

The Rise of SPACs in Biotech



The use of special purpose acquisition companies, or SPACs, as an alternative to the traditional IPO process has gained significant traction over the past few years and in 2020 in particular. While these transactions have historically focused more on the tech space, with top-tier biotech investors such as Perceptive Advisors, RA Capital, RTW Investments, Foresite Capital and 5AM Ventures serving as SPAC sponsors, SPACs have gained more popularity in the biotech industry.

A SPAC is a blank check company that goes through the standard IPO process to raise capital with the purpose of using the proceeds to acquire one or more business targets or their assets. The IPO proceeds are placed in a trust account to be used at a later date to fund the De-SPAC transaction (the process through which a private target combines with the SPAC and begins trading as a public company).

The use of De-SPAC transactions to bring a private company public is gaining in popularity due to the benefits that such transactions offer. These benefits can include:

- **More Streamlined:** a De-SPAC transaction typically involves both a merger with the SPAC and a concurrent private investment in public equity, or PIPE, which raises additional capital from outside investors and potentially existing investors of the target company and SPAC. Both the SPAC merger and the PIPE are signed and announced simultaneously, which allows for a more streamlined process than the typical two-step crossover financing followed by an IPO.
- **Mitigate Risk:** because valuation is agreed towards the beginning of the De-SPAC process, a De-SPAC transaction helps to mitigate the potential market volatility risk that is inherent with traditional IPOs.

Given the success of recent De-SPAC transactions in the biotech space, with eight (8) De-SPAC transactions with biotech companies closed in 2020, coupled with the peaked interest of biotech investors, the use of De-SPAC transactions by private biotech companies to go public will likely continue to grow in 2021.