

US biotech SPACs at an all-time high; boom likely to continue

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'If you're a buysider and want access to the whole universe of IPOs, you should probably be participating in these SPACs'. – Todd Foley, managing director at MPM Capital

Special-purpose acquisition companies (SPACs) have gained traction recently. In 2020, U.S. SPACs raised record capital of USD83bn in the US. Halfway through 2021, the 2020 record had been eclipsed.

Investopedia defines SPAC or a 'blank check company' as a 'company with no commercial operations that is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring an existing company'. For more information on [SPACs](#) and how they operate, click [SPACs were hot in 2020 and are hotter now!](#)

The latest cohort of biotech SPACs

SPACs offer highly lucrative opportunities to sponsors and investors, enabling them to make significant amounts of money in most cases. Bill Ackman – the renowned hedge fund manager – raised USD4bn for an SPAC in July 2020, the most to date. Institutional investors, such as hedge funds, mutual funds or investment advisors, have for long invested in SPACs. However, unlike the SPACs of previous decades, the latest cohort of SPACs is backed by blue chip specialist investors, particularly in the biotech space. The show is not run by SPAC specialists, but by the cream-of-the-crop biotech specialists – Casdin Capital, Deerfield, RTW Investments, RA Capital, Bain Capital, Foresite Capital, Vedanta Management, EcoR1 and other top-tier investors.

Select recent biotech/biopharma SPACs

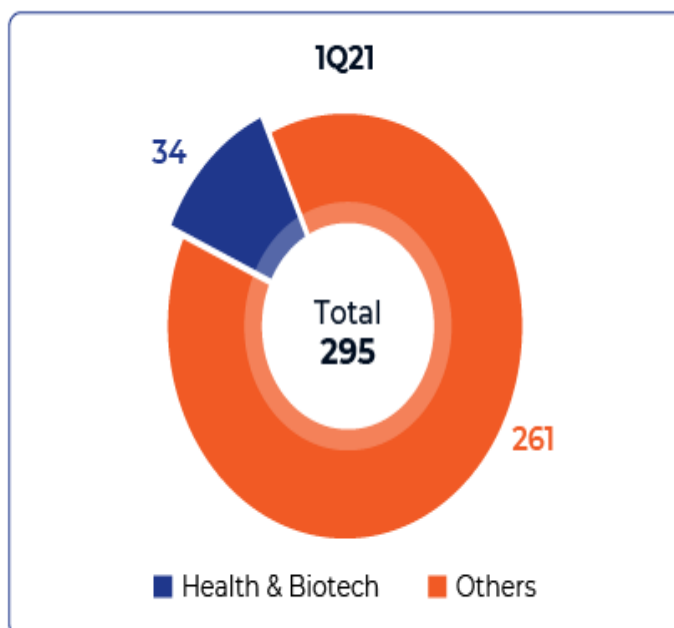
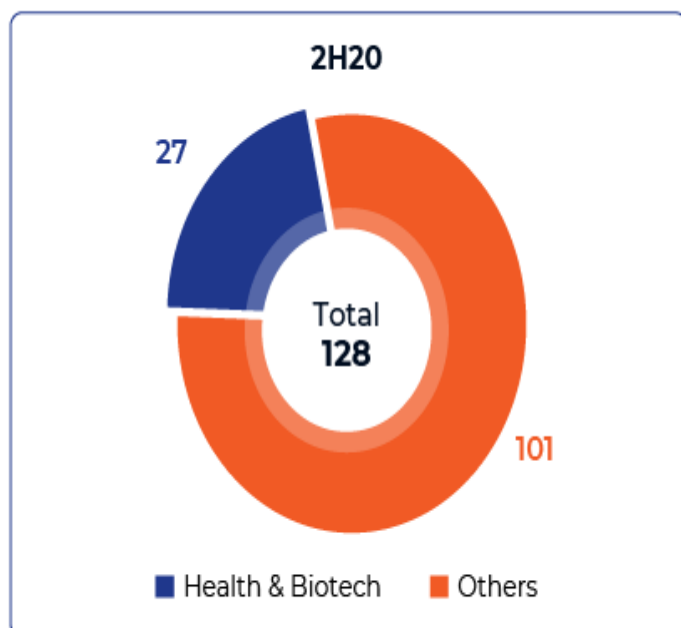
SPAC	Date of SPAC IPO	Merger target	Merger announced date	Merger close date	Share price performance*
Big Rock Partners Acquisition	Nov '17	Neurorx	Dec '20	May '21	313%
Arya Sciences Acquisition	Oct '18	Immatics	Mar '20	Jul '20	65%
Lifesci Acquisition	Mar '20	Vincera	Sep '20	Dec '20	51%
Health Sciences Acquisitions	May '19	Immunovant	Oct '19	Dec '19	45%
Longevity Acquisition	Aug '18	4D pharma	Oct '20	Mar '21	33%

