

Crunch time for the Spac space



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This month has seen two blank-cheque company deals fall apart, and more terminations should be expected.

This week's [collapse of a deal to spin-off Amicus's](#) gene therapy work into a Spac followed [the crumbling of Heartflow's plans](#) to float via a blank-cheque company. Such Spac deal terminations are not restricted to the healthcare sector, but they are a sure sign of a trend in retreat.

The ongoing bear market will be making it very hard for sponsors – as the group running a Spac is known – to sell biotech proposals to their investors. A [poor track record](#) from most developers that have listed via this mechanism will also not be helping.

Poor market conditions [were blamed last year](#) for the falling apart of a deal between an AI-drug discovery group, Valo Health, and a Spac sponsored by Khosla Ventures; this came as a surprise as days before the termination the groups were boasting about raising additional cash.

With conditions considerably more choppy now, more terminations cannot be ruled out.

Lack of appetite

Across the Spac space high redemption rates are hindering deal closure; this means that Spacs' own shareholders are refusing to accept the transaction on offer and are asking for their money back. This scenario leaves sponsors with a difficult choice: wind up the vehicle and return any cash raised to shareholders, or seek for a new merger target.

In the case of Amicus, which was working with a Perceptive Advisors-sponsored Spac, redemption rates were not specifically said to be the reason for the "mutual termination of the business combination", as it was described yesterday. But it is hard to believe that many investors in Arya IV, as the Spac was known, would have waved the deal through.

Even within a poorly performing biotech industry, the gene therapy subsector has been punished severely – often fairly. To compound these broader concerns [the Amicus unit to be spun off had recently suffered setbacks](#).

Either way, Perceptive has opted to keep the Arya IV Spac open and continue searching for a target, perhaps emboldened by a reasonable track record. The healthcare-focused hedge fund has sponsored five Spacs; three have closed on deals, of which two could be described as successes.

Perceptive's track record

Spac	Target	Pro-forma EV at time of deal announcement (\$m)	Current EV (\$m)
Arya Sciences	Immatics	315	354
Arya Sciences II	Cerevel	847	2,900
Arya Sciences III	Nautilus Biotechnology	905	128
Arya Sciences IV	Caritus Therapeutics (Amicus spin-off)	242	Deal terminated
Arya Sciences V	Searching	-	-

Note: enterprise value at time of deal sourced from company communications; current enterprise value sourced from Yahoo Finance.

The same cannot be said for the broader biotech Spac universe. Most drug developers that have arrived on the market via this route are trading well below the valuations proposed at the time these deals were struck.

All eyes now turn to the progress of Spac mergers that have already been announced but are still waiting to close. *Evaluate Vantage* has identified eight such transactions, and it is notable that only one – the Moonlake/Helix Acquisition deal – is sponsored by a well-known healthcare investor, Cormorant Asset Management.

There are certainly Spacs sponsored by big names in life sciences still searching, so this might be a feature of timing. But blank-cheque companies have a time limit to find a target – typically 24 months – and most floated in the first half of 2021.

This means that the clock is ticking while the market continues to head south. Developers strong enough to remain private, and able to attract private funds, will surely be planning to do exactly that for the foreseeable future.

Spacs must be finding it hard to persuade high-quality companies to go public. It will be interesting to see whether Perceptive and other Spac-sponsoring healthcare investors remain enthusiastic for the blank-cheque path for much longer.

Searching for closure: pending Spac deals in the biotech space

Spac	Target (focus)	Announced	Proceeds (IPO+Pipe, \$m)	Pro-forma EV (\$m)	Guidance on closure
Helix Acquisition Corp	Moonlake Immunotherapeutics (immunotherapy)	Oct '21	230	620	Q4 '21/Q1 '22
Biotech Acquisition Co	Blade Therapeutics (fibrotic & neurodegenerative diseases)	Nov '21	254	353	Q1 '22
FoxWayne Enterprises Acquisition Corp	Aerami Therapeutics (inhaled drug delivery)	Dec '21	58*	250	Q1 '22
SPK Acquisition Corp	Varian Bio (oncology & TKIs)	Feb '22	50*	69	Q2 '22
Oaktree Acquisition Corp II	Alvotech (biosimilars)	Dec '21	400	2,250	H1 '22
Dynamics Special Purpose Corp	Senti Bio (cell & gene therapy)	Dec '21	296	600	Q2 '22
Silver Spike Acquisition Corp II	Eleusis (psychedelic-based medicines)	Jan '22	288*	446	Q2/Q3 '22
Social Capital Suvretta Holdings Corp. III	Prokidney (autologous cell therapy for CKD)	Jan '22	825	2,640	Q3 '22

*No Pipe. Source: company communications. CKD=chronic kidney disease; EV=enterprise value.

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