



SPAC Considerations for Global Sponsors and Target Companies

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Topics

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Selected international SPACs and Target Companies

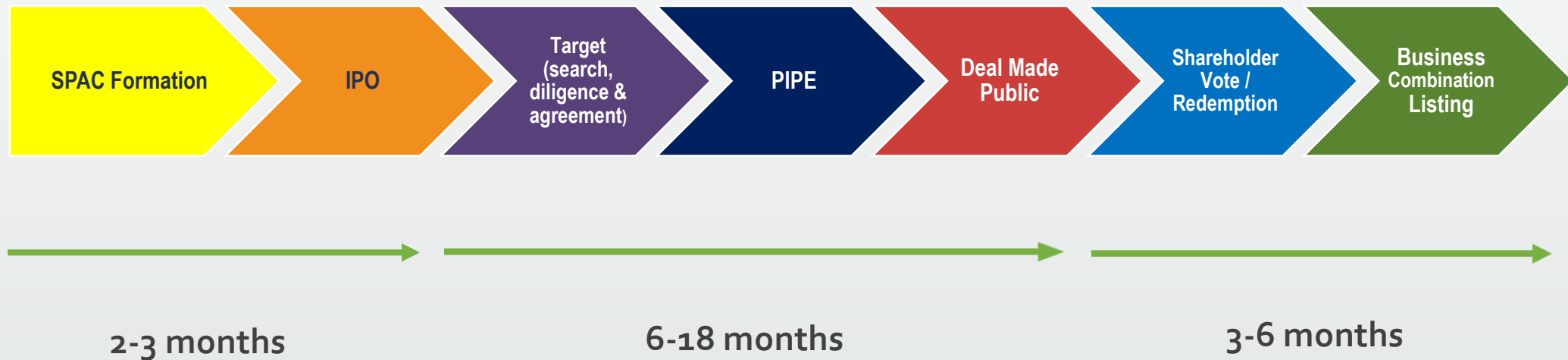


Three Ways to Go Public in the US

- **Traditional IPO** – Underwriter-driven process: private company offers new shares in the public market.
- **SPAC** – A two-step process: sponsored blank-check company 1) goes public via Traditional IPO and 2) merges with a private operating company.
- **Direct Listings** – Public offering process without underwriter: private operating company offers: a) only existing shares or b) new shares or a combination of new shares and existing shares.



SPAC Timeline*



**Hypothetical*

SPAC Overview

- A Special Purpose Acquisition Company is a blank check company created to raise capital in an IPO to finance a merger with or acquisition of a private operating company within a specific time frame, typically 18-24 months.
- If the SPAC is successful, it will merge with a private operating company, and the resulting initial business combination (“IBC”) becomes a public company. If the SPAC fails to complete a deal, the SPAC is liquidated.
- SPACs are **formed by a sponsor**, which assembles a small leadership team of management and board directors, receives founder shares (aka “promote”), provides at-risk capital, and is deeply involved throughout the entire SPAC life-cycle.
- SPACs and the IBCs they create will almost always list on the same **stock exchange**.
- **SPAC IPOs** involve units, which consist of shares and warrants, which are later stripped from the units and traded separately. IPO proceeds are deposited in Trust Account and not touched unless there is a business combination or the SPAC liquidates.

SPAC Overview

- SPACs typically **search** for merger candidates (“**Target Company**”) with an EV of roughly 3x-6x IPO size. When the SPAC finds a suitable Target Company, the parties engage in due diligence, and sign a **Definitive Agreement** (“DA”) containing negotiated valuation and other terms and conditions for an IBC.
- By the time DA is signed, the SPAC often has secured private investment in public equity (“**PIPE**”) or other supplemental financing.
- SPAC and Target Company jointly **announce** the deal. If PIPE has been secured, that is included in the announcement. This is part of the “de-SPACing” process.
- SPAC will go through the SEC proxy statement approval process, market the deal to investors, and hold a **shareholder vote**.
- SPAC public investors have a right to **redeem** their shares for a pro-rata share of funds in Trust Account, providing downside protection. Public Investors that redeem their shares can keep their warrants for upside potential. Warrants and Founder shares are not redeemable.
- Once shareholders approve the deal, and SPAC has met all terms and conditions for closing, the **Initial Business Combination** is consummated and becomes a public company with a stock exchange **listing**.

