ARTICLE

Thought Leadership: SPACs in Healthcare & Life Sciences

SPACs, or special purpose acquisition companies were all the rage in 2020, with the excitement not slowing down during the first quarter of 2021. For private companies looking to go public without pursuing the traditional IPO process, this alternative route to the public markets is more efficient by not requiring a roadshow or book building process, and is less influenced by broader market conditions.[1] Although the current market environment is not as frothy compared to peak activity and the enthusiastic frenzy witnessed earlier in the year, intrigue remains high given the expectation of a robust year for the U.S. economy because of the COVID-19 vaccine rollout.

$3.9B

Raised across 20 SPAC IPOs in 2015

248

SPACs went public raising a collective $83.4B in 2020

While these "blank check" companies, led by experienced financiers and subject-matter experts, have generated significant interest, what's even more fascinating is that these shells display no underlying technologies or revenues, with their valuations continually on the rise. Historically, SPACs represented a small fraction of the IPO landscape with **$3.9B raised across 20 SPAC IPOs in 2015**. However, only five years later, the markets witnessed **248 SPACs go public raising a collective $83.4B in 2020** and luring heavy hitters such as Bill Ackman, Chamath Palihapitiya, Atlas Ventures, Deerfield Management, MPM Capital, RA Capital, and Chardan Capital. Roughly 13%, or 33 of these SPACs were healthcare focused, raising approximately $6.3 billion.[2] Through **February 2021, a recorded 145 SPAC IPOs have raised a combined $46.2B**, which is on pace for a record shattering year. To close the loop, there currently exist 409 active SPACs representing approximately $130B in trust: 330 SPACs seeking a target with approximately $105B in trust and 79 SPACs that have announced business combinations with approximately $25B in trust.[3] Of the 330 seeking a target, keep in mind sponsor companies generally have two years to complete an acquisition before funds are

returned to investors, meaning the SPAC market will likely remain hot while these sponsor companies will be looking to announce a transaction within that timeframe. So, what makes this pursuit so tempting for the sponsor or company, and where is the downside risk? We try to answer those questions here and provide a clearer picture of the growing field.

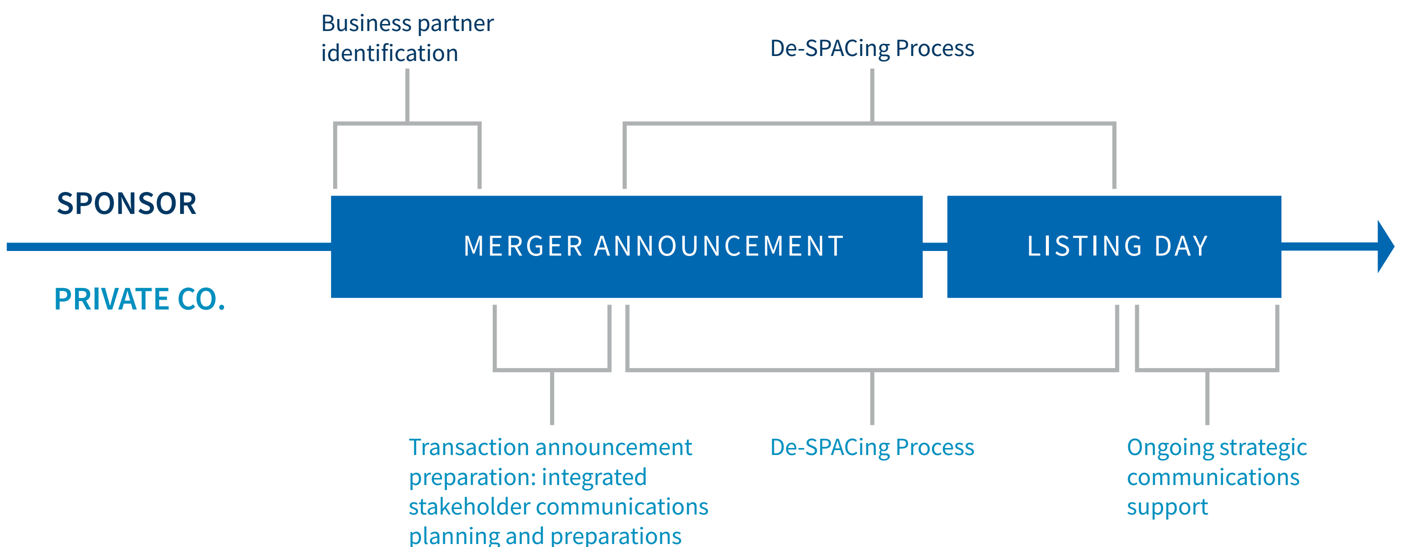
Pursuing an IPO through a SPAC has its likenesses to a typical reverse merger, yet unlike this action that requires a vertical/horizontal integration of business segments and balance sheets, SPACs themselves have clean sheets due to no formal business offering and a primary objective of targeting a private company for acquisition. Once a SPAC goes public and builds acquisition capital, it places the funds in a trust account of short-term fixed income investments. Public investors are able to purchase common shares of the SPAC in $10 units (up from $5 a common share in the early 2000s), with the understanding that the management team has a two year runway to identify and execute an acquisition target or proceed to return the investment capital to investors. Once a target has been identified and a deal is struck, a special meeting is called where shareholders are able to vote approval for completing the transaction and merging the two entities.