Source: Company filings, Yahoo Finance

*Share price performance from merger announcement to peak price, before closing

In recent years, biotech/biopharma SPACs have notched up impressive results. A select few are listed above. In 2H20, 27 of the 128 SPACs belonged to the healthcare and biotech space (21.1% share globally). In 1Q21, the share was 11.53% (34 of 295 SPACs).

Healthcare and biotech SPACs, 2H20 and 1Q21



Source: www.spacconsultants.com, Acuity Knowledge Partners

Note: Others primarily include technology, social, financial services, data, IT and software, general (broad), energy and resources SPACs

The [US IPO](#) momentum in the biopharma space slowed in 2Q21, compared to 1Q21, with lower aggregate deal value and deal volume. Nonetheless, it was healthy by historical standards. Although the SPAC IPO boom in 1Q21 lost steam in 2Q in the light of the SEC's accounting guidance introduced at the start of the quarter and other headwinds to new SPAC

offerings, it seems to be gaining momentum. The S&P 500 Biotechnology Index recovered from its tumble in 1Q, gaining c.6.0% YTD as of 12 December 2021 and touching a high of 17.3% YTD as of 9 August 2021. More than 20 biotech companies have announced plans to go public via the SPAC route this year. A robust pipeline of biotech SPACs, some of which have listed, is provided in the table below.

Pipeline of biotech SPACs

Company	SPAC	Announcement date	SPAC IPO	PIPE	Expected completion	Stage / Phase
Greenlight	Environmental Impact Acquisition Corp.(NASDAQ: ENVI)	10-Aug-21	USD270m	USD105m	Pending	Preclinical
EQRx	CM Life Sciences III Inc. (NASDAQ:CMLT)	6-Aug-21	USD552m	USD1.2Bn	Pending	Phase III
Gelesis	Capstar Special Purpose Acquisition Corp. (NYSE:CPSR)	19-Jul-21	USD276m	USD100m	Pending	Marketed
Pear	Thimble Point Acquisition Corp. (NASDAQ:THMA)	22-Jun-21	USD276m	USD125m	Completed	Marketed (tool)
Valo Health	Khosla Ventures Acquisition Co. (NASDAQ:KVSA)	9-Jun-21	USD300m	USD169m	Pending	Preclinical
Roivant	Montes Archimedes Acquisition Corp. (NASDAQ:MAAC)	3-May-21	USD400m	USD200m	Completed	Phase III
Clarus	Blue Water Acquisition Corp. (NASDAQ:BLUW)	27-Apr-21	USD58m	NA	Completed	Marketed
LumiraDx	CA Healthcare Acquisition Corp.	7-Apr-21	USD115m	NA	Completed	Marketed (diagnostics)
SomaLogic	CM Life Sciences II (NASDAQ:CMIIU)	29-Mar-21	USD276m	USD375m	Completed	Development (platform)
Renovacor	Chardan Healthcare Acquisition 2 Corp.	23-Mar-21	USD85m	USD30m	Completed	Preclinical
Humacyte	Alpha Healthcare Acquisition Corp. (NASDAQ:AHAC)	17-Feb-21	USD100m	USD175m	Pending	Phase III
Pardes	FS Development Corp. II (NASDAQ:FSII)	29-Jun-21	USD175m	USD75m	Pending	Preclinical

Source: Company website (pipeline), SEC filings, press releases

Why is the SPAC space so hot and how are biotech/biopharma stakeholders benefiting from it?

