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Highlights From Biotech SPAC-Tacular

BI Specialty-Generic Pharma, North America Dashboard



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Biotech SPAC-Tacular Validates the Future for Quality SPACs

(Bloomberg Intelligence) -- Flight to quality was the key theme in last week's Biotech SPAC-tacular. We spoke with Brent Saunders, past CEO of Allergan and Bausch & Lomb, whose special-purpose acquisition company Vesper Health expects to close its merger with aesthetic company HydraFacial in the next few months. Ali Satvat, partner and co-head of the health-care industry team at KKR, and Kevin Sheridan, global joint head of health-care banking at Jefferies, helped us better understand this time of volatile trading and regulatory scrutiny for SPACs. (04/19/21)

1. Good SPAC Deals Will Continue to Get Done

Panelists agreed that SPACs will continue to be a meaningful route for companies to access public markets, along with direct listings and traditional initial public offerings. Cautioning against viewing it as an easier path to becoming public, they advise making sure that company management and the business are both ready for the public market. Additionally, they highlighted that the value of quality SPAC management extends beyond just bringing capital to the deal. A good SPAC will introduce corporate insights and deal-making experience to the transaction and create a public company with the right balance sheet, board and intangible assets.

Ultimately, our speakers see a future for SPACs regardless of regulation, to which they believe the market will adapt. (04/19/21)

Key Points:

- SPACs Alternative, Not Easier, Path to IPOs
- SPAC Management Brings More Than Capital
- SPAC Market Will Adapt to Any Potential Regulations
- Replay of the Biotech SPAC-Tacular on April 14

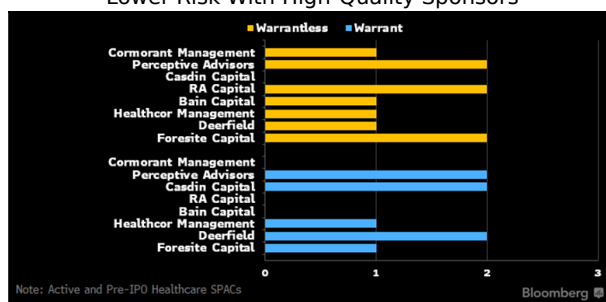
2. Future of SPACs About Flight to Quality

The De-SPAC index is down almost 35% since its peak in February, relative to S&P growth of about 6%, which may spur a flight to quality as the number of SPAC sponsors have swelled. Our panel maintained that a successful SPAC brings together the right set of partners, both on the sponsor and company side. Ali Satvat expects there will be an evolution in the SPAC arena, like many financial products, where the market becomes more discerning as the novelty wears off. Additionally, Kevin Sheridan noted that the 4-5 months between capital commitment and merger close presents a lower risk with high-quality companies.

Warrants and their proper accounting treatment are a particular focus for quality. We've noticed a slightly lower use of warrants in health-care focused SPACs from big-name sponsors like Perceptiv, RA and Casdin. (04/19/21)

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Lower Risk With High-Quality Sponsors



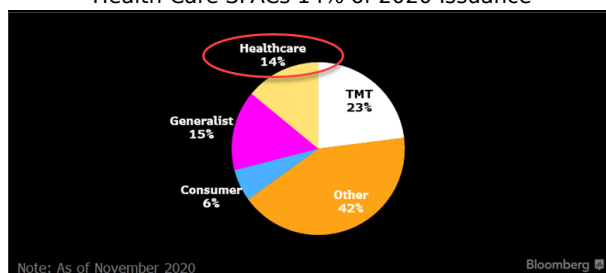
Source: SPAC Track; Renaissance Capital

3. R&D Heavy Health-Care Companies Benefit From Forward Projections

Current regulations allowing the use of forward projections for de-SPAC mergers are particularly valuable to biopharmaceutical companies with little current revenue but potentially large pipelines. SEC Chairman Gary Gensler could take a tougher stand on SPAC regulation, with recent comments from Acting SEC Director John Coates suggesting de-SPAC transactions may be treated as traditional IPOs. While specific regulation remains to be seen, Brent Saunders thinks limiting forward projections to a certain number of years, such as three, could make sense.

Health care comprised 14% of total SPAC issuance last year, according to Dealogic, alongside other high-growth industries such as technology, which was the focus of 23% of SPAC issuance. (04/19/21)

Health-Care SPACs 14% of 2020 Issuance



Source: Bloomberg Intelligence

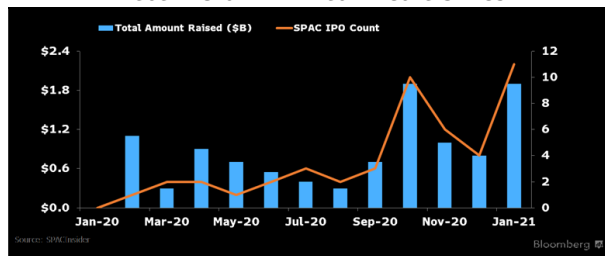
4. SPACs Good Fit for Carve-Outs, Spinoffs

Brent Saunders views carve-outs, divestitures and spinoffs as good targets for SPACs and says those corporate structures will be normal course for de-SPAC transactions. He noted that the largest hurdle will be creating public-company-ready financials which could take 12-18 months, tight timing but just under the typical two-year limit SPACs have to identify a target before returning shareholder investment.

We continue to view merging Bausch's B&L segment with a SPAC as an effective way to quickly realize value from the unit. The company expects to complete all spinoff objectives by 3Q. In the health-care arena alone, there have been over 50 SPACs that have raised more than \$11 billion since January 2020, according to SPACInsider, providing a potentially large number of health-care SPACs that could be a good fit. (04/19/21)

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Recent Growth in Health-Care SPACs



Source: Bloomberg Intelligence

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