

SPACs: IPO Disruptors or Blank Check Distortions?

Special Purpose Acquisition Company

Brenda Bloch-Young, OLLI Summer Term 2021

SPAC structure

(Actually been around since the 1980s, but with more rules)

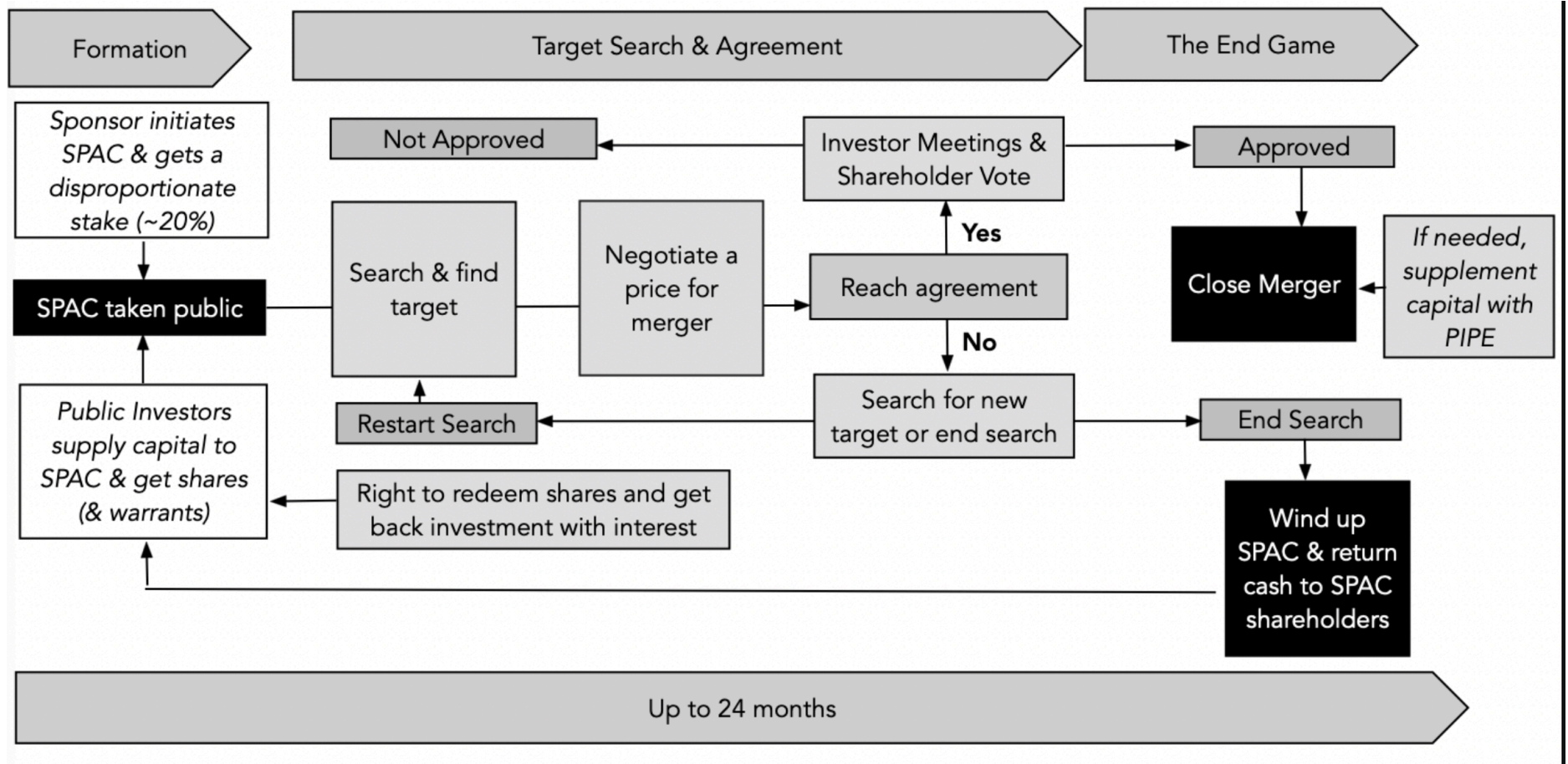
- Restricted purpose: A fund is created for a special purpose of acquiring an entity.
- Time constraints: The acquisition must be completed within 18 months.
- Use of proceeds: The IPO proceeds, net of the issuance costs, from the company going public have to be kept in an escrow account (and returned if the deal is not consummated.)
- Shareholder approval: first when the target is identified and later when the acquisition price and terms are agreed to.
- Opt out provisions: shareholders may redeem their shares for their initial investment (usually \$10)

The Sponsor

Lead investor with special expertise

- Often with specific industry knowledge and deal making skills
- Generally receive a 20% stake in the deal, known as the Promote
- PIPE: Private investment in public equity (often institutional investors and hedge funds)
- The Sponsor creates the PIPE to supply additional capital: 1. For the target company's business needs and 2. To cover capital withdrawals if the shareholders opt out.

