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Rest In Peace SPACs And Pseudo-Platforms: What Lies Ahead For Biotechs Going Public In 2023

by Alaric DeArment

Panelists at the BIO CEO and Investor Conference foresee some changes coming as biotech investors become more judicious about where they park their money.

What kinds of biotech companies are able launch offerings on the public markets and what means they use to do so are likely to see some significant changes in 2023 as investors become more judicious about where they park their money. Notably, mergers with special purpose acquisition corporations (SPACs), which became a popular means of going public a few years ago, will likely dry up, while it's also unlikely that companies will have as easy a time going public with just one product as they did in prior years.

Those were some of the key take-home messages of a panel discussion about the outlook for initial public offerings and other capital raises at the Biotechnology Innovation Organization's BIO CEO & Investor Conference on 6 February. The conference, in New York, kicked off on 5 February and ran through 7 February.

The takeaway is consistent with what investors, advisors and CEOs attending the J.P. Morgan Healthcare Conference and Biotech Showcase said in January, when they forecast that financing will be more challenging to come by for biopharma companies in the year to come, particularly if they do not have near-term clinical or regulatory milestones to achieve, which could even lead to some firms having to close up shop. (Also see "*Financing Available For Some, But Not All Biopharma Companies In 2023*" - Scrip, 18 Jan, 2023.)

'SPACs Are Dead'

SPACs have been around for a while, but they became especially popular in 2020 and 2021 as private equity and other investors built up large reserves of cash, occurring alongside booms in

IPOs and M&A activity. Merging with a SPAC also became an alternative means of accessing public markets for companies that might have otherwise struggled to attract money from traditional IPO investors. (Also see "*SPAC Mergers Take Biopharmas Public, But Valuations Often Sag Post-Closing*" - Scrip, 21 Dec, 2021.)

But the boom in SPAC deals looks set to end as investors find that they don't result in the kinds of returns that they had expected, explained one panelist at BIO CEO, Aisling Capital founder Dennis Purcell.

"I think reverse mergers are here to stay, particularly in this market," Purcell said. "SPACs are dead – that game's over."

Reverse mergers are similar to SPAC deals, except they involve a private company merging with a public company that may be on the brink of shutting down. A SPAC is a shell company that goes public with the sole purpose of merging with another company. In both instances, the merger partner takes on the original public company's remaining cash and its stock market listing.

At the height of the most recent trend, Purcell explained, SPACs were basically fixed-income instruments, where investors could buy them at $9.50 per share and redeem them at $10, particularly when interest rates were 1% or less.

But that environment has come to an end, he said, with investors in the original SPAC redeeming their shares rather than staying invested in the merged company. This leaves biotechs in SPAC mergers with little cash return from such deals.

"For a while, they were just very in vogue, and what would happen was that everybody was redeeming their shares when the SPACs were going to get done, and the SPACs that did get done traded down very much, so that they're just really not viable investment vehicles at this stage because they just haven't worked out," Purcell said in an interview after the panel. "Reverse mergers, on the other hand, a lot of times they do work out and they're still viable."

SPACs, Purcell said, allowed investors to invest and then get their money back when the deal was announced, which most of them did.

"And as it turned out, they were too favorably geared towards the sponsors, too many warrants, it was too much carried interest – there were too many things that the incentives weren't in line properly," he told *Scrip*. "And therefore, people caught onto that, and that whole segment went away, so I doubt we're going to see them come back."

Things Get Real For 'Pseudo-Platforms'

Along with SPACs, another trend that may fall by the wayside in 2023 is that of companies going

public on the basis of a single product or handful of products that use the same mechanism that they present to investors as a technology platform. Panelists called these "pseudo-platforms."

Looking ahead at 2023, panelist and *Cambrian Biopharma* CEO James Peyer said it will likely be harder for pseudo-platform companies to go public than it was before.

"Most new drugs are going to start at universities, grow up in small biotechs and be commercialized, at least, in partnership with a big pharma company," Peyer said. "The question is, what proportion of those discoveries that will ultimately become drugs are IP platforms like CRISPR or like a [*Moderna, Inc.* messenger RNA] platform that will really create lots of different shots on goal that create diversification and an investment case for investors; and how many are … pseudo-platforms – something that can create multiple shots on goal, but really is testing a single hypothesis, and all of the risk lives in that first drug that's going into patients."

CRISPR/Cas9 gene-editing companies like *CRISPR Therapeutics AG* and *Intellia Therapeutics, Inc.* have built out their platforms to include CRISPR-based cell and gene therapies for cancers and genetic diseases. And mRNA companies like Moderna and *BioNTech SE* have developed mRNA-based products across infectious disease, oncology and other indications. Both cases illustrate how the companies involved have proven themselves as true platform technologies.

Following the panel, Peyer summed up the discussion's theme in an interview *Scrip*, noting that investors – including venture capital firms as well as public market investors – will want to see diversified risk.

"But the majority of discoveries are really single hypotheses, like it's going to be one drug that's invented by a professor after studying that pathway for 20 years or something that will eventually become a drug; and spending tens or hundreds of millions of dollars to take a binary risk that's going to go to one or zero for that drug is not what investors want to be doing," Peyer told *Scrip*. "In the last two years, we saw many of these companies kind of pretend that they were three or four shots on goal when they really weren't, trying to get priced as if they were three or four shots on goal, but ultimately revealed themselves to be binary plays."

Consequently, he said, companies will have to give investors truly diversified pipelines, with each asset having potential to be a drug on its own, in order to be suitable for public markets – unless there is a company with one product that has "fantastic" Phase II or Phase III data. Otherwise, he said a lot of firms with just one product will likely remain private until they do deals with larger pharma companies.

But even a diversified platform comes with challenges of its own.

"I think one of the challenges of having a platform with multiple different indications that are

correlated is the onus is then on the investor to do the work, and the sum-of-the-parts analysis and digging into each asset is going to be, frankly, a bit of heavy lifting that's going to have to happen on the investor side for that model to really continue in public markets," Citi managing director Jennifer Sheng said during the panel. "We've seen that with the likes of *BridgeBio* and others."