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SPACs in Healthcare Industry Overview Q3 2021

Teaser

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DEEP PHARMA INTELLIGENCE

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The number of public companies has decreased over the last 20-30 years, but the amount of money flowing into the public markets has simultaneously increased. Moreover, the financial markets see the emergence of new mechanisms as alternatives to traditional initial public offerings. The standing demand and supply for companies going public have led to the increased popularity of special purpose acquisition companies (SPACs).

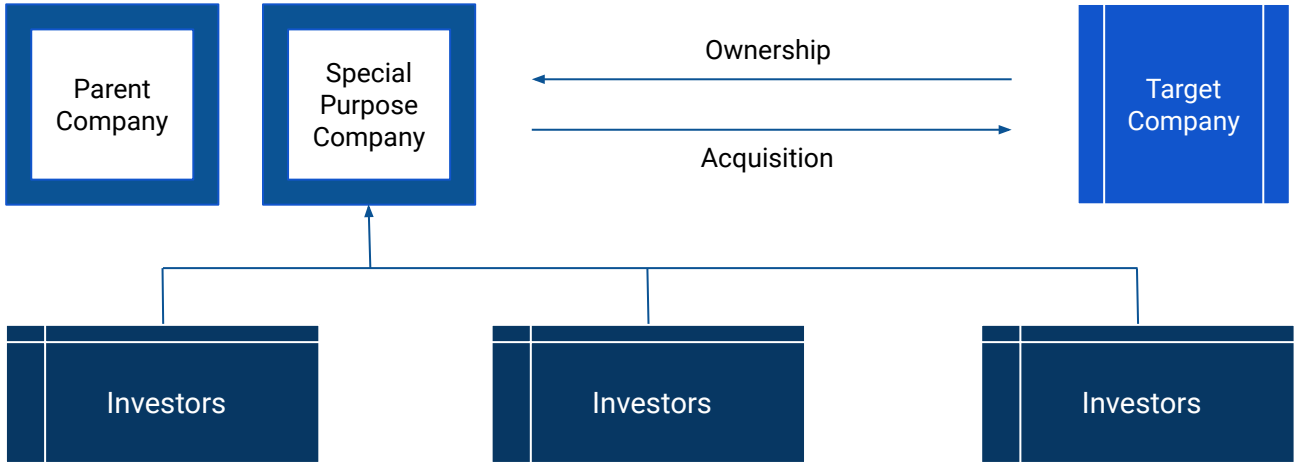
This alternative to the traditional IPO is getting renewed attention, with the healthcare sector being not an exception. 2020 has seen an unprecedented splash of new SPACs and announced merger deals across the industry. SPACs continued to top fundraising records through the first half of 2021.

This report aims to take an in-depth look at what a SPAC IPO is, find the core reasons of its increasing popularity across the markets and healthcare sectors, in particular. The report incorporates the current observations and future traction of SPACs along with comprehensive analysis of the depth to which they are changing the future of the initial public offering.

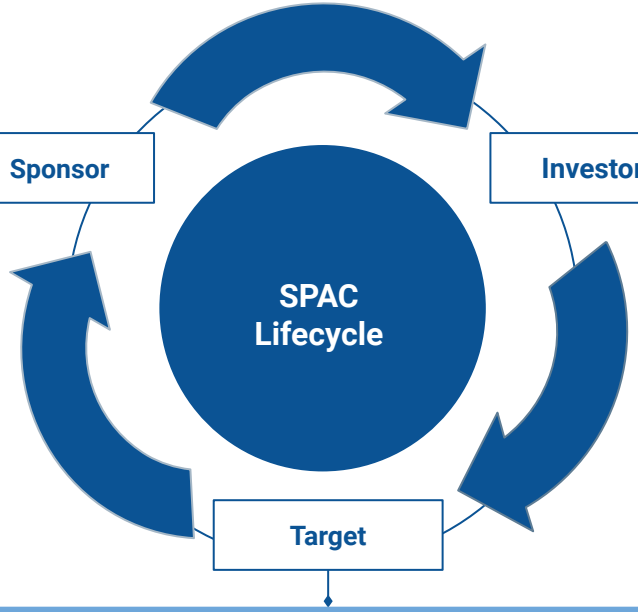
What is a SPAC?

Special Purpose Acquisition Company (SPAC) is 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.** Also known as **"blank check companies"**, SPACs have been around for decades. They have become more popular in recent years, attracting big-name underwriters and investors and raising a record amount of IPO money in 2020.

For the most part, the SPAC is formed by an experienced management team or a sponsor with nominal invested capital, typically transforming into a ~20% interest in the SPAC (founder shares). The remaining ~80% are offered to public shareholders in an IPO of the SPAC's shares. SPACs have the potential to de-risk and shorten the IPO process for their target companies, often offering them better terms than a traditional IPO would.



