UNDER THE SPOTLIGHT

THE SPACs PHENOMENON

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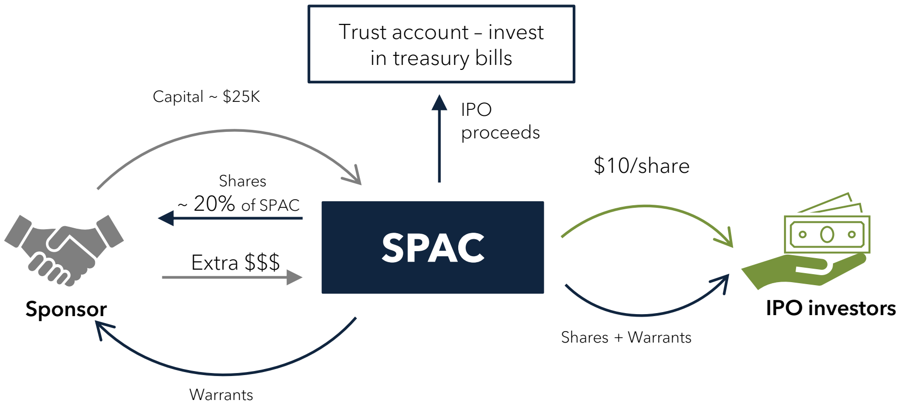
WHAT ARE THE SPACS?

A special purpose acquisition company (SPAC) is a company that **has no business operations** and is formed **strictly to raise capital** through an initial public offering **(IPO)** for the purpose of acquiring or merging with an **existing company.**

How do they work?



That's why they are called blank check companies

When the SPAC is launched, the investor invests in the company's capital, obtaining shares and warrants.

The sponsor usually invests until it obtains 20% of the total participation, and assumes the due diligence costs and cannot touch the initial money raised from the SPAC. Generally the exit price of the SPAC is $10 and the total capital depends on the shares issued.

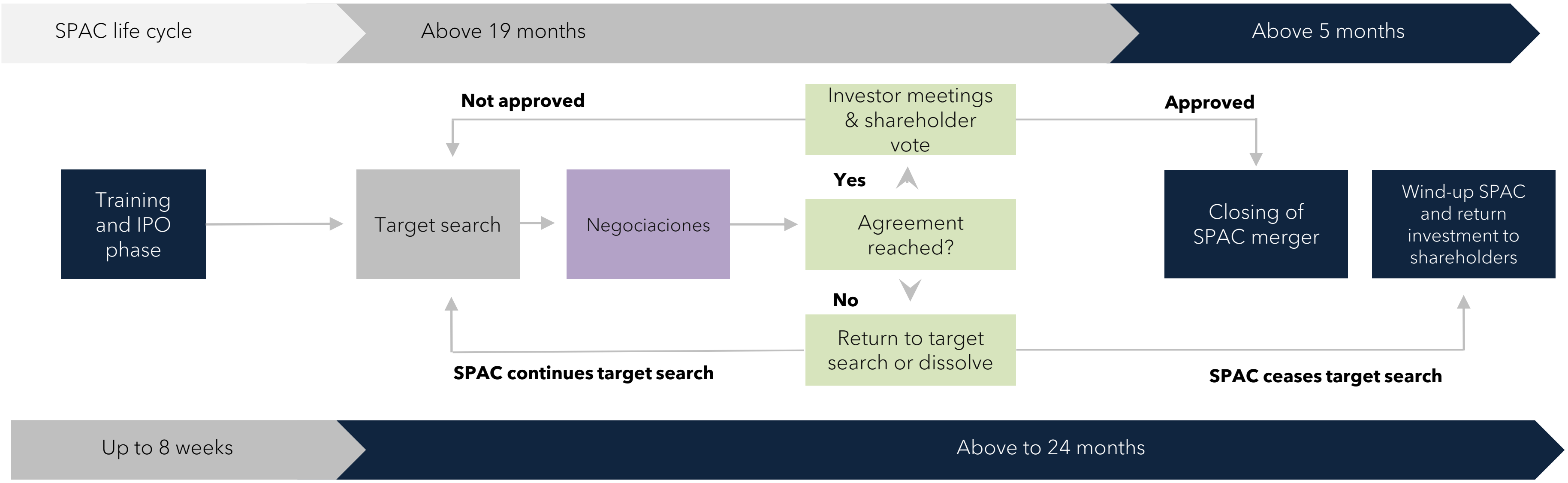
At the time the sponsor chooses the company to acquire, they are given the option to vote approval of the acquisition and receive their funds back.

