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Spac listings slow as the hunt for deals continues


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Spacs still have their supporters, but SEC scrutiny and mixed post-deal performance mean that the story is losing its lustre.

Spac flotations are slowly ticking up again after a pause in April and May, when SEC action put the brakes on these vehicles. June saw five listings of so-called blank-cheque companies that are explicitly seeking healthcare deals, making this the biggest month since March, according to data from *SpacInsider*.

Signs are emerging that investors are cooling on the opportunity, and not just because of SEC scrutiny. Shares in Spacs that are still looking for a target are, in most cases, trading below their IPO price, and a dearth of big success stories among those that have acquired a private group is not helping sentiment.

True, biotech got a boost last month from Cerevel, which doubled in value on encouraging early data in schizophrenia. The Pfizer spin-out had been bought by the hedge fund Perceptive Advisors' second Spac, Arya Sciences II, in a deal completed last October.

The sector needs more examples like this to assuage growing doubts about Spacs' ability to deliver high-quality companies. A look at the performance of developers that have come to market via this route helps explain why investors might be cooling.

De-Spac'd: A mixed performance from biopharma groups that listed via a Spac				
Target	**Spac**	**Share price move since deal announcement (to July 9, 2021)****	**Market cap at July 9, 2021**	**Spac deal announced**
Cerevel	Arya Sciences Acquisition	135%	$3.0bn	Jul 2020
Vincerx	Lifesci Acquisition	43%	$250m	Sep 2020
Immatics	Arya Sciences Acquisition	23%	$776m	Mar 2020
NRX Pharmaceuticals (formerly Neurorx)	Big Rock Partners Acquisition	15%	$546m	Dec 2020
Immunovant	Health Sciences Acquisitions	9%	$1.1bn	Oct 2019
4D pharma	Longevity Acquisition	4%	$240m	Oct 2020
Nuvation Bio	Panacea Acquisition	-5%	$2.1bn	Oct 2020
Point Biopharma*	Therapeutics Acquisition	-12%	$793m	Mar 2021
Gemini Therapeutics*	FS Development	-41%	$252m	Oct 2020
Reviva	Tenzing Acquisition	-54%	$79m	Jul 2020

*Note: eight biopharma Spac deals have been announced but have yet to close: Celularity, Tango Therapeutics, Surrozen, Roivant, Effector Therapeutics, Jasper Therapeutics, SAB Pharmaceuticals and Pardes Biosciences. Of the acquiring Spacs, only the first two are trading above $10. *Warrantless structure. **Assumes $10 pre-announcement share price. Source: Spacinsider.com & company statements.*

The former Spac poster child Immunovant is now trading at barely over $10, having topped $50 a share late last year before a safety scare with its lead project sent its stock tumbling. Immatics – which went public via Perceptive's first Spac – has struggled to hold on to gains seen earlier this year; the rise was prompted by the first signals of efficacy from its TCR approach.

Vincerx and NRX Pharma are at least trading above $10 – all Spacs float at this price so $10 can be considered the starting point for companies that list this way. But several disappointments have already emerged.

Some setbacks are to be expected, considering that this is a group of early-stage developers, many of which have yet to hit milestones. But almost all of the Spacs that are in the process of completing acquisitions are trading below $10, suggesting that investors are proving reluctant to buy into the stories on offer.

This is not unique to biopharma – investors are also cooling on Spacs in other sectors. One explanation given is that investors are putting money back into sectors hard hit by the pandemic that are now recovering. But the SEC's attention will also have reminded investors that these vehicles are high risk.

Transparency and disclosure

A much lighter level of disclosure is required around Spac acquisitions than traditional IPOs, for example. This is partly why the Spac boom caught the SEC's attention.

Initially the agency asked auditors to examine the accounting of warrants, which are offered by Spacs to help persuade investors on board. IPOs came to a halt as accounts were checked for restatements. Then reports emerged of a separate SEC investigation, triggered by concerns around transparency and disclosure.