SPAC Participants



- Puts together management team
- Entrusts investment banks with finding Investors
- Sets up Escrow account with primary bank (invested in 90 day t-bills)
- Lists the SPAC on NASDAQ/NYSE, then begins target quest

- Provides cash and has right to trade on secondary market from day one
- Exits with capital return option at Shareholder Meeting or on secondary market at upside
- Alternatively, participates in business combination

- Prepares accounting, financial reporting, human resources and cross-functional project management plan
- Presents financial statements in conformity with GAAS

The target company does not necessarily face fewer regulatory requirements when going public via a SPAC merger instead of a traditional IPO — it's just a shorter timeline

SPAC Merger Process vs Traditional IPO Process

	Phase 1: Planning	Phase 2: Process execution		
SPAC Merger Process	~ 5 - 6 months	~ 3 - 5 months		
	Target's public company readiness assessment			
	Negotiation and merger agreement execution	Form S-4 filed and declared effective	Investor meetings and pre-closing work	Close
Traditional IPO Process	~ 12 - 24 months	~ 4 - 6 months		
	Public company Readiness assessment	Form S-1 filed with range/print reds	Roadshow	Pricing

SPAC Merger Process vs Traditional IPO Process

SPAC		IPO
It must be completed within the specified time (usually 18 or 24 months), otherwise SPAC investors can redeem their original investment. Therefore, this process is quicker for companies than IPO.	Timeline	It depends mainly on market conditions and company's readiness. Without a clear timetable, the IPO process may stretch from a few to many months.
There is no marketing journey for a privately operated company; shareholders vote to prove marketability.	Promotion	Underwriters promote new stocks through doing some reconnaissance and pre-trade roadshows to pique investor interest.
SPACs often are structured similarly and may be subject to certain minimum exchange listing requirements.	Legal	The nature and scope of financial reporting obligations vary from situation to situation.
No major underwriting or roadshow costs to bring a private operating company to market. After the merger SPAC founders collect their 20% stake making the investor holding diluted.	Expenses	Underwriting and roadshow costs are more onerous, but can be offset by the offering proceeds.

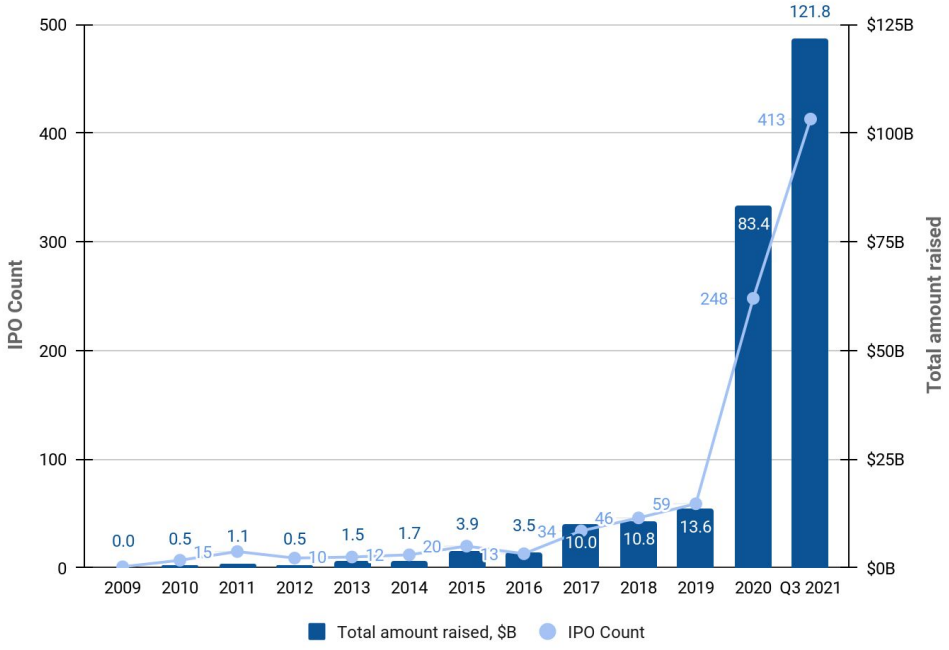
SPACs Market Overview

The popularity of SPACs has grown rapidly over the last two years. In 2020, 248 SPACs raised around $83.4B. 2021 has already outreached that figure. From January to August 2021, 413 SPACs raised $121.8B. By later August, over 438 SPACs with more than $130 billion in the capital were seeking targets, while over 182 SPACs announced acquisitions companies have gone public via a SPAC since the start of the year.

Q1 2021 was marked by the significant boom of SPAC deals: by March, over 370 SPACs with more than $118B in capital were seeking targets, while over 130 companies have gone public via a SPAC. These trends reflect companies' appreciation for the SPAC route to public status.