The funds that SPACs raised in an initial public offering are placed in an interest-bearing trust account. These funds cannot be disbursed except to complete an acquisition or return the money to investors if it is liquidated.

They are usually formed by investors or sponsors with expertise in a particular industry or business sector, to seek deals in that area and provide more confidence to investors.

Founders do not identify the acquisition target company to avoid extensive disclosures during the IPO process.

PROCESS



- The remaining 80% of the equity is held by public shareholders through "units" offered in an IPO of SPAC shares. Each unit consists of one common share and a fraction of a warrant (e.g., ½ or ⅓ of a warrant).
- The SPAC has 2 years to find the projects. Investors must vote whether they approve the purchase of the chosen company, they have the option at that time to vote against the transaction and choose to redeem their shares.
- If SPAC needs additional funds to carry out the merger, it can issue additional debt or equity, such as a private investment in public equity (PIPE).

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Why are SPACs "in fashion"?

The simplicity and speed of a private company's IPO has made it increasingly popular in recent years.

20 years ago, the right to vote (to accept or reject a deal) and the right to redeem one's own shares were one and the same decision. Now the right to vote and the right to redeem shares are unlinked, making the voting process more perfunctory and allowing most transactions to proceed as planned.

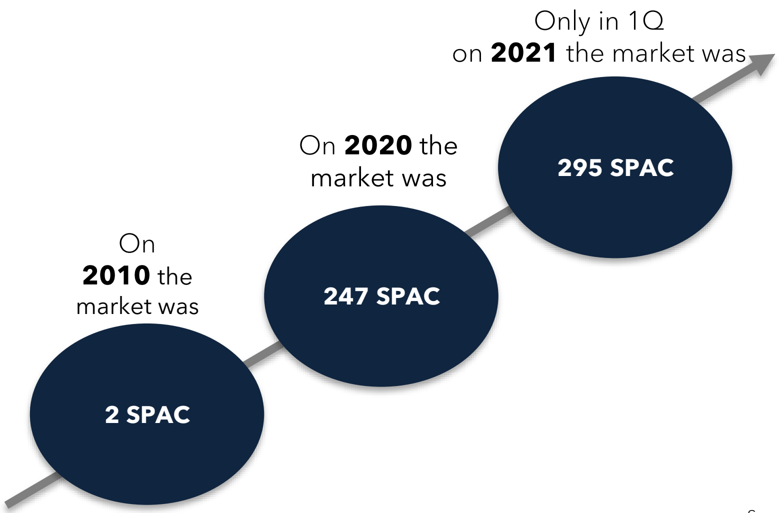
SPACs have become less dilutive to give better conditions to target companies, therefore warrants are included at their price for ½ or 1/3 of the total shareholding less than previously.

Main characteristics

At the time of their IPOs, SPACs have no existing business operations or even stated targets for future acquisition.

SPAC investors can range from well-known private equity funds and celebrities to the general public, but they invest without knowing what company they are investing in.

They have been around for decades, but their popularity has boomed in recent years



Source: Investing

As a legitimate alternative to an IPO or an M&A exit, or a new avenue for raising capital, **SPACs are here to stay.**

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MAIN ADVANTAGES FOR SPACs TARGET COMPANIES

1- **Speed:** Going public is not a simple process in the United States. SPACs make it much more flexible and less complicated than a traditional IPO, which requires much more requirements and greater scrutiny by regulators and investors on the information provided to the market.

