September 30, 2020

More biotechs test the third way to market

Amy Brown

Formation of Spacs – special-purpose acquisition companies – is surging, but will fierce competition for deals hurt performance?

Lifesci Acquisition Corp became the latest special-purpose acquisition company, or Spac, to find a merger target this week. Vincera Pharma, a private cancer-focused start-up, will take on Lifesci's Nasdaq listing and become a publicly traded company with $60m in the bank.

This is the very purpose of Spacs – to offer private firms an alternative route to market – and a surge in their creation is a recent trend in the biopharma world. Performance of companies that have listed via this mechanism has been decidedly mixed, however, and Vincera's progress will be watched with interest.

With very few Spacs having delivered a deal, it is too early to tell whether these vehicles are delivering on their promises. *Evaluate Vantage* has identified five drug companies that have arrived on the market via a Spac before Vincera, and only one has gained in value since.

Immunovant is considered something of a poster child for this field, and its success is probably responsible for persuading a lot of investors to take a punt on this type of investment. And, with huge sums of money flowing into biotech right now, Spacs have been formed with growing enthusiasm this year.

Target acquired: biopharma companies listed via SPAC since 2015			
Merger target	**Spac (main backer)**	**Date merger announced**	**Share price since announcement**
Biomx	Chardan Healthcare Acquisition Corp (Chardan)	Jul 16, 2019	-37%
Immunovant	Health Sciences Acquisitions Corp (RTW Investments)	Oct 2, 2019	+264%
Immatics	Arya Sciences Acquisition Corp (Perceptive Advisors)	Mar 17, 2020	+6%
Reviva*	Tenzing Acquisition Corp (Tenzing)	Jul 21, 2020	-2%
Cerevel*	Arya Sciences Acquisition Corp II (Perceptive Advisors)	Jul 30, 2020	-32%
Vincera*	LifeSci Aquisition Corp (Chardan)	Sep 29, 2020	+20%
**Deal yet to close. Source: Evaluate Vantage.*			

A Spac, also called a blank-cheque company, is a shell that raises money through an IPO, with the cash specifically earmarked for the purchase of a private business. *Evaluate Vantage* scoured SEC filings and found 16 Spacs that listed this year with an explicit focus on drug development.

This compares with two in each of the previous three years. Given that not all of these vehicles disclose the sector in which they are fishing, it is likely that many more are considering biopharma opportunities.

Those active in this field believe that there are probably too many biotech Spacs right now competing for the same private companies.

“That will be good for the companies, as they can negotiate on their valuations and terms with multiple Spacs,” Andrew McDonald, chief executive of Lifesci Acquisition Corp and a founding partner of the banking and advisory group Lifesci Partners, told *Vantage* in an interview.

Presumably this means that Spacs might have to settle for poorer terms than originally hoped for, with obvious implications for returns down the road. Other investors told *Vantage* that several Spacs were known to have had deals fall through, another sign of how competitive the financing climate is right now.

Advantages

Still, Mr McDonald believes that Spacs are here to stay, as they offer private companies an “economically attractive” route to market.