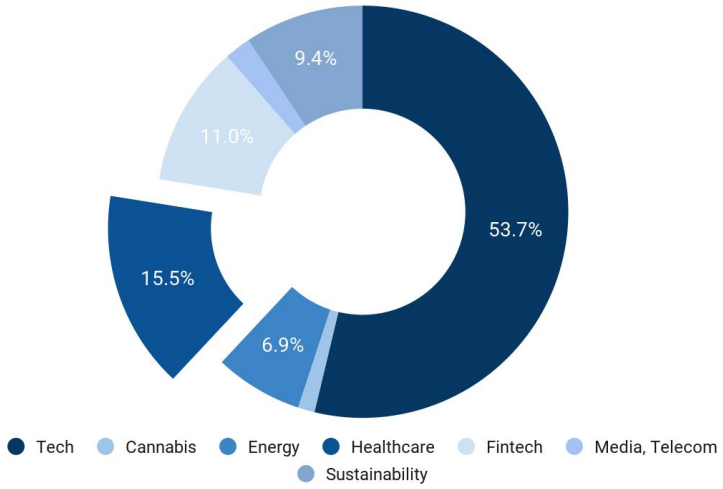
However, **the SPACs deal flow slowed in Q2 2021**: fewer than 50 announced. It can be mainly explained by some regulatory interference and more investor scrutiny of some particularly risky deals.

