LIFE SCIENCES SNAPSHOT

A Quarterly Report on Financing Trends

VENTURE SURGES AND THE RISE OF SPACs
Q3 2020

orrick

Data provided by

PitchBook

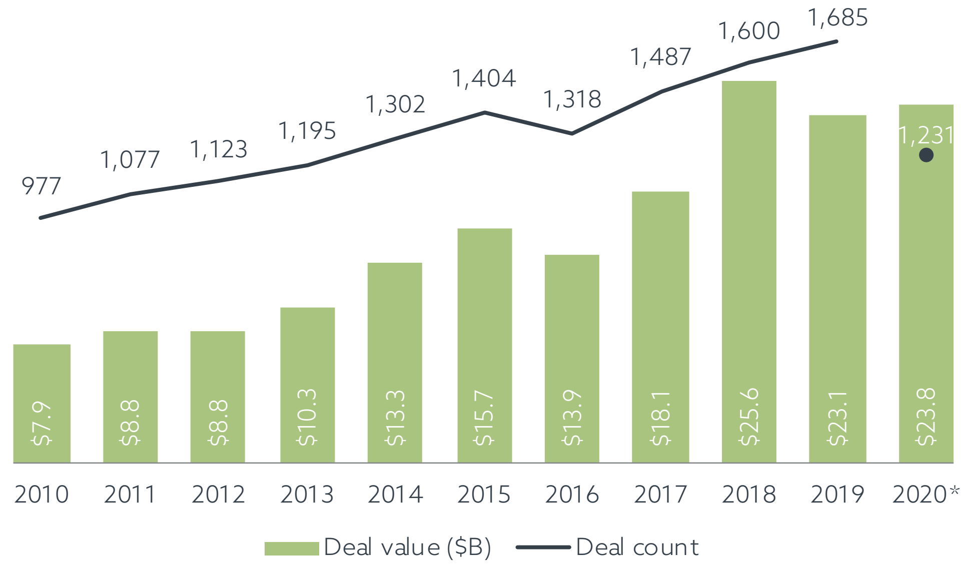
Key Takeaways

In this edition of Orrick's series of life sciences publications, the traditional update on broader venture market financing data is included, depicting the macro-level trends of interest. In addition, given their surge in popularity, SPACs and their particular utility to life sciences businesses are the subject of this edition's spotlight.

Key highlights include:

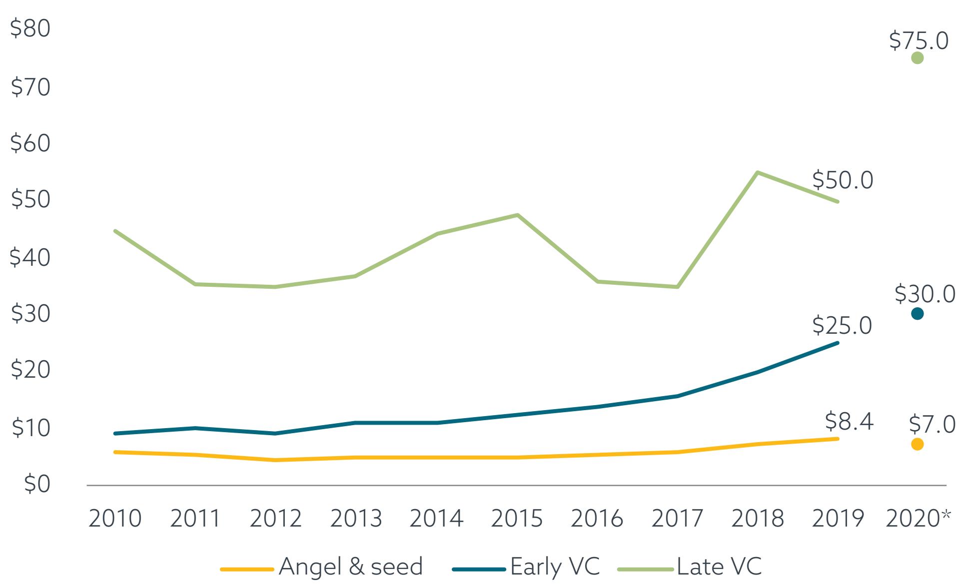
- Q3 2020 saw $8.3 billion in VC invested, matching Q2's massive tally—a clear sign the COVID-19 pandemic has served as an accelerant to the life sciences sector.
- 2020 is likely to exceed the prior record of $25.6 billion in VC invested within life sciences.
- Late-stage deals are getting an increasing portion of the investment pie, as measured both by deals and dollars.
- Median pre-money valuations are at or near all-time highs—with late-stage valuations increasing to $75.0 million, supported by robust demand and substantial sums of dry powder across the industry.
- Several SPACs are focused on life sciences targets, with this approach increasingly seen as an appealing method of going public.

