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Preparing for Potential SPAC Mergers in Biotech



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Over the past two years, the biotech sector has faced significant headwinds in the public markets. Once-robust IPO pipelines have slowed to a crawl, with many private biotech companies—particularly early-to-mid-stage—finding themselves “on deck” but unable to cross the finish line due to unfavorable market conditions. As the traditional IPO window remains unpredictable and all but closed, a different path may be gaining traction again: the SPAC merger.

Special purpose acquisition companies (SPACs) are reemerging as a viable and potentially accelerated alternative route to the public markets for biotech companies. For organizations ready—or nearly ready—to access the public markets, the SPAC path may be desirable. However, it also comes with unique challenges that require early and deliberate preparation to ensure long-term success.

A Different Path

A growing number of SPACs are now actively seeking merger targets within the life sciences sector. With many SPACs racing against their investment timelines, and private biotech companies eager for access to public capital, the alignment of incentives may offer a win-win.

For biotech companies that have already completed many of the foundational elements required for an IPO—such as scaling clinical development, hiring seasoned leadership, and beginning to build investor relationships—a SPAC merger may accelerate the transition to public status. But there’s a caveat: speed cannot come at the expense of readiness. This is especially true when it comes to executive compensation, equity strategy, and governance practices.

A SPAC merger and a traditional IPO ultimately lead to the same place, but the paths differ in significant ways, particularly in terms of timeline and investor dynamics. One of the most important distinctions is the presence of a second investor audience. In a traditional IPO, institutional investors often drive valuation and governance expectations, and both boards and VC backers are familiar with the established norms. In a SPAC transaction, however,

the SPAC sponsors have a much shorter time horizon. Their goal is often to realize a return on investment quickly, which can create tension around compensation design and equity allocation, and financial objectives.

Public biotech companies carry much higher levels of potential future dilution than companies in other industries. Equity compensation is key to the total rewards package and provides the optimal alignment with investor interests in both “home run” and negative outcomes. The shorter-term orientation for the SPAC sponsors can result in a more conservative approach to negotiating the terms of the equity plan, which can lead to misalignment with investor interests. This is because it behooves the SPAC sponsors to maximize their near-term return on investment, which can come at the expense of setting the company up for success that may be years away. If key terms of the equity plan, such as the size of the initial equity pool and the structure of the evergreen provision, are negotiated before the target company has modeled out competitive market norms to inform the decision, the company may be left with a less-than-desirable outcome.

SPAC sponsors may also seek board representation post-merger, potentially altering board dynamics and influencing future compensation decisions. Biotech companies should be prepared to address board composition, board classes, independence, and compensation structure as part of merger negotiations. Companies considering a SPAC path must therefore front-load compensation planning to ensure all parties are informed during the decision-making process to avoid boxing the target company into suboptimal terms.

Compensation and Governance Planning

Whether going public via IPO or SPAC, companies must position themselves for sustainable success as a public entity. Institutional investors and proxy advisors will assess the competitiveness and reasonableness of these provisions. Equity programs must evolve to support retention and motivation across all employee levels. There are three critical areas of focus and preparation in the planning process, regardless of the transaction type.

1. Executive Compensation Philosophy and Peer Group

Public company investors and advisory firms (e.g., ISS, Glass Lewis) will scrutinize executive pay programs for alignment with performance, adherence to market norms or perceived “best practices,” and governance standards. Companies preparing to be public ought to adopt a clearly articulated compensation philosophy and benchmark their practices against a carefully selected peer group of companies that are similar in terms of valuation, stage, and size.

Key considerations for philosophy include:

- Defining the proper market reference points
- Determining desired target pay positioning (e.g., median vs. 75th percentile)

- Setting mix of fixed vs. variable pay
- Balancing short- and long-term incentives

Using a defensible peer group based on accepted industry standards is important to ensure compensation design is appropriate. It also keeps target pay opportunities in check—or at least pushes compensation committees to consider and articulate why they choose to deviate from market norms. This process and these conversations provide a foundation for future proxy disclosures that can mitigate shareholder feedback and proactively address proxy advisor commentary.

2. Equity Incentive Plan

The public company equity plan has one of the longest-lasting impacts of the public company planning process, as substantive subsequent changes require shareholder approval. Sizing the initial pool, structuring the evergreen features, and setting key governance features (e.g., whether stock options withheld for option exercise return to the pool) are critical decisions. We recommend that companies balance external market data and industry norms with internal projections and expected needs in defining terms of the plan.

3. Compensation Benchmarking

Public company pay levels and practices can vary considerably from private company norms. A proper process should cover material benchmarking areas, including:

- Executive salary and bonus targets
- Executive severance and change-in-control provisions
- Equity compensation strategy
- Board of directors compensation

For executives, public company salary rates can be materially higher than private company norms, and target bonus opportunities are often a “step” or two higher as well. The market for employment protections is more established with certain norms around severance and change-in-control provisions. Rolling out competitive practices from the get-go as a public company creates a solid foundation for attracting future talent.

A comprehensive equity strategy will address “IPO awards,” if any, as well as the framework for new-hire awards and future annual award programs. As companies transition to public status, many teams and boards refine practices around equity vehicle types, award mix, and vesting provisions. Setting up a board of directors compensation program that aligns with market norms is critical to ensuring directors are compensated fairly and that the company can attract future board talent as needed.

While these items are easier to revisit and evolve over time than the equity plan document, making data-informed decisions up front can benefit all stakeholders most effectively and

position a company for a successful early life as a public company.

Bottom Line: Prepare Like It's an IPO

While the mechanics of a SPAC merger differ from a traditional IPO, the destination is the same: life as a public company under the scrutiny of shareholders, analysts, and regulators. Companies that proactively address compensation design, equity strategy, and governance planning are better positioned to thrive post-transaction—regardless of how they got there.

Early preparation is essential. Companies cannot wait for the SPAC term sheet to begin thinking about executive pay levels or equity plan terms. Key elements are often negotiated up front, with lasting implications for a company's ability to use compensation, particularly equity incentives, as a tool to effectively attract talent and motivate, incentivize, and retain their teams.

SPACs may offer a promising alternative for biotech companies seeking to escape the IPO backlog, but an accelerated timeline should not be viewed as a shortcut. Success still requires the same rigor, transparency, and strategic alignment that a traditional IPO demands. Biotechs that embrace this mindset can seize the SPAC opportunity—and emerge stronger for it.

About the Author

Matt advises life sciences and technology companies on executive compensation, specializing in benchmarking, incentive design, pay-for-performance alignment, security arrangements, and CD&A disclosure.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.