SPAC IPO Transactions: Summary by Year

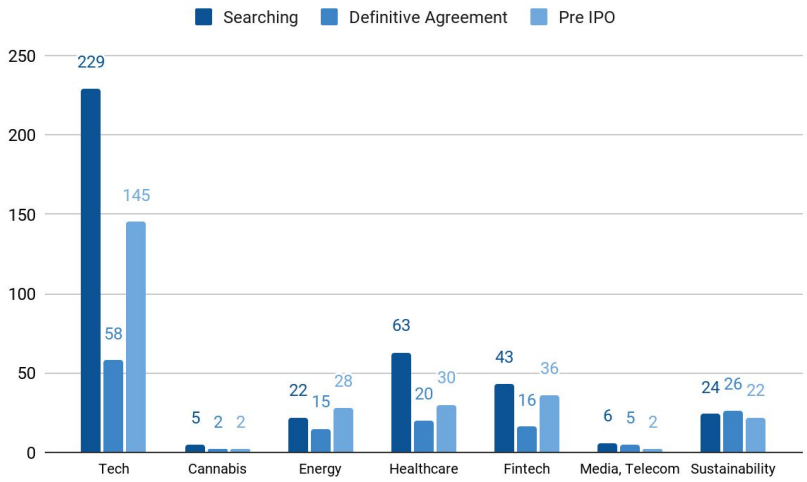


SPACs Market Overview

Distribution of SPACs by Target Across Active SPACs



SPAC Count by Target and Stage

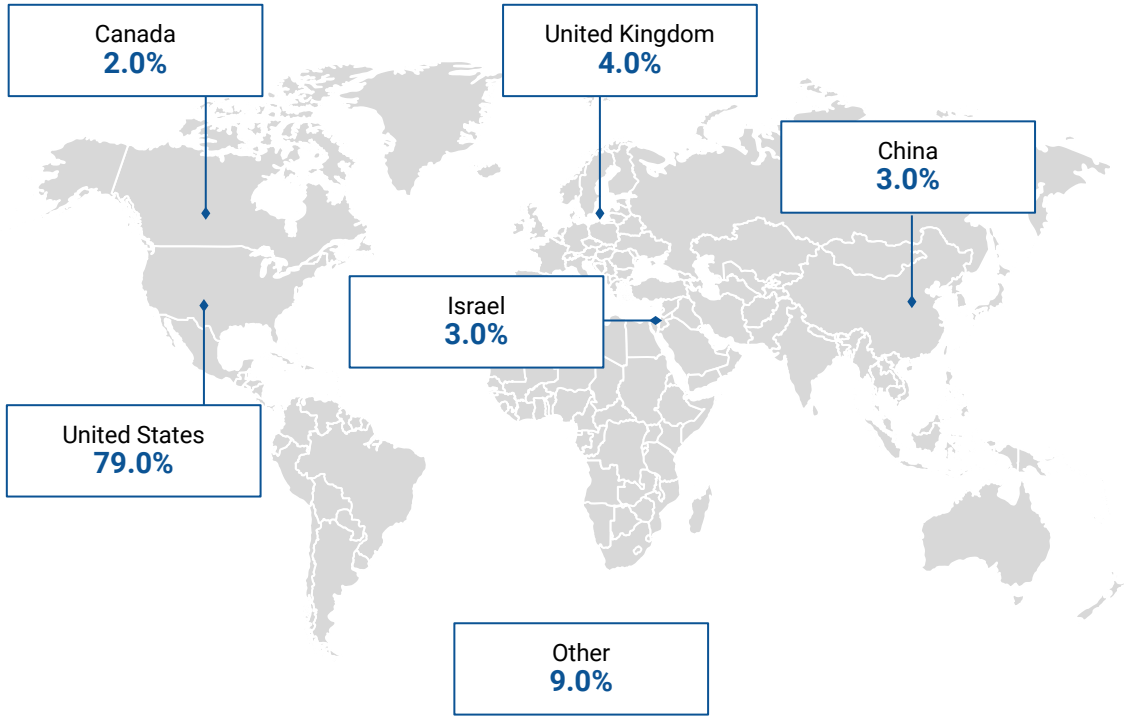


Although there has been a significant increase in SPACs activity across industries in recent years, the most active sector has been Tech, Healthcare and FinTech Sectors. Such trends are mainly explained by the fact that these industries involve more private companies looking for capital compared to other industries. Judging from the **CAGR of Tech (13.3%), Healthcare (11.3%) and FinTech (18.4%)** there will be a standing demand and supply for future SPAC deals.

At the same time, companies of the most actively developing sectors must be prepared to market the transaction benefits for the entire **de-SPAC period of approximately four to five months**. SPAC sponsors and companies should also be prepared for critical pre-closing shareholder vote activity and important post-closing disclosure and reporting policies.

Regional Distribution of SPAC Deals

SPAC Acquisition Targets by Region in 2015-Q3 2021, %



SPAC targets are largely US-based companies accounting to 79.0%. As a result, a number of profitable private company targets to acquire is declining. The sponsors will likely expand their target search to companies outside the United States.

Now, the SPAC are more common in **Europe**, with **Amsterdam** emerging as the continent's epicenter for deals.

In its turn, the increasing number of SPACs are chasing targets in **China** right now, especially those with pressure to close this year. Chinese companies have strong revenue growth, are highly innovative having a sizable addressable market.

These are the types of companies that investors are keen on and will heavily compete to acquire. In similar way **Hong Kong** is actively working on extending SPAC listings.

Sponsors intending to engage in **international SPAC transactions may face legal obstacles** including additional tax issues or state regulations increasing the transactional costs.

Challenges to SPAC Deals

Time Constraints

The sponsor typically has 24 months to find and acquire a company, or else the SPAC is liquidated and everyone's money is returned. If that deadline is approaching, the sponsor may rush to acquire any willing company, potentially harming investors.

Regulation

In the US the SEC began to pay more attention to SPACs in 2021, and have already made one change: decreeing that the warrants in SPACs owned by early investors should be declared as liabilities as opposed to an asset on a company's balance sheet. The flow of SPAC deals slowed down in Q3 2021 as a direct result of the increased regulatory scrutiny.

Supply of Target Companies

The number of SPACs may outpace the number of companies willing to go public. Legally, the sponsor is not allowed to express interest or discuss a merger with any potential target companies, which means that, while sponsors may have potential companies in mind, they take their SPACs public without knowing the demand for a future SPAC merger.

Sponsor Quality

Investors in the initial IPO are investing in the sponsors, not in a specific company — giving sponsors a lot of power while adding a new layer of risk for investors. Institutional investors are able to redeem their shares and get their money back at the time of the acquisition announcement, but there is little a retail investor can do if it's proven after the merger that the sponsor didn't do proper due diligence.

SPACs Appealing to Healthcare Sector

It is important to understand why a healthcare startup would choose a SPAC over a direct listing or an IPO. Ever increasing number of late-stage biotech and healthcare startups choose to exit through a SPAC rather than the traditional route, and SPAC mechanism will continue to be a popular solution for top startups.

Healthcare startups that have experienced rapid growth might take advantage of a SPAC to capitalize on that growth because it is quicker and cheaper upfront than the traditional IPO route.

50	**Healthcare- and BioTech-focused SPACS looking for targets**
51	**Healthcare- and BioTech-focused startups with > $180M in total private funding**

Key factors designating the attractiveness of SPACs for healthcare companies:

- SPAC deal-making is quicker than IPO preparation, so exiting via SPAC can mitigate fear that demand for an initial public offering will not be around six months from now.
- SPACs also give companies more flexibility to share future earnings projections, which can make a deal more attractive — especially with pre-revenue companies.
- High growth sectors are most attractive to SPACs. There is an increased demand for digital health solutions and new drugs and treatments that could be used to fight COVID-19, in particular.
- Successful startups in the biotech and healthtech see that demand is high for biotech solutions, and they endeavour to move fast to seize the opportunity before it dissolves. SPACs enable them to secure a deal within just a few months of negotiations, as opposed to the year or more it usually takes for a traditional IPO
- The SPAC mechanism is delivering more and faster liquidity in healthTech and biotech industries.