The time line



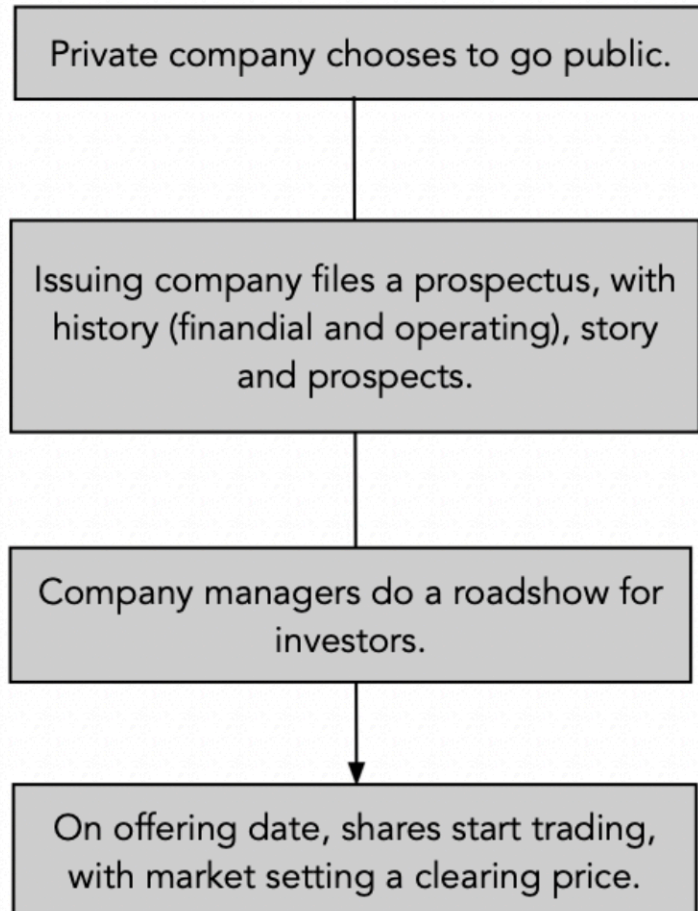
Going public

IPOs

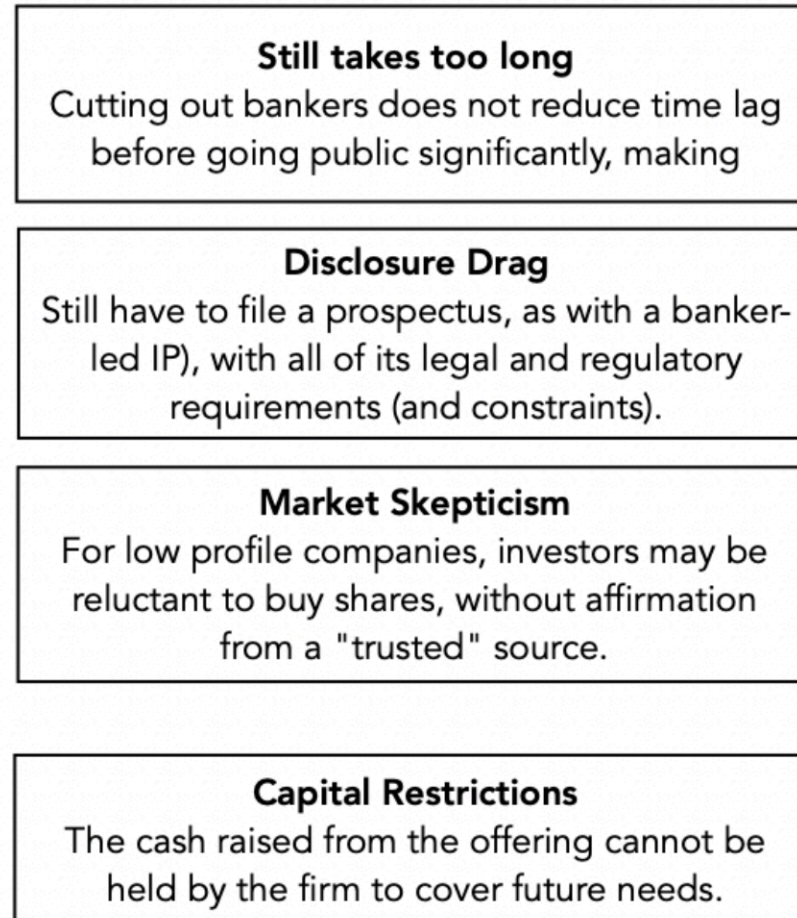
- The traditional IPO process takes too long and is too expensive
- Bankers as the intermediaries reap huge fees
- Often inefficient
- Investors feel only a select few benefit
- Direct listings are becoming more popular