VC deal activity



Source: PitchBook | Geography: US
*As of September 27, 2020

Median pre-money valuations by stage and year



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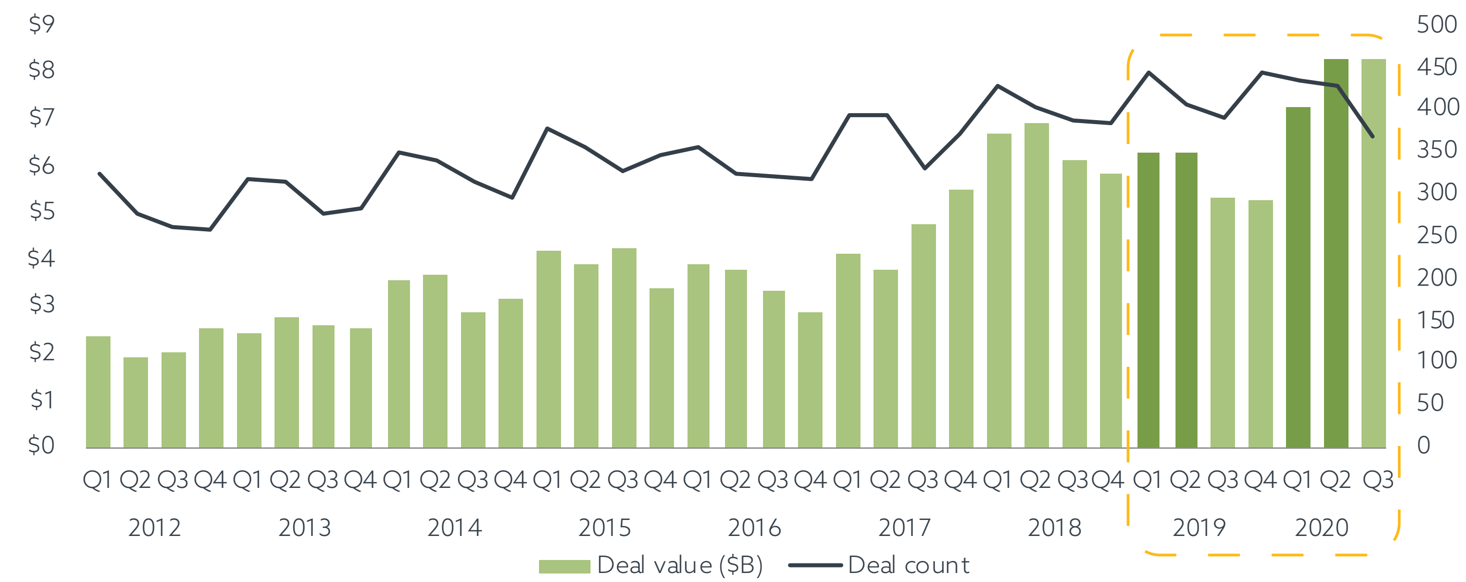
Market Analysis

VC deal activity by quarter



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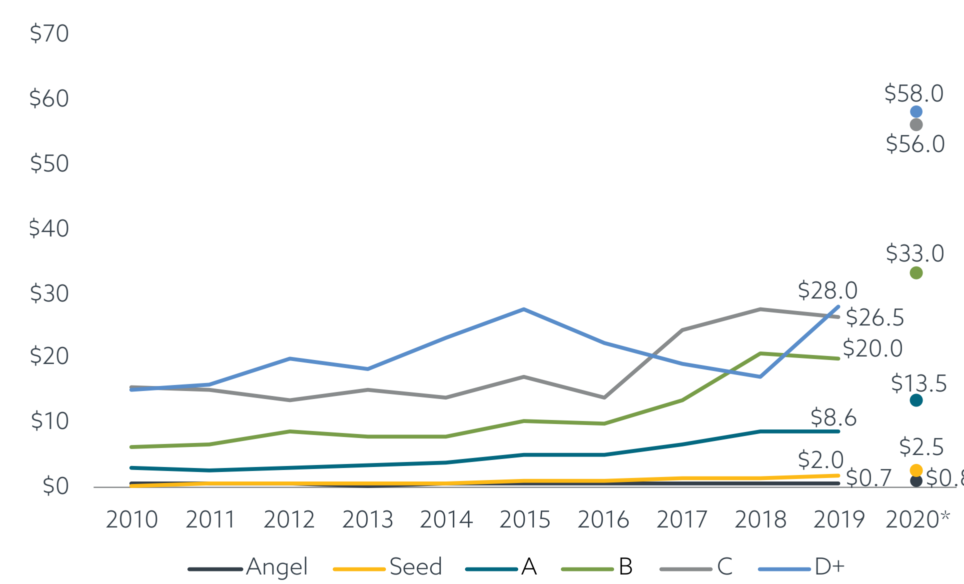
The life sciences sector has seen significant increases in both interest and venture investment during the COVID-19 pandemic. In fact, Q2 and Q3 2020 each saw $8.3 billion in VC invested, the highest quarterly tallies going back to at least 2008. Those numbers aren't due to outlier transactions alone, as the volume of transactions in 2020 is equally robust at 1,231 through late September. Given the preponderance of capital flowing into rounds sized $25 million or more—over 20% of all life sciences deal volume in 2020 to date has exceeded prior years, although with a slight dip in Q3—it is likely that this year will set a new record for VC investment in the space, as there is a full quarter to go for 2020's current tally of $23.8 billion to overtake the $25.6 billion registered in 2018. Median pre-money valuations are at or near all-time highs across all stages, with the late-stage figure surging to an unprecedented $75.0 million. Investor optimism and the maturation of multiple late-stage companies within the space appear to be at all-time highs, pandemic or no.