De-SPAC Transactions to See in 2021-2023

SPAC	Target Company	SPAC's Ticker	Announcement Date	Deadline Date	SPAC Deal Valuation ($M)
MedTech Acq	MEMIC	MTAC	8/13/2021	12/22/2022	1,000
CM Life Sciences III Inc.	EQRx	CMLT	8/6/2021	4/9/2023	1,800
Capstar	GELESIS	CPSR	7/19/2021	7/7/2022	1,300
Lionheart Acquisition II	MSP Recovery	LCAP	7/12/2021	2/18/2022	32,600
HealthCor Catalio Acq	HYPERFINE / Liminal Sciences	HCAQ	7/8/2021	1/29/2023	581
Healthcare Capital	AlpheTAU	HCCC	7/8/2021	1/20/2023	660

SPAC	Target Company	SPAC's Ticker	Announcement Date	Deadline Date	SPAC Deal Valuation ($M)
Paywall Acq. Corp. IV	Genius Sports	*	7/6/2021	*	1,500
FS Development II	Pardes Biosciences	FSII	6/29/2021	2/19/2023	276
DFP Healthcare	The Oncology Institute of Hope & Innovation	DFPH	6/28/2021	3/13/2022	1,000
Thimble Point Acq	PEAR Therapeutics	THMA	6/22/2021	2/4/2023	1,600
Soaring Eagle Acq	Ginkgo Bioworks	SRNG	5/11/2021	2/26/2023	15,164
LifeSci Acquisition II	Science 37	LSAQ	5/7/2021	11/24/2022	1,050

AI in Pharma Industry Overview

We see significant potential for Artificial Intelligence in the Pharmaceutical Industry. Driven to some degree by the COVID-19 pandemic, publicly traded AI in Pharma companies demonstrated significant growth, reaching **$2.2T** industry capitalization.

One of the main indicators of investment expediency of the industry is its growth dynamics. Thus, **the expected Compound Annual Growth Rate for this market is projected to be around 40% over the next 3 years.**

Despite the decline in the prices of shares of several major companies in the beginning of 2021 due to the outflow of speculative capital, we believe that the long-term growth of the market will not be affected .

Furthermore, in our view, COVID-19 will continue to push valuations and M&A activity in the sector because next generation technologies are required for fast and reliable R&D solutions.

Cumulative Capitalization of Publicly Traded AI in Pharma Companies, 2020-2021

SPAC Deals in AI in Pharma Sector

Across **AI in Pharma Sector** SPACs have been gaining the popularity as a vehicle to bring biotech companies to public markets. Innovations will drive more SPAC deals, with pharma companies expanding their portfolios with new drugs and capabilities. These trends are driving expectations of **lasting trend of M&A and IPOs in 2021 in the pharmaceutical industry. Demand is also growing** because some investors now view SPACs as a cash-management tool. Since the SPAC boom resulted in few merge deals, there is a possibility that **SPAC mechanism would bring high-quality young biopharma groups to the public markets.**

Target Company: Roivant Sciences
SPAC: Montes Archimedes Acquisition Corp.
Deal Size: $611M

Biopharmaceutical company focused on completing the development of promising late-stage drug candidates. It aims to reduce the time and cost of developing new medicines for patients and to share those savings with the healthcare system.

Target Company: Valo Health
SPAC: Khosla Ventures
Deal Size: $2.8B

Valo Health uses human-centric data and machine learning-anchored computation to transform the drug discovery and development process. The discovery and development of life-changing treatments can be accelerated, with the potential to reducecost, time, and failure rate.

Target Company: LumiraDx
SPAC: CA Healthcare Acquisition Corp.
Deal Size: $5B

The company offers proven solutions to help achieve health care transformation goals, practically and reliably. The company's clients universally deliver more integrated and patient-centered care that is safer, more efficient, and with demonstrably better outcomes.

Target Company: 4D Pharma plc
SPAC: Longevity Acquisition Corporation
Deal Size: $5B

4D is a world leader in the development of live biotherapeutics, a novel and emerging class of drugs, defined by the FDA as biological products that contain a live organism, such as a bacteria, that is applicable to the prevention, treatment or cure of a disease.

Major Observations for SPACs in 2021: Key Business Takeaways

SPACs are gaining ever increasing popularity. 2020 was the year of the SPAC surge, 2021 and 2022 will be the time where these vehicles merge and thereby bringing new companies to public.