SPAC deals are a lucrative alternative to traditional IPOs from companies' and investors' perspectives. EcoR1 Capital's founder, Oleg Nodelman, stated, 'For all parties it is hyper-efficient. We were able to accomplish in about one and a half months what would have taken

arguably 12-24 months'. SPACs achieve this by coupling crossover and IPO financings into a single deal. An SPAC IPO raise takes the place of the crossover round and when a merger is announced, typically a concurrent PIPE is proposed, which raises additional capital, taking the place of the traditional IPO round. Among recent classic examples, RA Capital invested c.USD4.4m in Therapeutics Acquisition Corp (in 2020), which raised USD118m. RA owned c.20% stake prior to acquiring a target. Similarly, Casdin Capital helped create CM Life Sciences by investing c.USD10m; it owns 20% after raising USD385m in proceeds. They both translate into greater than 6x paper returns prior to acquiring the target company.

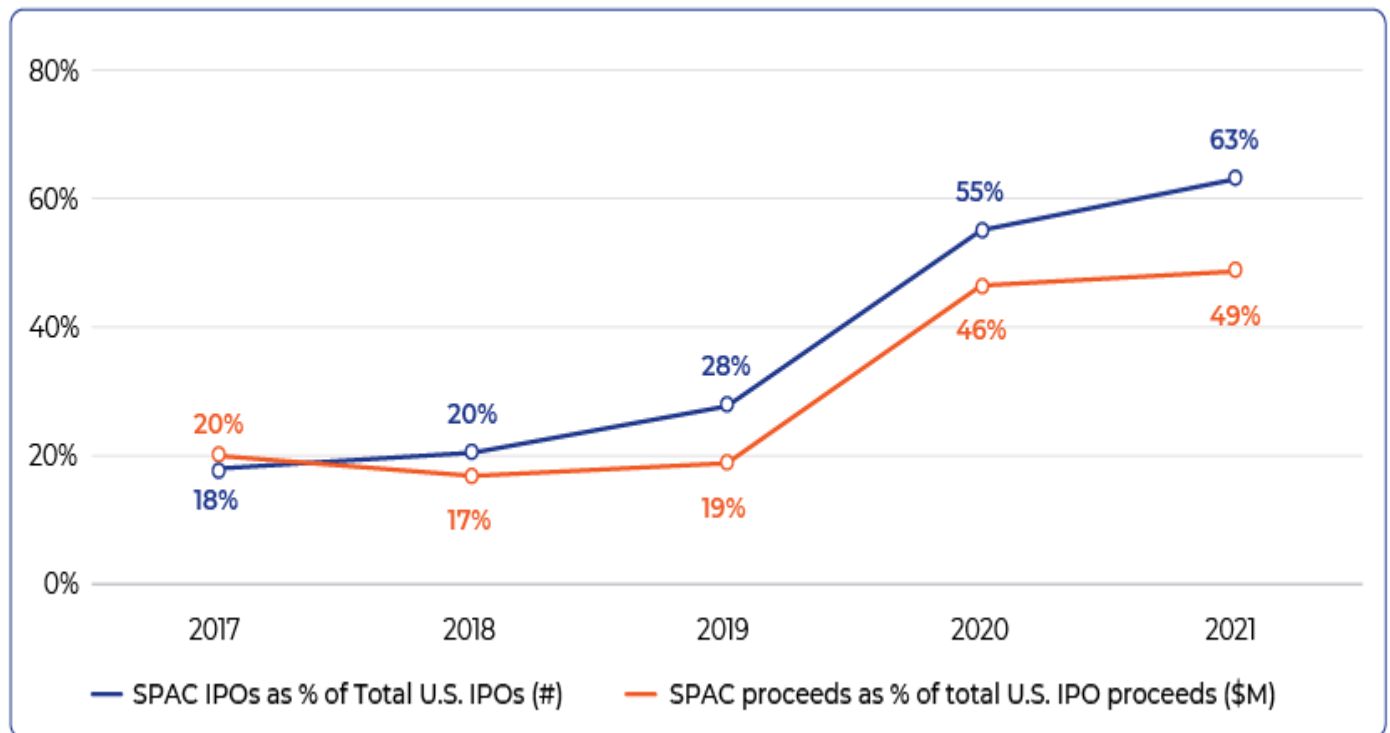
How are biotech/biopharma stakeholders benefiting from SPACs