Going Public: A Direct Listing

Issuing Company



Limitations



2020/21 boom for SPACS

More than 50% of the deals were SPACs

- Low interest rates, excess cash
- High stock prices for growth companies
- Momentum - mood and momentum were more important than fundamentals
- Celebrity hype - from Mark Cuban to Venus Williams, with Chamath Palihapitiya being deemed the “King of SPACS” by the financial media

SPAC Track

www.spactrack.net

Total Active SPACs	570
Total Trust Size (M)	\$172,254

	2021	2020
Total SPAC IPOs	381	248
Total IPO Proceeds (M)	\$114,254	\$83,301

	Searching	LOI	Definitive Agreement	Pre IPO
Total # of SPACs	423	0	147	314
Total Trust Size (M)	\$127,975	\$0	\$44,279	\$72,951

SPAC count by target and stage

From SPAC Track

	Searching	LOI	Definitive Agreement	Total Active	Pre IPO
Tech	216	0	64	280	151
Cannabis	6	0	2	8	1
Energy	21	0	12	33	28
Healthcare	61	0	22	83	32
Fintech	43	0	14	57	39
Tech, Media, Telecom	5	0	5	10	3
Sustainability	26	0	22	48	25

Disentangling the SPAC effect

Winners and losers

- Sponsors are the clear winners.
- They receive shares of 3 to 4 times their initial capital investment
- If the deal does not go through, they return the cash to their investors and walk away unscathed
- The deal does go through and the sponsor receives a multiple of the original investment

Winners and Losers

Investors in SPACs

- Clearly, there are some deals where the investors emerge as winners.
- We need to examine two periods - when the target acquisition is announced and the weeks/ months after the merger is completed.
- A winning strategy has been to sell after the announcement of the target when the price jumps - “initial hype”
- Alternatively, wait until the merger is complete to buy shares. The danger here is that there is often a dilution as more shares are issued.
- It appears that in many cases, the best guidance is to follow the timing of buying an IPO stock.

DraftKings

2019 SPAC

[Market Summary](#) > Draftkings Inc

43.70 USD

+33.93 (346.22%) ↑ past 5 years

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NASDAQ: DKNG

+ Follow

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



CCIV / Lucid Group

Merger completed 7/26 - \$26.83, up 10.64%

Market Summary > Churchill Capital Corp IV

22.95 USD

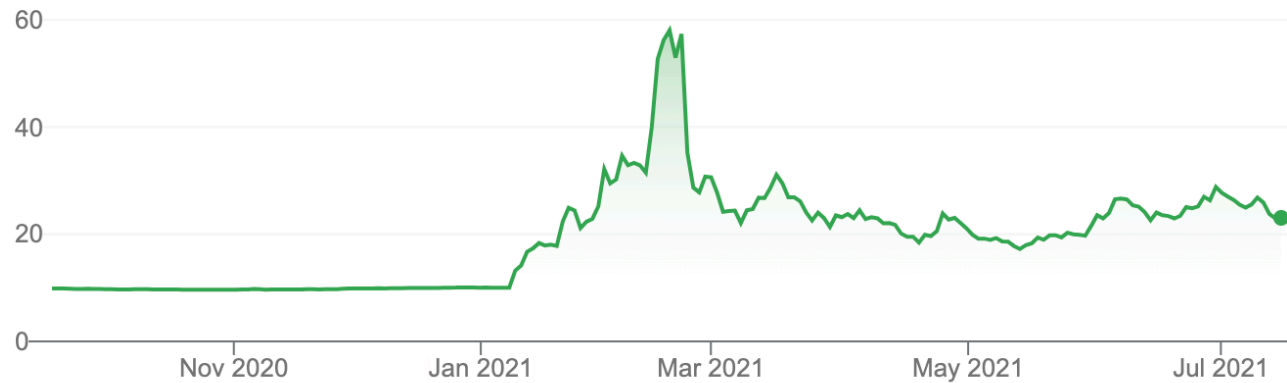
+13.07 (132.15%) ↑ past year

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NYSE: CCIV

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1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Lucid's wild ride

Churchill Capital Corp IV

January 11th: Bloomberg reports that CCIV to merge with Lucid at a valuation of around \$15B. The stock close \$13.20 (up ~31.6%).