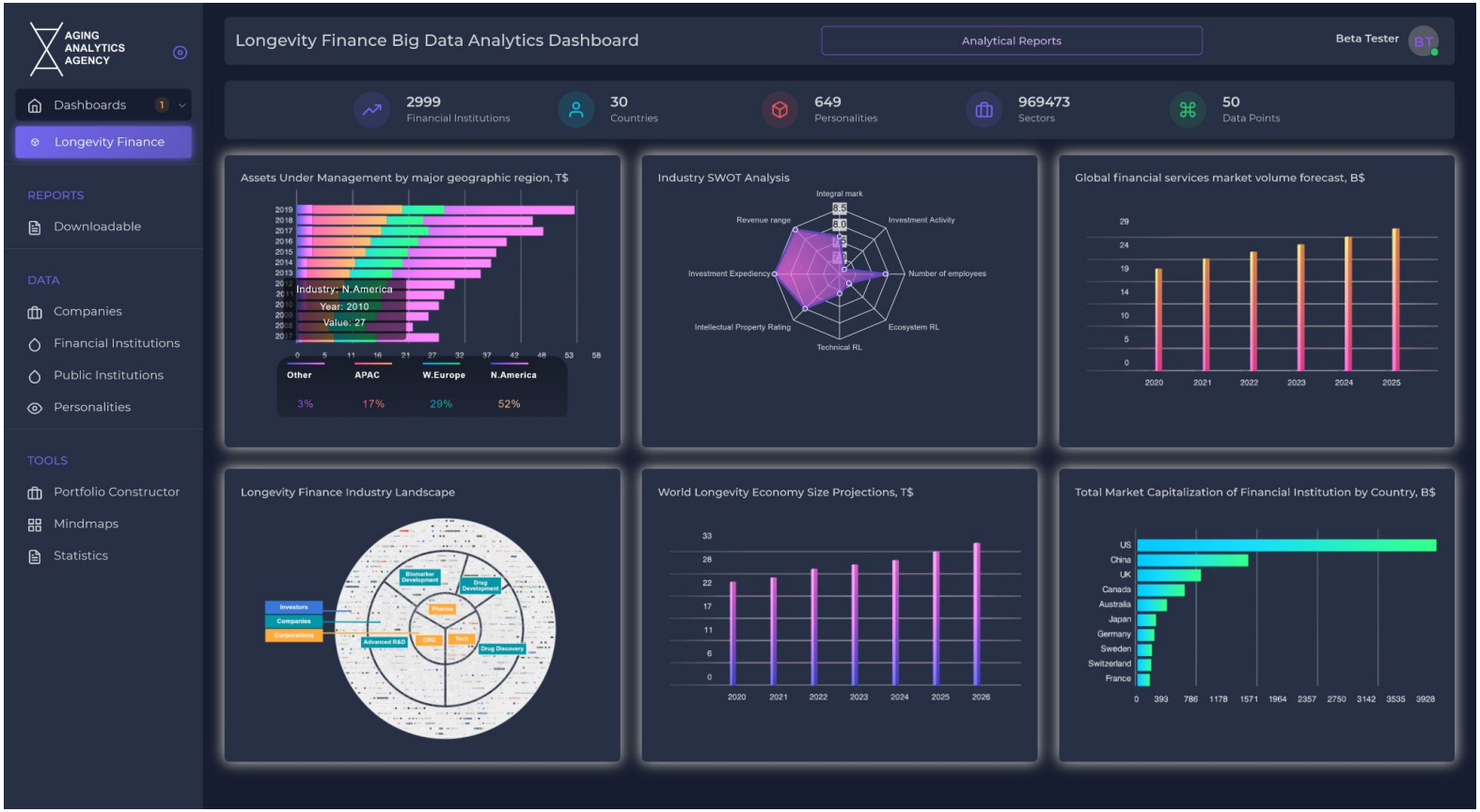
The SPAC merger allows the company to faster, cheaper and easier obtain the funds it needs compared to the traditional IPO.

Region wise, **the US is an absolute leader** in terms of number of SPAC deals and marketplayers. At the same time, the SPACs landscape will see the increased number of international SPAC transactions: **European and Asian investors are taking notice.** The saturated US market with increasing number of competing SPACs and less number of target companies may draw investors' attention to other financial centers, mainly London, Amsterdam and Hong Kong. These cities have been reviewing the regulations over SPACs listings.

SPACs offer protections, such as the right of an investor to withdraw capital with interest at the time of a proposed business combination, which essentially creates a riskless "free option." Once a private company acquisition is completed, the SPAC investors can either swap their shares for shares of the merged company or redeem their SPAC shares to get back their original investment, plus the interest accrued while that money was in trust. SPAC sponsors typically get about a 20% stake in the final, merged company.

Increased importance of PIPE financing in SPAC deals. The money a SPAC raises in its IPO falls short of the amount necessary to buy out its acquisition target. The sponsors will then seek to fill the funding gap through a PIPE, a private investment in public equity, to which the sponsors issue shares at par value in exchange for cash.