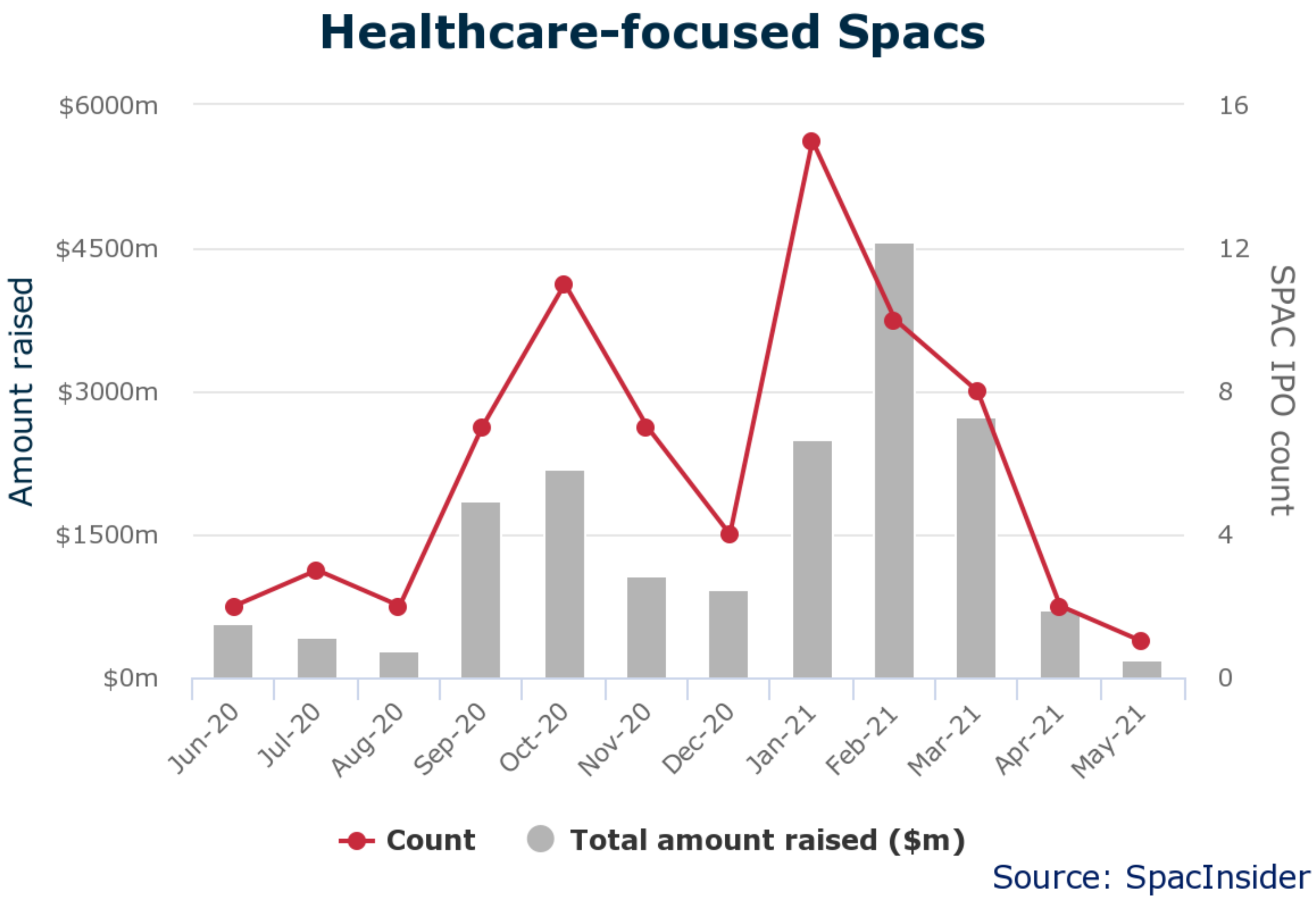
"Clarity has since emerged around the warrant issue. However, many believe that the SEC remains concerned about how Spacs and private companies are using growth projections," Ryan Maierson, a partner at the law firm Latham & Watkins, told a Bio panel about Spacs last month.

Mr Maierson believes that this is particularly pertinent to the biotech sector, which typically offers cash-burning, pre-revenue companies to investors. Valuations are therefore based on revenue projections that are typically years away from being realised.

“So the SEC is looking at the way that companies are using projections, the assumptions and inputs that they're describing, the risk factors that they're putting around them, and whether to push for enhanced disclosure around these projections,” Mr Maierson said.

He believes that the SEC is also looking at disclosures around conflicts of interest – investment banks in particular can have multiple roles in these transactions – and the ways Spac sponsors are compensated. Despite all this, he believes that Spacs are here to stay.

“The SEC has to recognise that, while there may be some practices on the margins that they want to curtail or redirect, there is no denying that with around 400 Spacs out there looking for business combinations we're going to be living with Spacs for the foreseeable future,” he said.



Unless investor interest picks up, however, it is hard to believe that Spac IPOs will return to the levels seen earlier this year. To pique the interest of investors who appear to be growing more discerning these vehicles will need to offer premium management teams and Spac sponsors, preferably with a proven track record. Perhaps this should always have been the case.

It is notable that four of the five healthcare Spacs that floated in June were backed by Social Capital, the hedge fund run by a former Facebook executive, Chamath Palihapitiya. He has sponsored numerous blank-cheque companies, earning himself the moniker “King of Spacs”.

All four of his biotech Spacs, which are warrantless, raised more than initially targeted; all are trading below $10, however. The targets that high-profile vehicles like Social Capital deliver to market will influence what happens to this space in the longer term.

In the short term, clear progress is needed from companies recently arrived on the market via a Spac. Otherwise this financing trend will dry up as quickly as it started.

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