February 16th: Reuters reports that CCIV is nearing a deal with Lucid at a valuation of around \$12B. The stock closes at a whopping \$52.70 (up ~31.8% from the previous close).

February 18th: During intraday trading, CCIV reaches an all-time high of \$64.86 and closes at \$58.05.

February 22nd: CCIV closes the day at \$57.37. The agreement is announced with an equity valuation of \$24B (using the PIPE price of \$15 per share). At CCIV's closing price of \$57.37, the implied market cap of Lucid Motors was appx \$92B.

February 23rd: The stock opens at \$35.02, or appx 39% lower than the previous close.

May 13th: CCIV hits its all-time low of \$17.25.

July 22nd: The stock closes at \$23.43. At this share price, Lucid Motors' implied market cap is appx \$37.5B.

Assuming no redemptions, Lucid will have roughly \$4.6B in gross proceeds from CCIV's trust (~\$2.1B) and the PIPE (\$2.5B) — which the company expects will fund the business through 2022 at least.

SoFi Technologies / IPOE

Market Summary > SoFi Technologies Inc
NASDAQ: SOFI

15.75 USD **+5.29 (50.48%)** ↑ past year

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1 day 5 days 1 month 6 months YTD **1 year** 5 years Max



SoFi

Fintech / Financial Services

Prior SPAC symbol: \$IPOE

Website: [SoFi.com](https://www.sofi.com)