Longevity Finance Big Data Analytics Dashboard



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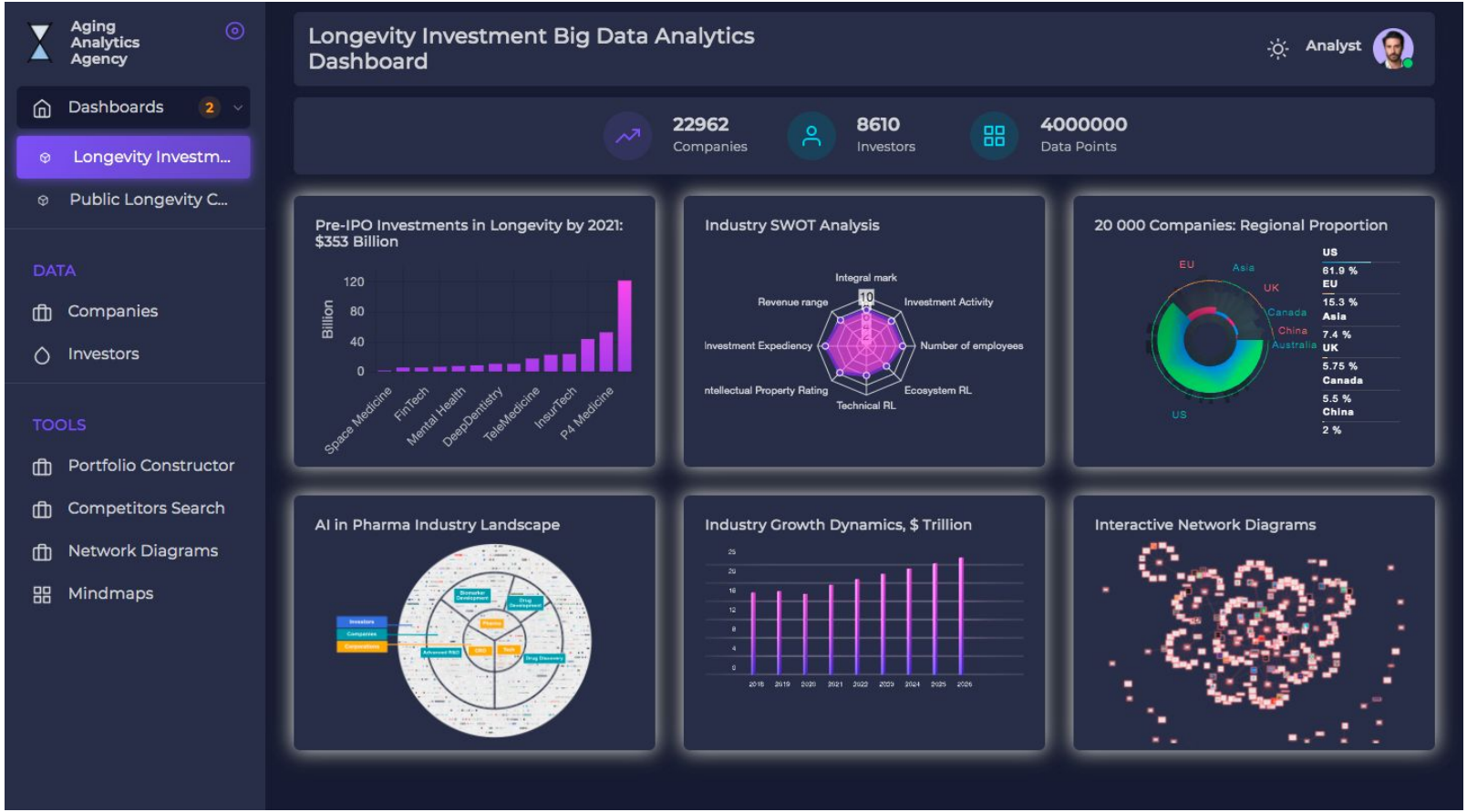
Longevity Investment Big Data Analytics Dashboard



