current exemption to avoid gift tax on such transfer AND remove all the post-gift appreciation from your estate for estate and gift tax purposes. The following is a discussion of a few ways to accomplish this with part of your venture capital investments.

A Family Limited Partnership (FLP) can be very effective in achieving the business purposes you desire. In addition, an FLP enables you to transfer assets out of your taxable estate by making the best use of the available transfer tax exemptions.

A Family Limited Partnership is a partnership established by you, through which you will hold title to assets you currently own. Once the FLP is created, you can make gifts to your family members by transferring limited partnership interests to them, without having to identify the underlying assets which you are giving. A Limited Partnership differs from a General Partnership in that there are two classes of partners, general partners, and limited partners. The Limited Partners are for the most part passive investors, like individuals owning non-voting stock in a corporation. The General Partners control partnership operations, investments, and distributions.

The first step in the formation of the FLP is the formation of a separate limited liability company ("LLC"), which LLC will be the General Partner of the FLP. You should own no more than 50% of this LLC! Next is the execution of a written Partnership Agreement which sets out the details of the various rights, duties, and obligations of the partners. Once the Partnership Agreement is signed, a Certificate of Limited Partnership must be filed with the Secretary of State. At or shortly after the time when the Partnership Agreement is signed, you will retitle various assets in the name of the Partnership, in exchange for the general and limited partnership interests you will hold. The FLP will then own these assets, and you (and eventually your descendants, as explained below) will simply own percentage interests in the FLP.

Your next step, usually at least six months later, is to transfer limited partnership interests to irrevocable trusts for the descendants. The value of these transfers for gift tax reporting purposes will be "discounted" to take into account the lack of marketability if such interests, and the fact that such interests impart no control on the interest owner. Thus, the value of the partnership interest to the Limited Partner is deemed less than the percentage value of the underlying assets. The amount of the discounts should be determined by a qualified, independent appraiser. In addition to the valuation discounts available for gift tax purposes, it is also possible that the limited partnership interests you hold at death will be discounted for estate tax purposes.

Another popular technique is an irrevocable trust known as a "Spousal Lifetime Access Trust" (or "SLAT"). A SLAT is an irrevocable trust created by one spouse (the donor-spouse) for the benefit of the other spouse (the donee-spouse).

One spouse makes a gift by transferring assets into a SLAT using his gift tax exclusion. The donee-spouse is either a mandatory or discretionary beneficiary of the income of the SLAT. The trust agreement authorizes the trustee to distribute principal to or for the donee-spouse's benefit pursuant to a discretionary standard. If desired, there may be additional current beneficiaries of the SLAT, such as children.

Upon the donee-spouse's death, the assets can remain in trust for the benefit of the next beneficiaries, often children and their descendants. This structure typically mirrors the client's estate plan.

SLATS are grantor trusts as to the donor-spouse, meaning that all income generated by the SLAT assets will be taxable to the donor-spouse. The Advantages of the SLAT are:

(1) It allows the donor-spouse to use his or her lifetime gift tax exemption, locking in the current high exemption amount.

(2) Assets in the SLAT, including any appreciation, are not subject to estate tax in the estate of the donor-spouse or the donee-spouse and can be designed to avoid estate tax for children, grandchildren, and generations beyond.

(3) All SLAT assets and earnings are available to the trustee to benefit the donee-spouse…. this also creates indirect access to the donor-spouse, **as long as** the donee-spouse is living and remains married to the donor-spouse.

(4) SLAT assets are generally protected from the creditors of spouses, children, and more remote descendants.

(5) Income is taxable to the donor-spouse, meaning SLAT assets continue to grow, free from income taxes, while the donor-spouse's estate is reduced by the income tax payments.

(6) If structured carefully, spouses can create a SLAT for each other, though material differences must exist in the trust terms.

Robert Kirkland is a founding partner of Kirkland Woods & Martinsen LLP and works with a variety of individual clients, handling the preparation of estate planning instruments, and counseling clients in the areas of estate and gift tax minimization, probate avoidance, gifting techniques, asset protection, charitable planning and business succession planning.

A Look at a Portfolio Company

We are pleased to currently have 13 companies in the **iiM** portfolio with due diligence underway for additional investments. One of our more recent portfolio companies is **PyrAmes Inc.**, based in Cupertino, California.

PyrAmes has developed a unique sensor platform that provides continuous blood pressure monitoring in a lightweight, comfortable, wireless package. With its paper-thin, flexible sensor and compact wristwatch form factor, it is an alternative to arterial lines and inflatable cuff-based blood pressure monitoring systems.

The **PyrAmes** device is non-invasive, low-cost and easy to use, unlike arterial lines, the current standard of care for blood pressure monitoring. Unlike blood pressure cuffs, their device is low-profile, unobtrusive, easy to use, and comfortable to wear, particularly for long-term monitoring. Unlike optical (PPG), pulse transit time (PTT) or pulsewave velocity (PWV) systems, our device is a single point device, does not require significant pressure against the skin, and is not susceptible to skin color or hair.

iiM made an initial investment in the company's Series A Preferred Stock round in January 2021.

https:// pyrameshealth.com/

About iiM

iiM (Innovation in Motion) is a funding platform for early-stage companies in the Animal Health, Human Health and Agriculture verticals. The company invests $100,000 - $500,000 in selected companies. **iiM** is building a diversified portfolio of companies – currently there are 13 with commitments to fund at least two more – with a target of at least 30 to 40 portfolio companies. A professional staff guides 30 investors making investments across the United States and Canada.

The **iiM Syndicate** entitles its members to participate in all the **iiM** meetings and pipeline calls; review prospective investments; view due diligence materials and invest only in those companies that each member chooses. And an investment can be as little as $5,000.

Why a syndicate? Syndicate members invest alongside **iiM Investor Members** to produce a cumulative capital investment that is meaningful to new portfolio companies. Further, if the capital commitment is large enough, **iiM** may be in a position to lead the investment round and secure even better terms and conditions for all investors. In one investment, Investor and Syndicate members pooled capital totaling $530,000 to invest in a Series A Preferred Stock round. Syndicate members must be Accredited Investors and pay $2,500 per year to participate.

If you are interested in attending an **iiM** meeting or want more information about the **iiM Syndicate**, please contact **Lydia Kinkade**, Managing Director, at **lkinkade@iimkc.com** or (913) 671-3325. The **iiM** website is **www.iimkc.com**.