Stock price: \$15.54 on 7/26

Market cap: \$13.8 billion

Enterprise value: \$16.0 billion

Acquired Golden Pacific Bankcorp

Launches credit cards

IPOD became OPEN

On December 21, 2020 at \$34

Market Summary > Opendoor Technologies Inc

14.30 USD

+2.30 (19.13%) ↑ past year

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NASDAQ: OPEN

+ Follow

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Quantum Scape - QS

No revenue expected until 2025

[Market Summary](#) > Quantumscape Corp

22.80 USD

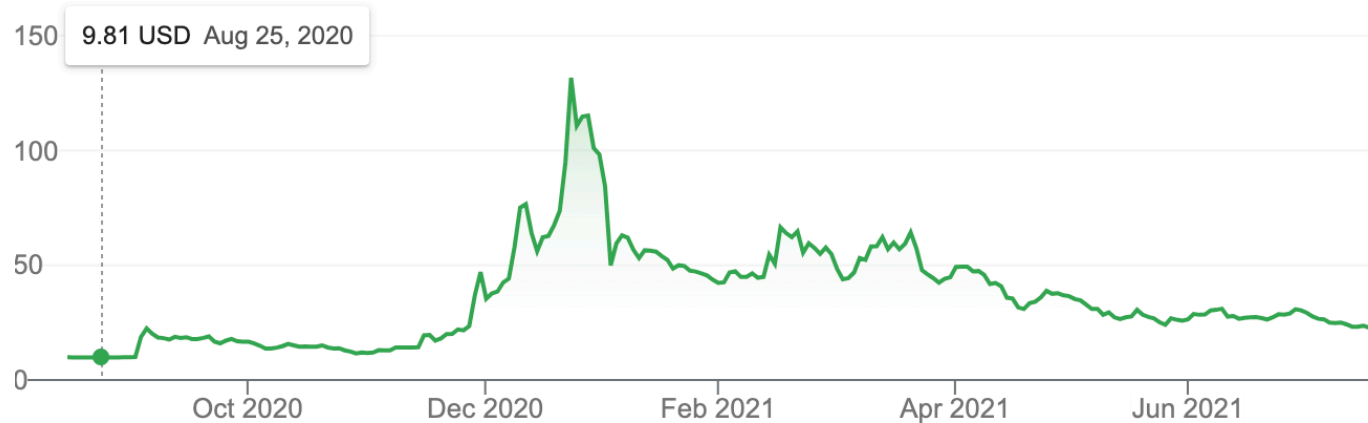
+12.90 (130.30%) ↑ past year

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NYSE: QS

+ Follow

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



SPAC ETFs

Highest rated currently

- SPAK - Defiance Next Gen SPAC Derived, AUM 52m. SPAK is an index-based SPAC ETF. The mix, which takes into account market cap, free float and liquidity requirements in its selection process, is a 20/80 mix: 40% of the portfolio are SPACs and 60% are post-deal companies. It is a market-cap-weighted portfolio, so you'll find the biggest deals at the top.
- SPCX - SPAC and New Issue ETF, AUM 101m. An actively managed fund that invests only in pre-deal SPACs, and it's run by Tuttle Tactical Management.
- SPXZ - Morgan Creek - Exos SPAC Originated ETF, AUM 22m. A mix of SPACs and post-deal companies: one-third of the mix is SPACs only; two-thirds of the mix is post-deal companies. Secondly, SPXZ is an equal-weighted portfolio.

PSTH / Bill Ackman's SPAC

Pershing Square Tontine Holdings LTD

- \$4B with an opening price of \$20 (rather than \$10)
- Unable to find a suitable target so proposes a hybrid deal
- Plan is to buy a portion of Universal Music from Vivendi...?
- SEC nixes the plan, Pershing Square announces the deal through its hedge fund.
- Thought is that the clock resets to find a target....?

Lordstown Motors

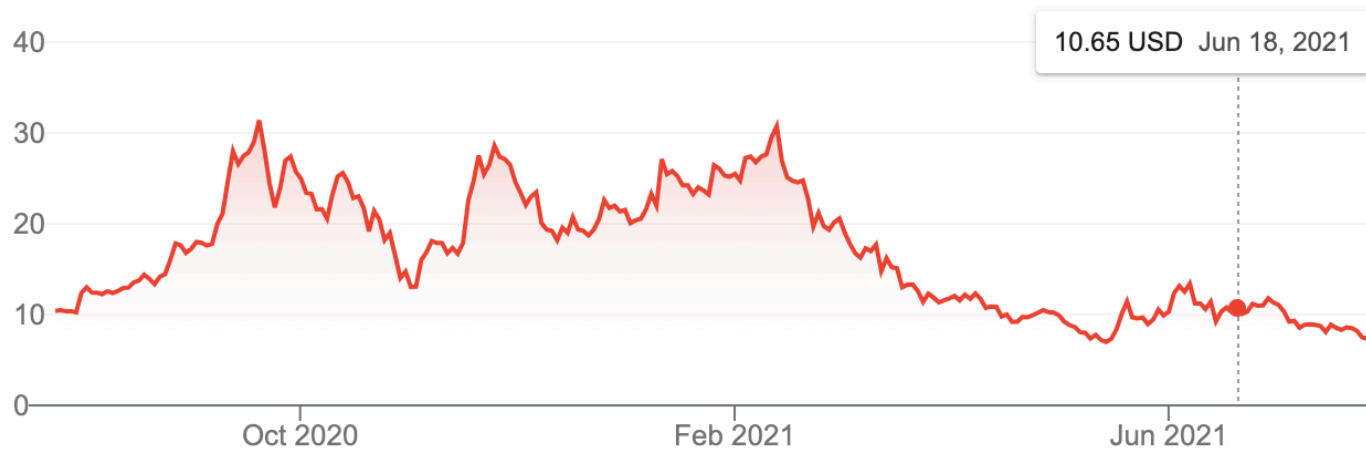
NASDAQ - RIDE

Market Summary > Lordstown Motors Corp
NASDAQ: RIDE

7.36 USD **-3.04 (-29.18%)** ↓ past year

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1 day 5 days 1 month 6 months YTD **1 year** 5 years Max



Lordstown Motors

A sad story.....

“The *Journal's* [report](#) didn't have much detail, but it's not hard to figure out why the DOJ is interested in Lordstown. The company was already in a couple of varieties of hot water after admitting that it may have exaggerated the number of pre-orders it has for its upcoming Endurance electric pickup.

Lordstown's shares have been under pressure since March, when short-seller Hindenburg Research released a [report with several tough allegations](#). After an investigation commissioned by Lordstown's board, the company admitted last month that one of those allegations -- that it had exaggerated the number of orders it has for the Endurance -- had some merit. (Moments later, it announced that its [CEO and CFO had left the company](#).) “

Summary

Highly speculative, but with potential

- SPACs are likely here to stay (hopefully with more restraint)
- SEC is likely to strengthen some of the rules around these acquisitions and disclosures
- The quality and reputation of the sponsor matters
- Who are the PIPE investors?
- Not unlike investing in an IPO, yet much smaller \$\$
- Need to monitor closely