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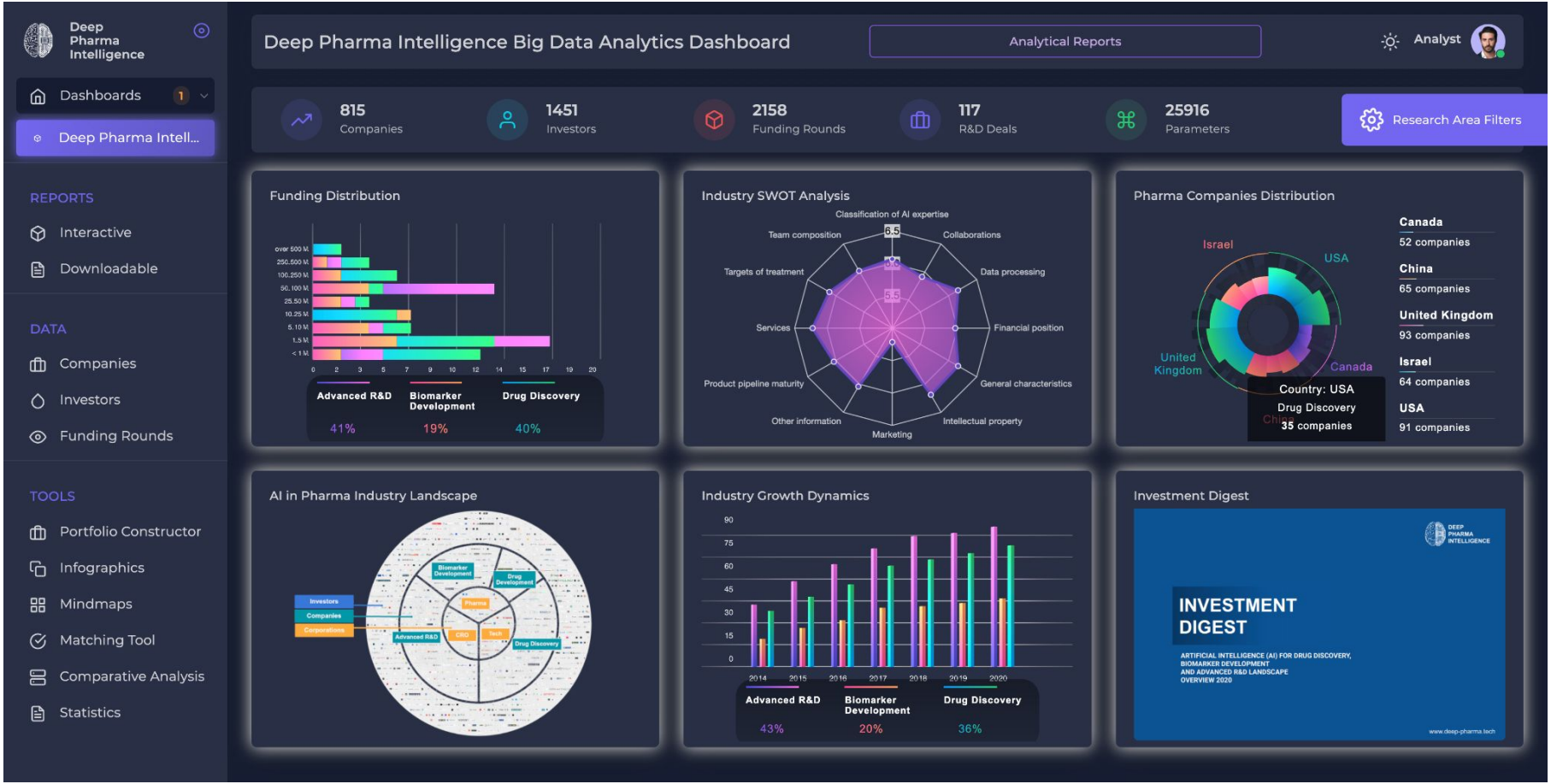
Deep Pharma Intelligence Big Data Analytics Dashboard



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Overview of Proprietary Analytics by Deep Pharma Intelligence

Deep Pharma Intelligence (DPI) is a strategic partner to the leading Life Science organizations, investment institutions (VC funds, investment banks), and governments across the globe — in matters related to investment analytics, strategic positioning, and policy development in the areas of pharmaceutical and biotech research, and healthcare tech.

While Deep Pharma Intelligence is regularly producing open industry reports covering high-growth sectors in the Life Sciences, including artificial intelligence (AI), digital health, and new therapies, some of the more in-depth research is only available to our clients and strategic partners under the "Proprietary Analytics" category.

Our range of proprietary services includes custom consulting projects, based on the specific customer needs, as well as a collection of pre-produced "ready-to-use" proprietary reports, produced by our research team, covering general trends and specific action ideas and strategy insights related to the most promising investment prospects (e.g. new technologies, biotech startups), M&A prospects (e.g. pipeline development targets), and strategic growth ideas (trends profiling, industry overviews etc).

Services:

- Investment analytics.
- Preliminary due-diligence (business, science and technology, intellectual property (IP) profiling, freedom of operation assessment, legal assessment etc).
- Comprehensive due-diligence (deep business, science and technology assessment, IP and legal assessment, growth potential assessment etc).
- Infringement analysis of technology (i.g. If you plan to partner or invest in a data-analytics biotechs, or AI-development vendors, it is essential to understand their technological assets, both in terms of innovation potential and in terms of legal protection and non-infringement risk management).
- SWOT analysis of companies and technological sectors, competitive profiling.
- Industry profiling and growth strategy development for top-tier companies and governments.

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