For sponsors, investors, and target companies, the benefits of a SPAC range from time, liability, access, and dilution of equity. The significant upside for sponsors, the team who created and took the SPAC public, includes less regulatory hurdles, engagement with more mature companies, and the potential to make large gains post-IPO regardless of how well the acquired company specifically performs. With investors, the benefit resides in redemption options should the SPAC not close a deal in the 2-year runway or be unsatisfied with the quality of the chosen target. Target companies can leverage the SPAC route to provide better terms for their employees and early shareholders, cut down the timeline to engage the public markets from 24-36 months (traditional IPO) to 3-5 months (SPAC merger), and potentially recruit an experienced team from the SPAC side to guide the company forward as it navigates being a public entity.

"The life sciences sector appears to be a good fit for a SPAC. Traditionally, these companies often go public earlier than other businesses/ sectors due to the lack of cash flow early on and the need for access to broader capital sources to support the intensive development of their product pipelines.

An entity that needs regulatory approvals of their products and pipeline can benefit from the immediate capital raised by a SPAC."

– ***David H. Crean, Ph.D***
Senior Advisor – Objective Capital Partners,
Investment Banking & Valuation



	SPACs	Traditional IPO
Timeline to public listing	✓	
Management time commitment	✓	
Associated fees	✓	
Fair value	✓	
Deal structure flexibility	✓	
Reputation risk around execution	✓	

Within healthcare, we have seen well established companies such as Clover Health go public via the SPAC route, along with 23&Me at a sizeable $3.5 billion valuation. For clinical stage drug companies with no revenues, valuation can be highly volatile and highly correlated to market conditions. SPACs provide these companies more control in the negotiation process, allowing for more definitive valuations that are less impacted by indirect factors.

From a sponsor perspective, private, public, and crossover investors are all heavily involved. This includes each of the top 15 crossover investors, such as RA Capital.[4] Perhaps most aggressively involved has been Perceptive Advisors. Since the incorporation of its blank check Company ARYA Sciences Acquisition Corp in 2018, the investment firm has IPO'd four special purpose acquisition companies.

Buyer Beware

With its quick rise in popularity, there is plenty of doubt regarding the longevity of this SPAC movement. Further, the rising involvement by celebrities is raising eyebrows. As Jim Cramer recently wrote, "These newer SPACs increasingly feel like an inside joke for the super-rich and a way for celebrities to monetize their reputations. Believe me, you don't want to invest in someone else's inside joke."[5]

To avoid connections with this negative sentiment, and in addition to a full and proper vetting of any potential business partner, a strong narrative and broader communications plan is imperative. Further, should market conditions drive the value of a target company higher and exceed the funds available in the trust account, it is important to have a PIPE financing strategy as part of the SPAC/de-SPAC process, including strong relationships with mutual funds and asset managers such as Fidelity or BlackRock.

Closing Thoughts

How long this SPAC boom will endure and what role SPACs will play in the capital markets over the long-term is unknown. While investors, regulatory bodies, banks, and other stakeholders adjusts to this new trend, a clear opportunity exists for companies looking for an efficient path to access public capital. To ensure compliance with public company requirements, and to maximize its valuation, an effective communications preparedness program is critical for any company looking to go public via SPAC. Interested to know how a strategic communications firm can partner with you as a trusted advisor through a complex transaction process? FTI has worked with hundreds of healthcare and life science companies and is consistently a top ranked transactions advisor. We are happy to answer your questions and provide guidance to achieving success.

The views expressed herein are those of the author(s) and not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, its affiliates, or its other professionals.

1. https://www.law.cornell.edu/cfr/text/17/230.419
2. https://www.statnews.com/2020/12/23/biotech-ipo-spac-2020/#:~:text=In%202020%2C%2033%20health%20care,by%20biotech%20IPOs%20in%202020
3. https://www.spacresearch.com/
4. https://medcitynews.com/2021/02/more-healthcare-startups-go-public-through-spacs-but-will-they-succeed/?rf=1
5. https://www.cnbc.com/2021/02/04/jim-cramer-issues-caution-about-celebrity-spac-plays.html

NAREG SAGHERIAN
Managing Director, Capital Markets
+1 202.255.4225
nareg.sagherian@fticonsulting.com

MATTHEW VENTIMIGLIA
Senior Director, Capital Markets
+1 516.578.3081
matthew.ventimiglia@fticonsulting.com

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. ©2021 FTI Consulting, Inc. All rights reserved. **www.fticonsulting.com**

FTI CONSULTING™