Webinar

SPAC – Structure / Process, Regulation, Information Services, Future

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With the shift from in-person events to online webinars, Jordan & Jordan kicked off 2021 with its first webinar in partnership with FIF and RIXML.

Special Purpose Acquisition Companies (SPAC) have been referenced widely among the industry, gaining popularity in recent years as a vehicle for various transactions, outpacing and becoming an alternative to traditional IPOs.

The "**Structure/Process, Regulation, Information Services, Future**" webinar held on April 28th, 2021, invited Kristi Marvin, SPACInsider, Douglas Ellenoff, Ellenoff Grossman & Schole LLC, and Amanda Hindlian, NYSE, as panelists and Tom Jordan, Jordan & Jordan as moderator to provide their insight and perspectives on the current SPAC market. The panel of experts provided registrants with an educational overview on the role SPACs play in the industry as well as the evolving future of SPACs.

SPACs – A Medium for Raising Capital

The industry has seen numerous innovations in the market over the past few years, with different ways of accessing capital today. The panel began the dialogue by discussing the emerging role SPACs play in today's capital markets structure, along with traditional IPOs and direct listings as other mediums for raising capital. The capital market is filled with increasing volumes driven by SPAC activity, as SPAC sponsors go to market, raise capital, and bring business combinations to finality.

The Growth of SPACs

In the past decade, the number of SPACs priced has exceeded the record held (66 in 2007, 248 in 2020, 308 in 2021) since 2007, as the industry saw a tremendous amount of new issuance. These numbers are indicative of how rapidly the asset class has grown.

SPACs Come in all Shapes and Sizes

The SPAC process involves raising money in a cash shell with no operating company, but rather a sponsor team. The team will bring back a deal within a designated time interval and a combination will be announced, i.e. "the biggest event in a SPAC's life". There is a 3-month period between announcement and closing, and following the shareholder vote, the deal closes, the company is reversed into the cash shell and goes public.

The Slowing of SPACs

Despite the growth of the SPAC market, it has started to slow down over the past couple of weeks due to a decelerating market and warnings released by the SEC. There has been a temporary pause following the comments put forth by the SEC but SPAC sponsors do believe there will be some form of resolution. The pipe market has also been congested due to the volume of proposed SPAC acquisition.

The Year of International SPACs

Currently, the growth of SPACs can be attributed to mostly in the United States, with a smaller percentage overseas. Though SPACs were invented in the US, the business has moved globally, as seen through SPAC growth in Pakistan, Singapore, Hong Kong, UK, and more. "This year may be the year of international SPACs".

The Tracking of SPACs

SPACs are a complicated product involving two transactions, the IPO and the de-SPAC transaction. It is a unit with a lot of moving parts with multiple securities in that unit, which makes it difficult for people to track. Due to its sheer numbers, tracking SPACs becomes increasingly more difficult to manage and data providers are offering their services to assist people in staying up to date and accurate.

The Atrophying of the Capital Market

For many reasons, companies are no longer public. The market is comprised of private companies with high valuations and so much private capital is entering these companies, which makes it difficult for individuals to get involved in the private markets. The release of some of this capital out of private markets and into the public markets will allow more players to get involved.

The industry may see benefits from encouraging private companies to take on the responsibilities of going public.

"Having companies become public in any way shape or form is a positive thing for capital markets, liquidity, investors, and the democratization of capital markets."

The Future of SPACs – SPACs are Here to Stay

Currently, the markets have a sizable amount of business combinations to digest, which is good for the founders and issuers of those companies. Companies are becoming publically traded and more accessible to others. With regards to SPAC issuance, the market will become more global and SPACs will gain popularity in other parts of the world, though likely it will not return in the same volume. There will not be an overabundance of activity in a single quarter and SPACs will return at a more measured/digestible speed. If regulations become more onerous, the industry may experience a shift in the future of SPACs as well.

SPACs continue to make their way into the industry and the panelists on the "**Structure/Process, Regulation, Information Services, Future**" webinar nicely summarized the lifecycle, importance, and growth of SPACs in this advancing capital market.

If you have any questions regarding the matters covered in this summary, please contact Dominique Tjondro (dominique.tjondro@jandj.com).

Webinar Q&A

1. Is there any regulatory reason historically why SPAC's include warrants or rights, or is it simply as an inducement for investors?
    a. There is no operating company. It is a cash shell. There is risk in investing that, so the investment must be made more palatable for investors.
2. Do you think that in the future SPACs will be listed without offering warrants and just shares? I do not think so, but I am interested to see your view. How is a SPAC-World without warrants to bypass the SEC?
    a. Warrantless SPACs have become more frequent, though it is not likely for investors to willingly give up their warrants. It is not surprising that investors will only do so for teams they are certain will bring back an acquisition that will create a lot of value.
3. With regards to secondary trading of SPACS, Are firms placing special suitability requirements for retail clients such as being an accredited investor, having prior experience in IPOs or some type LNW threshold?
    a. SPAC IPOs are placed institutionally for the most part. It is not a retail investment product. If retail investors want to buy through their accounts, it is a publicity listed security and they can buy. There are safeguards in place through the gatekeepers, i.e. brokerage firms. All of the purchases at the time of the issuance are institutional purchases.
4. At the time a SPAC is issued, does the investor or the marketplace have any sense of what company or sector the SPAC will ultimately purchase or merge? How do we know what actually underlies the SPAC at the time of issuance?
    a. A SPAC, regardless of its stated focus, can always buy a combination in any sector, in any geography. Primarily the purpose of putting a stated sector focus in the S1 is to help sell the deal. If a team has a stated sector focus, it is for a reason, i.e. they have experience and background that align with that focus.
5. Upon a merger or purchase, does the SPAC symbol and CUSIP change to a new symbol and CUSIP?
    a. The symbol changes. The SPAC has its own symbol. At the time that the business combination is listed and begins trading, there is a fairly sizeable rotation out of the original investors in the SPAC and different investors who come into the business combination and purchase that, which is issued to the market under a new ticker.
6. Is the 75% of a purchase that is not part of the SPAC raise, the pipe investors, primarily investment or is some debt?
    a. The additional funding for when a SPAC goes public comes from a pipe investment. A significantly larger pipe can be raised to finance transactions.
7. Do traditional IPO underwriters see SPAC's and direct listings as a threat to business?
    a. SPACs are not a threat to their business in the sense that they are very likely to be involved initially with the SPAC issuance itself. Most banking firms see the traditional IPO root as the one that prevails over the long term. SPACs will be one option, IPOs will be another option, direct listings will be another option.
8. Do you recommend any public source to track SPAC IPOs and deSPACing?
    a. There are the traditional Market Data vendors such as Bloomberg, etc. and some niche SPAC vendors such as SPACinsider.