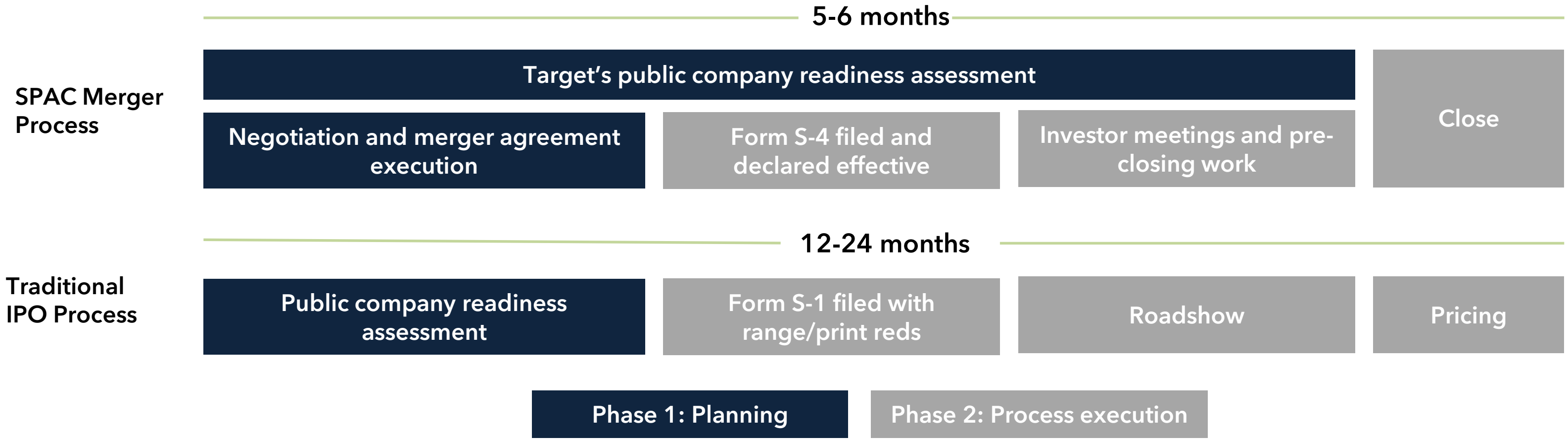
2- The owners of the target company can negotiate a **premium price** when selling to an SPAC because the latter has a limited time frame to make a deal.

3- Good alternative when a company is highly leveraged, as this type of company would not arouse much interest with an IPO.

4- **Diversify** assets in a professionally managed investment vehicle.

5- **Certainty of execution:** the use of a SPAC can close a deal despite poor market conditions, as the funds are already available.

Approximate IPO processes and timing for private companies in the U.S.



WHY DO COMPANY LEADERS CHOOSE SPACs?

Companies that do not have the size, profits and/or predictability required for a traditional IPO may be interested in SPACs.

Factors play a role when company leaders choose a SPAC:

- Valuation: Public markets value companies more highly than private markets.
- The negotiation uses statements of future earnings and expectations of the company to be acquired, not historical data as in a traditional IPO.
- More price certainty than in an IPO: The acquisition price will be negotiated with the promoter and established in the merger agreement. Unlike an IPO which varies depending on market conditions.

WHY DO INDIVIDUAL INVESTORS CHOOSE SPACs?

- SPACs offer a direct opportunity to access new companies, which historically has been reserved for larger institutions and hedge funds.
- Money-back guarantee: Investors in an IPO have the option to redeem their shares for what they paid plus interest.

SPACs Summary

	Total	Proceeds
Seeking acquisition	548	151.15M
Announced acquisition	116	31.02M
Completed acquisition	443	108.12M
Liquidated	91	12.52M
IPO pipeline	273	61.51M

Top Performing SPACs

Symbol	Name	Price	Return
IRDM	Iridium	38.45	594%
LCID	Lucid	52.98	513%
DWAC	Digital World	41.31	463%
MP	MP Materials	43.94	448%
TGLS	Tecnoglass	30.78	436%

Source: https://www.spacanalytics.com

MAIN RISKS OF SPACS

1- An investor in a SPAC IPO is taking a leap of faith that its promoters will succeed in acquiring or merging with a suitable target company in the future.

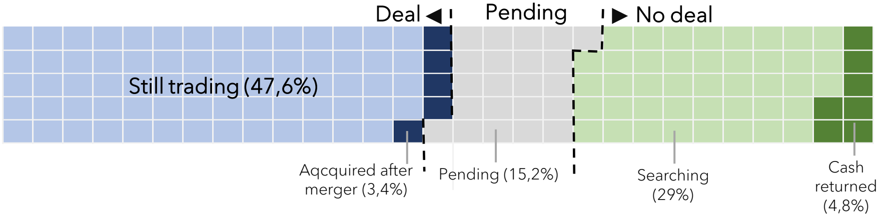
2- The lesser degree of oversight by regulators, coupled with the lack of disclosure of the typical SPAC, means that retail investors run the risk of being saddled with an investment that could be massively overstated or occasionally even fraudulent.

