The Pros and Cons of a SPAC for Life Sciences Companies

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Going public traditionally through an initial public offering (IPO) can be an expensive and lengthy process that often takes years. That's where a special purpose acquisition company or SPAC comes in. At its core, a SPAC is a publicly-traded company that's ready to acquire or merge with a target firm.

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If you're currently a privately held company in the life sciences sector, agreeing to be purchased by a SPAC may be a good idea. Here's why: Many companies in the life sciences industry tend to go public earlier than those in other industries because of the early lack of cash flow and the need to access broader capital sources to support product development.

With a SPAC, you may go public in a way that's usually less complex and more affordable than an IPO. Let's take a closer look at how a SPAC works and the pros and cons of this strategy so you can determine if it's right for you.

HOW DOES A SPAC WORK?

A SPAC is a shell company without business operations or assets other than cash at the time it forms. It goes through three main phases: incorporation and formation, research and due diligence, and acquisition or merger.

Here's a brief overview of what happens during each phase.

- **Incorporation and Formation:** The company incorporates officially and issues shares to its founders typically through an IPO.
- **Research and Due Diligence:** The SPAC finds target companies for a merger or acquisition and performs due diligence on their financials.
- **Acquisition or Merger:** The SPAC finalizes its acquisition or merger, makes investors aware, and receives approval from investors.

PROS OF SPACS FOR LIFE SCIENCES COMPANIES

The greatest advantages of SPACs are as follows:

- **Fast:** In most cases, the IPO process takes one or two years. A SPAC merger, however, can be completed in only three to five months if the target firm is financially ready.
- **Affordable:** Since a SPAC involves funding that has already been raised, the banking fees may be lower than those of a traditional IPO.
- **Not Reliant on Market Conditions:** As long as the SPAC and private company can convince investors to approve the merger, the transaction can be effectuated, regardless of how the market is doing.
- **More Certainty Regarding Initial Public Valuation:** Since the valuation is indicated in the acquisition/merger agreement, months ahead of the actual market flotation.
- **Involves a Strategic Partner:** The investors don't typically disappear after the merger. They may become board members or advisers and assist with strategy.

CONS OF SPACS FOR LIFE SCIENCES COMPANIES

When it comes to the drawbacks of SPACs, they include:

- **Cost Sensitive:** If there is no investment made within a two year period and the term of the SPAC comes to an end, the company will be forced to give the money back to the investors. This makes life sciences companies extremely cost sensitive.

- **Lack of Readiness:** A company must comply with full SEC regulatory requirements like holding shareholder meetings and publishing financial reports once it goes public. Due to their accelerated timeline, a firm may be unprepared and make costly mistakes that come with long-term consequences.

- **Potential Rejection From Investors:** Once the target company is announced, investors may vote against the transaction. This adds another component of risk that isn't seen with a traditional IPO.

- **Investors Must Wait One Year Before Trading Securities:** As stated in the Securities Act Rule 144, investors do not have the right to trade securities until they've waited at least one year.

- **Considered an Ineligible Issuer:** A SPAC cannot depend on communications safe harbors. This restriction expires three years after they've completed their initial business combination.

HOW A STRATEGIC CFO CAN HELP LIFE SCIENCES COMPANIES PURSUE A SPAC

If you're a life sciences company that would like to pursue the SPAC route, a strategic CFO from Charles River CFO is an invaluable resource. Time and expertise are required to review and address reporting, complex technical accounting, internal controls and other potential external audit and SEC compliance issues.

You can trust Charles River CFO to provide you with expert advice and streamline the process. Our ability to respond and scale quickly with the knowledgeable team required to get you ready is key to your success. We can help you:

- Assess **audit readiness** and prepare for the required financial audit.
- Prepare pro forma and quarterly **financial statements.**
- Establish a **solid financial foundation** allowing for accurate and timely data.
- Design a **complete budget** program that includes staffing and benefits, funding sources and more.
- Assist with **board compensation**.
- Support the U.S. Securities and Exchange Commission **(SEC) review process**.
- Comply with **regulatory requirements** such as holding shareholder meetings and publishing financial reports.
- **Reduce the risk** that comes with investor rejections and lack of regulation compliance.
- Once a firm has raised funds through the SPAC process, there will be new, immediate demands for **timely financial policies, reporting and public filings.**

Interested in learning more about how a strategic CFO from Charles River CFO can benefit your firm? Contact Charles River CFO at **info@crcfo.com** to have a confidential conversation about your requirements and how our experience can contribute to your success.