



Special Purpose Acquisition Companies (SPAC's):

Funding Blind Pools, Mature Unicorns & Family-Owned Businesses During The *Great Corona Crisis*

Capital Deployment

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Stirling Larkin, CIO

By no means a new concept or framework, **Special Purpose Acquisition Companies**, or **SPAC's**, have found their purple patch during these quixotic economic and financial times.

As discussed earlier this week and more broadly across industry and academia, the earthward spiral towards the **Zero Lower Bound**, or **ZLB**, across US and developed economies, raises once again the legitimate fear of quiescent and sluggish listed laggards, or in the jargon, "**Zombie Companies**" – who only continue to survive thanks to the blunt and yet cogent stimuli of unconventional monetary policies the world over – continuing on into the 2020's **without viable or commercial earnings potential, appropriate risk protocols** or worse yet, capability to meet even the **minimum ESG thresholds expected by almost all** in this decade.

Cite:- [How The Inverted Yield Curve Affects Australia](#), 20 June 2019

Cite:- [Responsible Investing Optimisation: Understanding In Three Easy Steps](#)

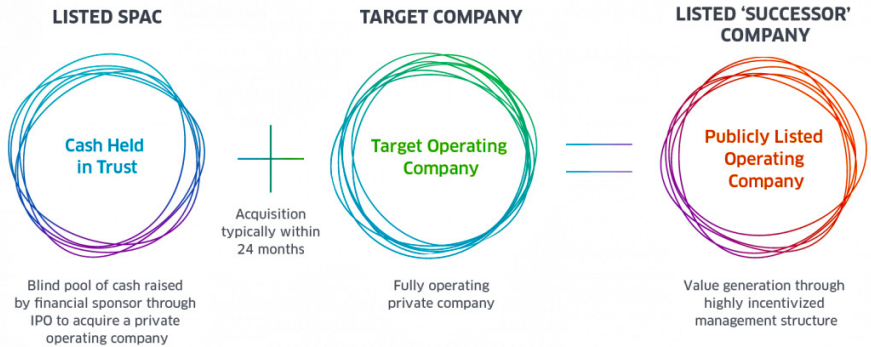
Invigorated immediately after the 2001-2002 **Tech Bubble** and post Nine-Eleven seachange, US **SPAC's** began to reappear across the public offerings landscape, bridging the funding nexus between institutional insurance and reinsurance behemoths, (we now know) Panama-registered private equity proxies plus wholesale investors and the newly prioritised US homeland security service providers, related government contracting markets, onshore (US) energy and increasingly lucrative but illiquid PRC Chinese and **BRIC** early unicorn opportunities.

Cite:- [Why Investors Can't Ignore What's Happening In South America](#), 21 May 2016

Cite:- [China Opens Its Doors To Private Capital](#), 1 November 2014

The flurry of new **SPAC** megadeals announced in recent weeks should not therefore come as a surprise as the reconfigurations imposed by the **Great Corona Crisis (GCC)** marry perfectly with the relatively more nimble, practical and dependable rigour **SPAC funding vehicles** provide.

Well publicised 2020 **SPAC's** megadeals include: (1.) Virgin Galactic Holdings [SPCE:US] employed a **SPAC** structure, led by Social Capital Hedosophia to bring its



shares onto the public market at the very start of the year. (2.) In April, DraftKings [DKNG:US] moved forward with its merger with Diamond Eagle Acquisition, after postponing it due to the coronavirus pandemic. (3.) Electric-truck company Nikola Corp. [NKLA:US] closed on its combination with **SPAC VectoIQ Acquisition** earlier this month. (4.) **Bill Ackman's** Pershing Square Tontine Holdings became the largest **SPAC** on record when it **began trading earlier this week**.

Not without shortcomings and risks of their own, **SPAC's** are the funding vehicle of the moment because they are formed to raise capital in an initial public offering (IPO) format but with the specific purpose of using the proceeds to acquire one or more unspecified businesses or assets to be identified after the IPO and the **SPAC** will pursue an acquisition opportunity and negotiate a merger or purchase agreement to acquire a business or assets, referred to as the "**business combination**", with the stewardship of an Investment Bank or Manager (Pershing Square, et al), known for closing said megadeals.

SPAC's go through the typical IPO process of filing a registration statement with the US SEC, clear SEC comments and undertake IPO-*esque* roadshows followed by a firm commitment underwriting.

But their attractiveness for wholesale and hedge fund managers in the ides of 2020 is the fact that the IPO proceeds will be held in a trust account until released to fund the business combination or used to redeem shares sold in the IPO, serving as a pseudo-cash proxy with the option of the acquisition, anytime out to twenty four months' time.

In a time when, "**cash is trash**" (Ray Dalio), a **pseudo-cash** corollary for many institutional and family office managers may be highly attractive, on the assumption that the sponsors are trusted.

Sponsors traditionally receive a twenty percent stake in the acquired company, if investors approve and for a specified nominal quantum.

Importantly, following the announcement of "**business combination**" signing, **SPAC's** undertake a mandatory shareholder vote or tender offer process, in either case offering the public investors the right to return their public shares to the **SPAC** in exchange for an amount of liquidity akin to the IPO price paid.

If the "**business combination**", is approved by the shareholders and the financing and other conditions specified in the acquisition agreement are satisfied, the **combination** is finalised, technically referred to as the **De-SPAC** transaction.

Thereafter, the **SPAC** and acquired business combine into a publicly traded operating company.

Clean shell companies or "**blind pools**" have been around since the early 1990's and the core premise has always remained the same: investors advance cash to the sponsors of the blind pool who look for something for the public shell company to acquire.

SPAC sponsors have been pitching the revived investment funding channel as the ideal approach to reviving maturing Unicorns or as an expeditious (*vis-à-vis* Private Equity or traditional IPO alternatives) on-market approach of established family-owned businesses, wishing to exit while the current bull run ends.

Cite:- [Bloomberg: Rishaad Salamat, Yvonne Man & Stirling Larkin Discuss 2019 The Transition Year](#), 12 March 2019

Cite:- [Bloomberg Kathleen Hays & Stirling Larkin Discuss Global Rally Leading Up To 2020 US Elections](#), 26 November 2019

Cite:- [Bloomberg Kathleen Hays & Stirling Larkin Discuss Iran, Cyber, US Markets](#), 8 January 2020

Whether seeking firmer ground, tax-aware investments or simply opportunities not completely mired in **hyper-bureaucracy**, **SPAC's** are the megadeal trades of **now**. ■

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