3- The company is chosen by the sponsor. If the investor does not agree, his only option is to invest in that company or get his money back (minus commissions). There is a potential for dilution with the warrants issued.

4- Risks of changes in regulations proposed by the Securities and Exchange Commission (SEC).

More than half of the SPACs have found merger targets

SPAC IPOs, 2015-19



Source: Financial times

What regulators are doing

Initially the SEC stayed away, but this year the size of the market and some high profile cases have resulted in the SEC taking a more active role in SPAC assessments.

It is looking for appropriate levels of transparency and robust pre-transaction due diligence protocols.

It is motivating sponsors who are pursuing SPAC acquisition to slow down and ensure that processes are due.

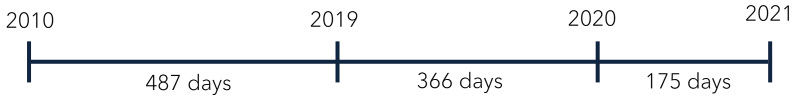
The question that remains is whether the SEC will be forced to go further and draft more specific SPAC laws.

SPACs TRENDS

The United States is its birthplace, the largest SPAC market in the world and the most vibrant in terms of retail participation and deal volumes.

The risks of regulatory increases could decrease new registrations from the early 2021 highs, but, as the SPACs structure itself has a lot of flexibility, they will continue to be a large part of the M&A market.

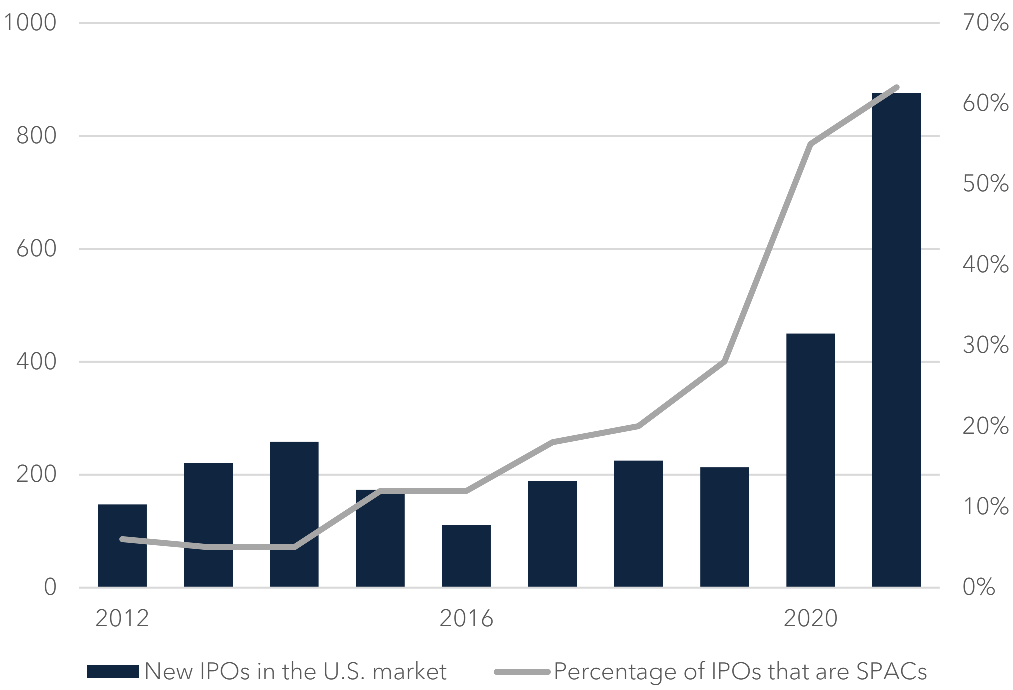
Average number of days elapsed between the announcement of the acquisition and IPO



Goldman Sachs points out that purchase transactions are increasingly larger in amount and are taking place in a shorter and shorter period of time.

In the first quarter of 2021, SPACs totaled **USD 1.72B in deals**, accounting for **more than a quarter of the total value of all M&A** transactions in the **first three months of the year.**

SPAC and IPO activity in the U.S. market



Source: https://www.spacanalytics.com

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For invesvmet ideas please contact your Financial Advisor
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