

23andme joins health tech's Spacmania



[Elizabeth Cairns](#)



But more traditional device makers seem uninterested in this means of stock market listing.

If it was not already clear that the lure of special-purpose acquisition companies had spread to the medical and health tech sector, yesterday's news that 23andme is to go public via this mechanism, in a deal that values it at around \$3.5bn, provided the clincher.

The genetic testing specialist joins half a dozen diagnostics and telehealth groups that have arranged or completed reverse mergers with blank-cheque companies in the past couple of years. And they have, on the whole, been well received: in two cases the share price has more than doubled since the deal was signed.

The Spac aiming to bring 23andme to market is Virgin Group's VG Acquisition, providing a pleasing circularity to the recent trend for this kind of deal. Virgin Galactic, a Virgin subsidiary focused on space tourism, went public via the Spac Social Capital Hedosophia in 2019. The deal was wildly successful – Virgin Galactic stock has climbed 440% since – helping to fuel the recent craze.

Whether 23andme might see similar gains is doubtful judging by the performance of other health technology Spac deals, though perhaps this is not impossible. The handheld ultrasound developer Butterfly Network is expected to close its reversal into Longview Acquisition next week, and investors are clearly happy about it; Longview's share price has doubled since the deal was revealed.

Selected health tech Spac deals

Target	Spac (main backer)	Focus	Date announced	Share price since announcement
<i>Upcoming</i>				
23andme	VG Acquisition Corp (Virgin Group)	Genetic testing	Feb 4, 2021	31%
Talkspace	Hudson Executive Investment Corp (Hudson Executive Capital)	Telehealth	Jan 13, 2021	-5%
Uphealth Holdings and Cloudbreak Health	Gigcapital2 (Gigcapital Global)	Telehealth	Nov 23, 2020	1%
Butterfly Network	Longview Acquisition Corp (Glenview Capital Management)	Diagnostic and therapeutic imaging	Nov 20, 2020	103%
<i>Completed</i>				
Soc Telemed	Healthcare Merger Corp (MTS Health Partners)	Telehealth	Jul 29, 2020	-30%
Hims & Hers Health	Oaktree Acquisition Corp (Oaktree Capital Management)	Telehealth	Oct 1, 2020	89%
Dermtech	Constellation Alpha Capital Corp (Centripetal)	Melanoma diagnostic	May 29, 2019	143%
<i>Source: Spacinsider & company releases.</i>				

But the winner among the companies in the above table is Dermtech, which makes “smart stickers” that can rule out melanoma after application to a suspicious mole. After a rocky start – stock in the Spac Constellation Alpha Capital plunged steeply before the deal’s close in August 2019 – shares were up 143% at yesterday’s close.

It is striking that all these companies offer either diagnostic or telehealth technologies. So far no company making more traditional medical devices has signed a deal with a blank-cheque group, but this might change. Last year [Evaluate Vantage looked at biotech-focused Spacs](#) and found 16 that were shopping for drugmakers, but many of these will also be considering medtech or digital health groups as targets too.

Virgin on the ridiculous

23andme will certainly be well funded once its deal closes in the second quarter. The \$509m cash in VG’s coffers and a \$250m private placement means that the pro forma cash balance of the combined company will be just under \$1bn, [according to an investor presentation](#). Existing 23andme shareholders will own 81% of the entity.

The company has shifted focus in recent years. While its bread-and-butter consumer genetic testing continues, drug discovery collaborations, under which it allows pharma companies access to its database of genetic information, is intensifying. 23andme [licensed its first candidate to Amiral](#) last month, and Glaxosmithkline is reportedly to start clinical trials of a project emerging from its collaboration with 23andme this year.

But revenues are slipping. 23andme’s sales shrank from \$441m in fiscal 2019 to \$305m in 2020, and are projected to fall again this year, to \$218m. It still expects to be lossmaking in 2024. That new cash must be put to work fast.

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