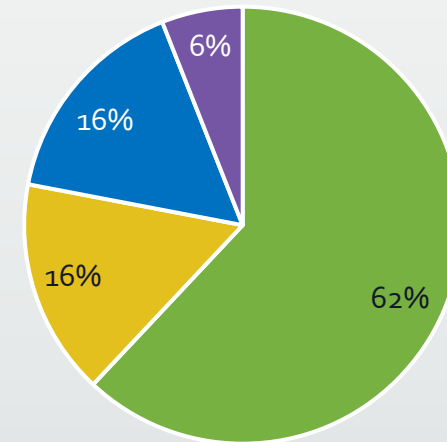
SPAC Overview

- IBCs **must comply with all requirements applicable to US listed companies**, including: governance, internal controls, disclosures, audits by PCAOB-registered auditors, and financial reporting, The IBC should be able to effectively communicate with US investors.
- The ultimate **capital structure** of an IBC can vary widely and will depend on prior negotiations and degree of shareholder redemptions. A typical capital structure* might look something like this: 62% Target company ownership, 16% PIPE investor ownership, 16% SPAC shareholder ownership, and 6% SPAC sponsor ownership.

** Vinson & Elkins study of IBCs consummated during 2017-2019 with SPACs having IPO proceeds over \$100 million, posted on Harvard Law School Forum on Corporate Governance 2018.*

Hypothetical Capital Structure
of post-merger
initial business combination

% ownership



■ Target SH ■ PIPE SH ■ SPAC SH ■ Sponsor

IPO > Comparison < SPAC

Topic	Traditional IPO	SPAC
Valuation	Outcome uncertain. Determined by underwriters. Influenced by sentiment of underwriters' investor-clients and by market conditions. Culminates on single pricing date.	Outcome more certain. Negotiated between SPAC and Target Company and memorialized in Definitive Agreement. Rare possibility of renegotiation if shareholders disapprove as reflected through votes or redemptions.
Execution	Outcome uncertain. Dependent on market volatility and sentiment of underwriters' investor-clients on single pricing date.	Outcome more certain. Less dependent on market volatility and investor sentiment. Uncertainties created by a) subjecting the closing of deal to conditions such as minimum cash requirement and b) shareholder vote, can be substantially mitigated.
Speed	Process generally takes 6-18 months. Deliberate pace gives company more time for public company readiness preparation.	Process generally takes - 3-6 months. Compressed time frame requires company to accelerate public company readiness preparation.
Proforma	Generally not allowed.	Allowed to forecast how SPAC + Target Company synergies can impact IBC's future performance.
Lockup	Insiders typically prohibited from selling their shares for 180 days after the IPO.	Sponsors typically prohibited from selling shares for one year after closing of IBC transaction. Earlier sales are typically made possible if shares trade above a fixed price (\$12) for 20 out of 30 trading days starting 150 days after closing of IBC transaction. Target Company insiders typically subject to 180 day lockup.
Costs	Underwriters fee typically ranges from around 7% for IPOs < \$100 million and less than 4% for IPOs > \$1 billion. Legal and accounting fees combined are roughly 1% of IPO size, with variations based on factors such as IPO size, industry, and accounting and legal complexities.	Underwriters fee is paid in two parts: typically 2% at IPO (by SPAC), and 3.5% deferred to closing (by IBC). Legal and auditing fees could become very high due to multiple step de-SPACing process. Dilution from Promote shares and warrants could raise costs to Target and investors, but can be subject of negotiations.
Synergies	Generally none.	Potential for synergies between SPAC and Target Company including mentoring and counseling as to, e.g., business strategy and public company readiness, through de-SPACing process and beyond.
JOBS Act	Companies that qualify for EGC status could benefit up to five years starting from IPO date.	SPACs qualify as EGCs. If the IBC qualifies, any benefits to IBC could last up to five years starting from date of SPAC IPO, not date of IBC listing.
Investor Access	IPO share allocation is typically limited to institutional investors and high net worth investors who are clients of underwriters.	Any investor can buy SPAC shares in the public market before any deal is announced, and thereby own shares in the IBC when it goes public.

Ten Practical Tips



1. Recruit an exceptionally credible leadership team.



2. Focus search on specific sectors.



3. Go Big (IPO).



4. Go Big (Target Company).



5. Announce the deal and PIPE together.

Ten Practical Tips



6. Full and accurate disclosures/high quality due diligence are of paramount importance.



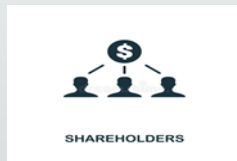
7. Public company readiness takes time, effort and money – shortcuts may be costly in the long run.



8. Projections put forth in support of valuations must be realistic and defensible.



9. International deals raise potential corporate structure and complex tax issues.



10. Don't forget stock exchange minimum shareholder distribution requirements.

Destination: New York



Times Square



Statue of Liberty



Central Park



World Trade Center



Empire State Building



NYC Marathon



Brooklyn Bridge



Rockefeller Center



Grand Central Station

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