Median VC deal size



Source: PitchBook | Geography: US
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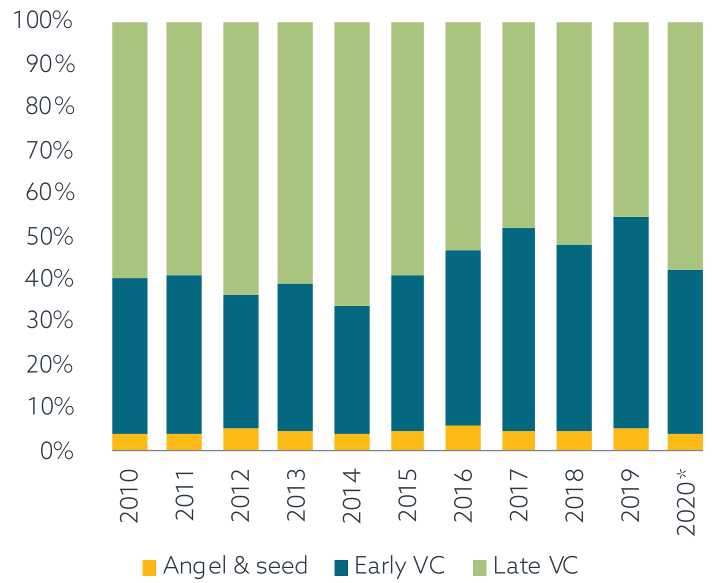
VC deals ($) by stage



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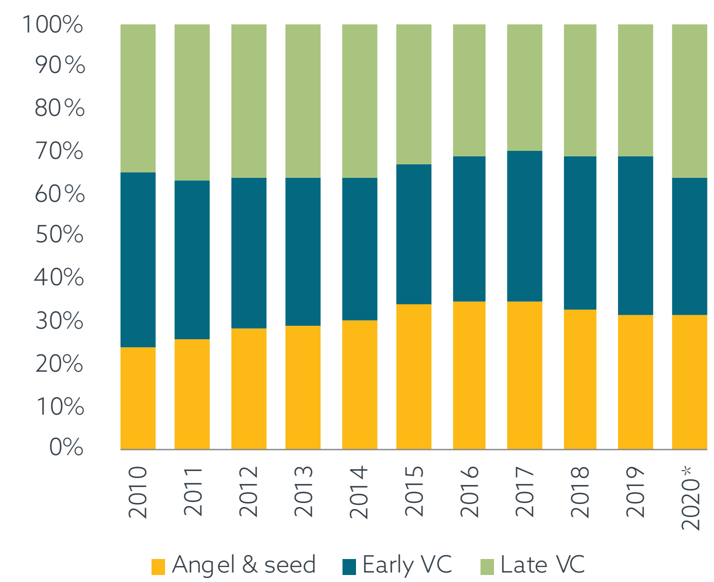
VC deals (#) by stage



