

## EQRX aims for biopharma Spac record



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**Spac redemptions are a growing concern, but the \$1.8bn EQRX deal looks primed to succeed. Proving the business model will be the hard part.**

Spacs might be struggling to attract the interest they once did but the EQRX deal shows that this route to the stock market can still be hugely successful – in terms of raising money – if the right group of investors can be found. The developer will bank \$1.8bn should the company's combination with CM Life Sciences III close.

This would be the largest pot raised to date by a pure-play drug developer, according to data compiled by [Spacinsider](#); the sum includes a huge \$1.2bn Pipe financing. The final amount will depend on how many of the Spac's investors decide to ask for their money back, but broad support for the deal seems guaranteed: the same names crop up as holders of both EQRX and its blank cheque suitor.

CM Life Sciences III is sponsored by Casdin Capital and Corvex Management; the former, life science investor Eli Casdin's firm, has been a backer of EQRX's venture capital rounds from the beginning.

Other investors showing clear support for this deal include the tech venture fund Andreessen Horowitz, which is backing the Pipe having also participated in EQRX's venture rounds. It is not implausible that there are other unnamed investors doubling down here, so broad support from the Spac's investors for this deal should be forthcoming.

Still, rising redemptions are being seen across Spacs of all sectors, a sign of investors' increasing reluctance to back the targets on offer. The latest to close in the biopharma space was Celularity, which saw 88% of that company's Spac holders ask for their money back, draining more than \$250m from the vehicle's trust account.

In these cases the Pipe (private investment in public equity) becomes an important way to top up the cash raised, if only to breach the minimum cash closing condition that target companies set as part of the negotiations. This was only \$5m for Celularity, so an \$83m Pipe easily crossed that threshold.

EQRX has set a staggering \$1bn minimum cash requirement, which will be covered by the Pipe, so this looks set to be met regardless of the outcome of the Spac shareholder vote. In another encouraging sign of support for the deal, shares in CM Life Sciences III are trading a touch above \$10, the price at which all Spacs float.

| Diminishing returns? Completed biopharma Spac deals, ranked on redemption rate |                   |   |                                      |                                   |
|--|-------------------|---|--------------------------------------|-----------------------------------|
| Company (date deal closed)   | % shares redeemed | Total sum raised by company (Spac IPO post redemptions + Pipe, \$m) | Minimum cash closing condition (\$m) | Current share price (market cap)* |
| NRX (May '21)  | 92%               | 16  | 5                                    | \$15.80 (\$757m)                  |
| Celularity (Jul '21)   | 88%               | 118   | 5                                    | \$7.70 (\$943m)                   |
| Reviva (Dec '20)   | 85%               | 11**  | 5                                    | \$3.39 (\$58m)                    |
| Biomx (Oct '19)  | 14%               | 61**  | 20                                   | \$4.1 (\$101m)                    |
| Point Biopharma (Jun '21)  | 10%               | 287   | 5                                    | \$9.0 (\$811m)                    |
| Cerevel (Oct '20)  | 2%                | 467   | 250                                  | \$25.33 (\$3.58bn)                |
| 4D Pharma (Mar '21)  | 0%                | 42  | 15                                   | \$9.29 (209m)                     |
| Nuvation (Feb '21)   | 0%                | 621   | 500                                  | \$8.29 (\$1.8bn)                  |
| Gemini Therapeutics (Feb '21)  | 0%                | 216   | 170                                  | \$4.1 (\$174m)                    |
| Vincerx (Dec '20)  | 0%                | 60**  | 40                                   | \$12.45 (\$218m)                  |
| Immatics (Jul '20)   | 0%                | 253   | 150                                  | \$12.06 (\$759m)                  |
| Immunovant (Dec '19)   | 0%                | 117**   | 65                                   | \$7.78 (\$895m)                   |

*\*As of close August 9th, 2021. \*\* No Pipe. Source: Spacinsider.com.*

Still, as the table above shows, the level of redemptions, high or low, is not always an indicator of future performance. NRX, which was called Neurox when it merged with Big Rock Acquisitions Corp, saw a huge level of redemptions. There was arguably a good reason for this: when Big Rock IPO'd back in 2017, it told investors it was looking for targets in the senior housing and broader care markets.

The Spac's holders probably did not want to invest in a high-risk drug developer, so they exited. Ironically, NRX is one of the few ex-Spac stocks to be trading above \$10. Other developers brought to market via explicitly life science-backed funds – Foresite Capital sponsored the Spac that delivered Gemini, for example – and which saw zero redemptions, have not fared so well.

Still, investors following Foresite knew exactly what they were likely to get, and the same can be said for the investors in CM Life Sciences III. What is surprising is the size of the Pipe, although EQRX has always said that it is a company that needs to be built at scale. Its main aim is to lower drug prices by becoming a fast-follower in well-established drug mechanisms, and through forging new arrangements with payers ([EQRX vows to slash drug prices where others have failed, June 22, 2021](#)).

### **Bold statements**

This was all reiterated in an investor presentation on the deal which also contained some very bullish projections. Revenues of \$2-4bn are expected by the end of this decade, mainly from four lead programmes primarily in oncology. Break even could come by 2026, but this would require an incremental \$2bn in capital, which the Spac almost delivers, said Jami Rubin, the former Goldman Sachs equity analyst who is now EQRX's chief finance officer.

The boldness of a slide on what the company's catalogue "could look like" – a list of 42 oncology, inflammation and immunology targets – illustrates what many consider to be a big problem with these Spac listings: the

almost unchecked ability to make claims about the future, which would never be allowed in the traditional IPO process.

Wherever you stand on the hype, however, it is undeniable that EQRX has assembled an impressive roll call of employees and advisors that includes well-known names from across the drug development, reimbursement and regulatory arenas. Sir Andrew Dillon, the former head of the UK's cost-watchdog Nice, for example, or the healthcare policy expert Peter Bach, who was one of the company's founders.

EQRX now needs to show that its novel business model can work. Getting drugs to market with labels sufficiently competitive to threaten incumbents will be a major challenge; another will be elbowing its way into labyrinthine and varied healthcare systems around the world.

The company's ability to raise money and attract big names is not in doubt. Now for the hard part.

*A previous version of this article contained the incorrect sum raised by 4D Pharma via its Spac deal. It also misstated the redemption rate at 66%; this occurred when shareholders voted to extend the deadline within which Longevity was to complete a business combination, and thus pre-dated the choice of 4D Pharma as the target.*

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