Company Perspective	Investor Perspective
Biotech companies generally require access to a lot of capital in order to bring their therapeutics to market	These new biotech SPACs are largely looking to create a faster route to market, where the company and investors have greater control over how much is raised and who the money is raised from
A biotech company can raise the equivalent of a crossover and an IPO in a single deal	Biotech investors benefit because a small investment on the front end gives them both a founding share in the SPAC and greater control over allocations
The blue chip investors are insiders in the SPAC, which means they will likely also participate in the PIPE. Hence the company can know up-front who the investors will be	Biotech / biopharma provides an ever lucrative space with companies increasingly targeting therapeutic areas with significant unmet needs

Source: Acuity Knowledge Partners

Are SPACs eating into traditional IPOs’ pie?

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Source: www.spacanalytics.com

If numbers are an indication, we will likely witness a steady transition from traditional IPOs to SPACs over the next few years. We conclude that traditional IPOs may not be completely replaced by SPACs, but SPACs will likely gain share at the expense of traditional IPOs.

Conclusion: implications of SPAC boom

SPACs are competing for deals in a scorching hot biotech IPO market. The prolific biotech IPO market was robust in 2020. However, venture-backed private companies, particularly in the biotech and biopharma sectors, are increasingly considering the SPAC route as an attractive alternative to go public. Across all sectors, SPACs used to have a low share in the IPO market, but they currently account for more than one-third of all IPOs, according to NASDAQ. Considering the current race for private biotechs to go public, SPACs seem to far outweigh traditional IPOs. The extended time frame of a typical IPO process, resulting dilution of investors' stakes in an IPO and many other shortcomings of traditional IPO provide enough reasons for them to be largely replaced by SPACs in the not so distant future. In addition to the benefits of listing via SPACs, SPACs are no longer considered 'dirty financing'. They are being supported by some of the best biotech investors. Backed by an impressive pipeline of biotech SPACs for 2021, this trend is here to grow. However, the market needs to consummate these deals and go through transactions, while newly merged entities should yield impressive and competitive returns to demonstrate that they work, in order to be successful for the trend to be sustainable and durable. Moreover, recently, there has been heightened scrutiny from the SEC around SPACs as an asset class, with the regulatory body

raising red flags on potential risks of investing in SPACs. The SEC's guidance suggested warrants issued by SPACs to early investors may be considered liabilities, rather than equity instruments, for accounting purposes. The need for restatement filings has slowed the pace of SPAC listings; however, the right deals still contain immense upside potential.

How Acuity Knowledge Partners can help in SPACs/deals

[Acuity Knowledge Partners](#) has a team of professionals experienced in advising companies through the life cycle of the SPAC process. Our [PE/VC](#) experts provide cost-effective one-stop solutions to market participants and help them stay abreast of the latest market trends, find good deals, conduct deeper diligence, carry out more meaningful valuation studies, set up effective monitoring processes and access [strategic research](#) experts to work closely with companies.

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Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 650+ financial institutions and consulting companies through a team of over 6,000+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.

We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.