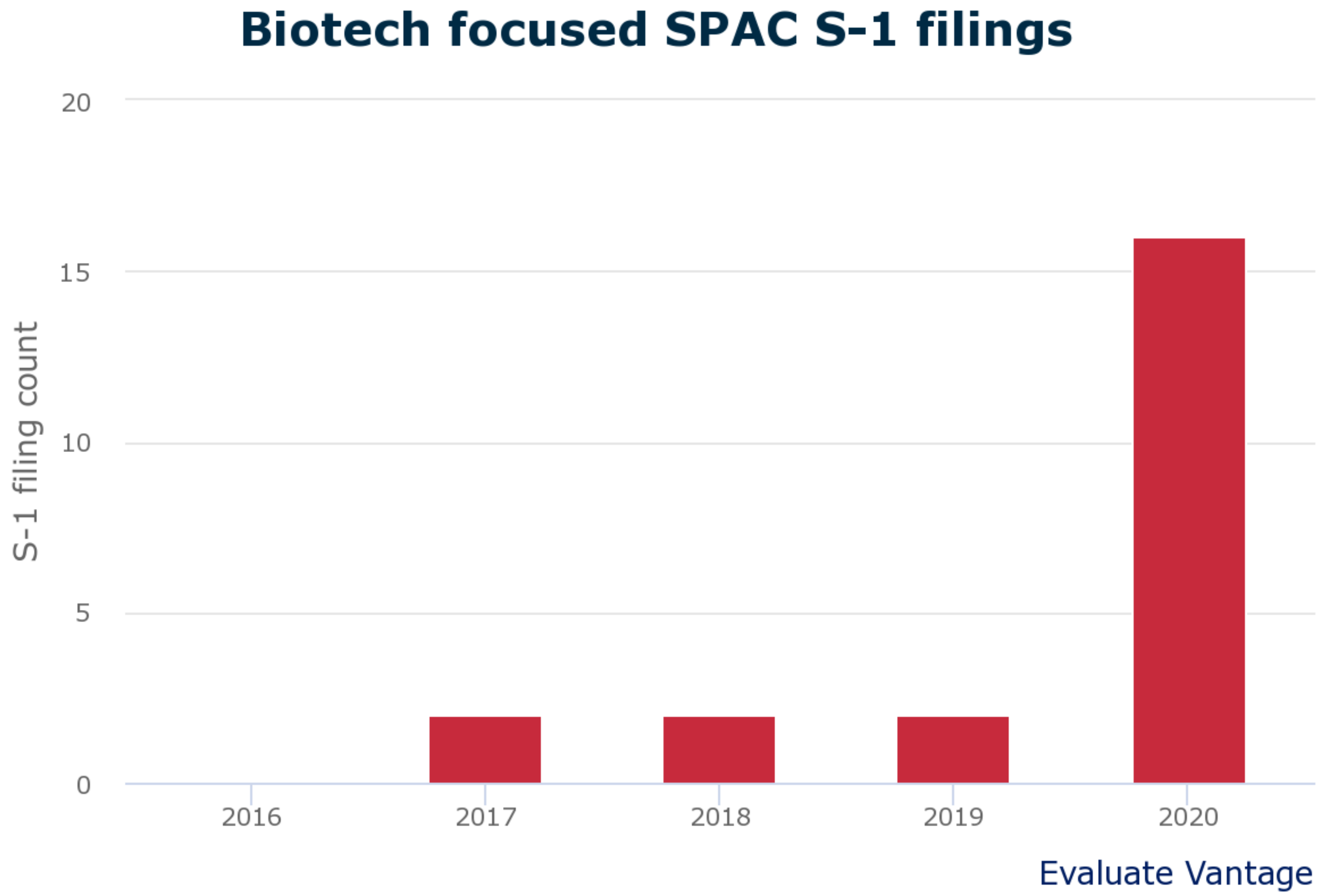
Two obvious advantages are time and cost: a company can get to market in weeks via a Spac, compared with months via traditional IPO, and avoid investment banking fees. Still, insiders’ ability to retain a larger share of the company is where the real value lies, proponents of the Spac model argue.

Largely this is because a Spac removes the need to do a crossover round. This is typically a large private financing done just ahead of IPO, bringing in sector-specialist banks or public market funds with deep pockets and a strong reputation.

However, a company’s original investors can see their holding diluted by up to 50% between a crossover round and an IPO, Mr McDonald said.

“Because a Spac is an M&A transaction, not a follow-on or a financing event, it can be structured with a lot more flexibility,” he said. So under the Vincera deal, for example, stockholders could be issued with even more shares in the newly traded company down the road, if certain milestones are hit.

According to another investor, much of the demand for Spacs is being driven by companies not happy with the level of dilution at the crossover stage. The irony here is that many of the investors in these Spacs are the same private equity, venture and other financing firms that also fund the crossover rounds.



Financing is plentiful in biopharma right now, so it makes sense for investors to pursue IPOs and Spacs alike – though Mr McDonald argues that the latter has clear advantages.

“When a bank goes to a fund and says, 'we are doing this float', the only thing they can talk about is what’s in the prospectus. A Spac is superior because the investor can go in the data room, and can go much deeper in their due diligence," he said. "And, if they don’t like it, they can get their money back.”

Whether an IPO or Spac makes for a better return is a key question; Spacs will need to find a few more Immunovants to persuade the doubters here. Companies too seem unlikely to flock in great numbers to Spacs for now, although what they offer will surely have many doing the maths.

“If a company is dead set on a traditional crossover IPO, and really wants the validation that some of these blue chip, bulge bracket investment banks bring, we’re not going to convince them to go the Spac route,” Mr McDonald says.

For that to change, companies like Vincera are going to have to keep up with their IPO’d cousins in the months ahead.