Source: PitchBook | Geography: US
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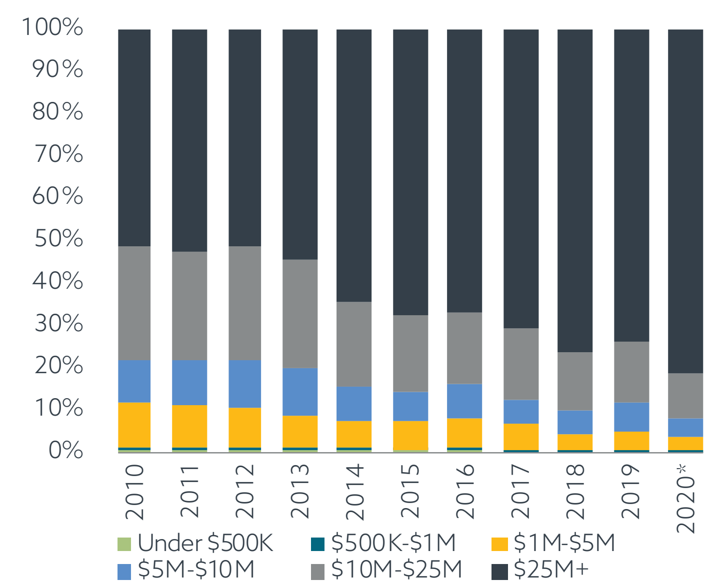
VC deals ($) by size



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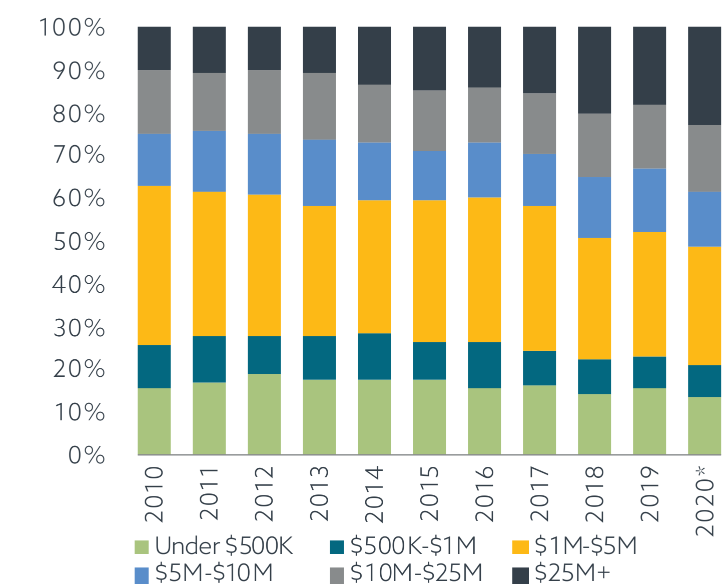
*As of September 27, 2020

VC deals (#) by size



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Spotlight

Select SPACs raised to target the life sciences sector

Name	Associated firms	Launch/filing	Total pricing ($M)
HighCape Capital Acquisition	HighCape Capital	September 4, 2020	$100.0
CM Life Sciences	Casdin Capital, Corvex Management	September 2, 2020	$385.0
Therapeutics Acquisition	RA Capital	July 8, 2020	$118.0
ARYA Sciences Acquisition Corp III	Perceptive Advisors	August 7, 2020	$130.0
Helix Acquisition	Cormorant Asset Management	October 1, 2020	$100.0

Source: Source: Nasdaq & Renaissance Capital. | Geography: US
*PitchBook reviewed publicly available data in order to obtain these select examples on October 8-12, 2020.

Besides COVID-19, 2020 will be remembered as the start of the SPAC frenzy. As of mid-September, 82 such entities had gone public, raising a record $31.0 billion. Prominent among the flood of fundraising has been the closing of multiple offerings specifically targeting the life sciences sector. While SPACs have been around for some time, there are several reasons for their newfound popularity: 1) Due to record highs in public equity markets, and the accompanying volatility and general economic uncertainty, investors are looking for more stable sources of return, even if at a higher cost, which SPACs potentially can fulfill; 2) the decreasing appeal of bonds resulting from historically low interest rates is driving many to embrace the greater risk inherent in equities and increase exposure overall to stocks—that said, diversification is still highly sought, and SPACs are viewed as one novel method of gaining exposure to a pipeline of hard-to-get opportunities; and 3) for companies looking to go public, SPACs could represent a more certain pathway compared to a traditional IPO, particularly in the current environment. Given the proliferation of SPACs, competition is surging, helping to establish SPACs as a viable financing method for companies.

As to life sciences in particular, the business models of most of the companies within the space lend themselves to a SPAC.

Traditionally, many biotechnology companies went public much earlier in their lifecycles relative to other businesses, as they needed access to broader capital bases more quickly to support ongoing development of their product pipelines. To some degree, late-stage financings in private markets mitigated the need to go public so swiftly, but now, biotechs and other life sciences companies can use a SPAC to achieve that same goal. Not surprisingly, the market is reacting, with sciences-focused SPACs growing in size—as evidenced by the $385.0 million raised by CM Life Sciences in September 2020—providing a large source of potential capital for the right company.

Roundtable

Panel

Facilitator

Neel Lilani
Managing Director
Orrick

Contributors

Gus Garcia
Head of SPAC M&A
Bank of America Merrill Lynch

Stephen Thau
Partner
Orrick

Albert Vanderlaan
Partner
Orrick

What's driving the SPAC push from your perspective? What's the appeal of the SPAC process to a life science company?

Gus: We need to keep in mind that the SPAC market is not homogenous. There are many different SPACs, some with traditional life sciences investors as sponsors, and others who have different targets. Some are looking for services companies, others for smaller biotechs. And sponsors are looking for winners—they're saying, "I want to have SPAC two, three, four, five, six," so they're looking for merger transactions that will be home runs. At its core, the best candidates are those who could have gone through an IPO process successfully.

Albert: Overall, the COVID-19 pandemic has created increased volatility in the capital markets, making the prospect of de-risking day-of-pricing more attractive for life sciences companies. While not necessarily as acute in the life sciences markets, the IPO market for high-growth companies has not been as frothy as in years past given the market uncertainty created by COVID-19 and the general global economy. Access to the public markets on an accelerated basis for cash-intensive life sciences businesses is certainly a driver for attractiveness to the SPAC market.

What makes a company a good candidate for a SPAC?

Gus: Sizable sponsors will often look for larger, more mature companies, for example in sectors such as services and medtech, which matches up with the typical SPAC merging with a company that is 3-5x the size of the SPAC. From a technical perspective, we've seen the market slowly gravitate toward larger sizes with many SPACs looking for minimum equity values of $1.0 billion. There are exceptions of course, for example, the biotech sector.

Do you expect the momentum to continue?

Gus: It's hard to predict the future, but what we can say is the number of SPACs focused on healthcare has materially increased. And as long as SPACs continue finding targets going forward, one would expect more merger transactions in the healthcare space. There are nine SPACs focused on biopharma, biotech, and/or life sciences, five of which went public in the last 60 days. And there are many others focused on healthcare broadly. But most importantly, there are plenty of good benefits to a SPAC, although, of course, they are not for everybody. The four main benefits to a SPAC relative to an IPO are (i) the ability to raise greater proceeds if desired; (ii) greater disclosure to investors, in particular around projections; (iii) flexibility to structure and align incentives through features such as earnouts; and (iv) speed of execution. Given these four very real and tangible benefits, we think SPACs have durability.

Albert: SPACs give companies greater flexibility compared to IPOs in a number of ways, including disclosure of projects, negotiation of lock-ups (i.e., potential access to liquidity for investors earlier), and ability to execute more quickly than a traditional IPO, all of which are factors that weigh in favor of SPACs' viability. For many pre-IPO-ready companies that are cash intensive, SPACs have the potential to be a larger financing opportunity to de-risk execution on a longer timeline, which is very attractive when commercialization may be years off.

Assuming SPAC transactions continue to tick up, do you expect regulatory and due diligence to change?

Gus: We can't predict regulatory changes, but what we can say is that at BofA we approach SPAC transactions with a very deep level of due diligence. We want to make sure the companies we partner with are the best candidates for the public markets and are ready to thrive as public companies. I think best practice is for all of us to stick to a robust diligence process.

If a company comes to you and says, "Hey, I'm thinking about the SPAC path," what helps you decide?

Gus: I think it goes back to the four main benefits mentioned above around ability to raise more capital, provide greater disclosure to investors, structure/align incentives, and execute faster. To give an example of each: For proceeds, there are several examples of companies selling up to 40% of their equity value in a SPAC and sometimes more; for disclosure, it is very typical to include projections in SPAC marketing materials; for incentives, it isn't atypical to see earnouts included for the company selling to a SPAC that provide newly-issued shares to the owners of the selling company when the stock price crosses certain thresholds; and finally, for speed of execution, the filing of a registration statement and the ensuing SEC review happens only after a deal is negotiated so you know early on what your transaction terms are, as opposed to an IPO where the terms are known after the SEC process.

Stephen: Another attractive feature of SPAC transactions is often a concurrent private investment (PIPE) transaction. This can be a great way for companies to bring new investors on board, and for investors it gives greater certainty about getting a position, rather than having to wait for the IPO allocation process. With SPACs, there's also a feeling of greater security; you have your PIPE already negotiated, and it's viewed more as a done deal while companies continue to market to investors.