SPAC TO THE FUTURE

SPECIAL PURPOSE ACQUISITION COMPANIES – SPACS – ARE ALL THE RAGE, LAST YEAR ACCOUNTING FOR MORE THAN HALF OF ALL US IPOs. SO WHY THE SUDDEN SURGE IN ACTIVITY?

Words:
David Burrows

SPECIAL PURPOSE ACQUISITION companies (SPACs) allow investors to pool resources in a public investment vehicle with the intent to acquire existing businesses. And they are clearly attracting a great deal of interest right now: in the US, SPACs represented about 60% of all IPOs in 2020.

But SPACs are nothing new; they've existed on public markets for decades. So why have they recently become one of the hottest market trends in the private equity space?

Chris Anderson, Partner at Carey Olsen, highlights several reasons. "First of all, there is a huge demand for attractive investment vehicles, given that interest rates are low and fixed income is offering little in the way of returns," he says.

Another reason, according to Anderson, is the fact that in the early part of last year, Covid-19 meant investors were sitting on their hands. But since then, they've been busy putting their capital to work.

SPACs are certainly on the rise. Globally, they raised nearly $100bn from IPOs in the first quarter of 2021, surpassing the whole of 2020 in those three months, according to financial data provider Refinitiv.

As Anderson explains, SPACs provide a good way of exiting private equity. And they have, to a degree, taken over the IPO space, not because they are cheaper but because they are a quicker and simpler way to a listing.

With M&A activity also buoyant right now, SPACs are well designed to take advantage of opportunities.

Trends that start in the US often make their way to Europe. So does that mean the SPACs frenzy is heading to Europe, particularly as European stock exchanges adjust their listing rules to be more SPAC-friendly?

Simon Gordon, Senior Director at JTC Group, points out that SPACs have historically been promoted by US investors but, to a large extent, the market there has become super-saturated, making it harder to get value out of US target companies.

The result, he adds, is that SPAC promoters are looking towards Europe, and especially the tech sector.

"There are lots of good-value assets of this type in Europe and good potential for decent returns," says Gordon. "In addition, there are high-quality institutional investors in Europe."

What SPAC promoters have been looking for is a stock exchange that's familiar to US SPAC promoters, he adds, and Euronext Amsterdam fits the bill well. Mirek Gruna, Chief Commercial Officer at IQ-EQ in Jersey, agrees that Europe is well placed for an increase in SPACs, albeit from a relatively low base.

"We have not seen much SPACs business in Europe so far," he says, "and what we have seen has been predominantly via Euronext in Amsterdam."

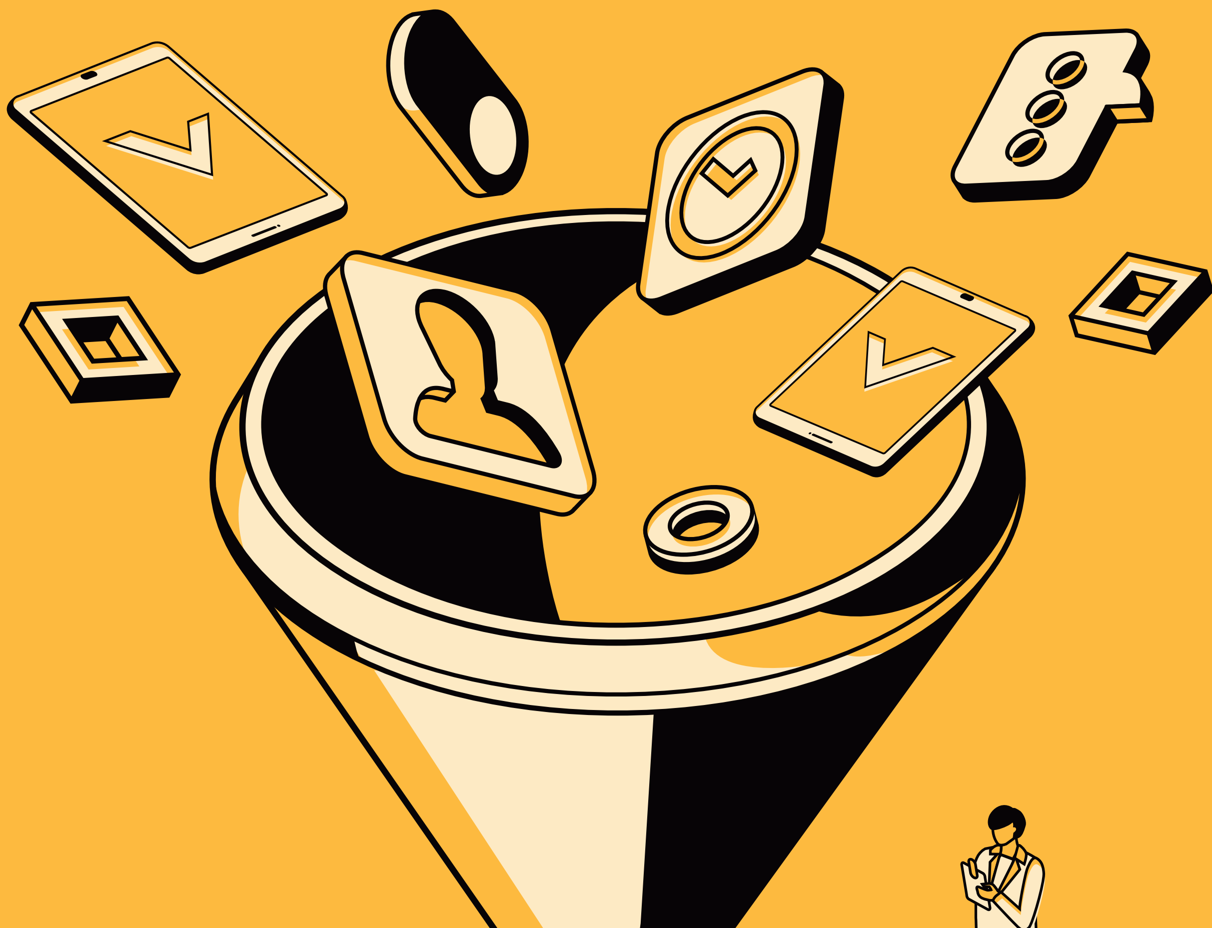
London may soon be in a more favourable position to attract SPACs promoters, he adds, with the Financial Conduct Authority (FCA) looking to change the rules on the London Stock Exchange to enable it to be more competitive in the SPACs market.

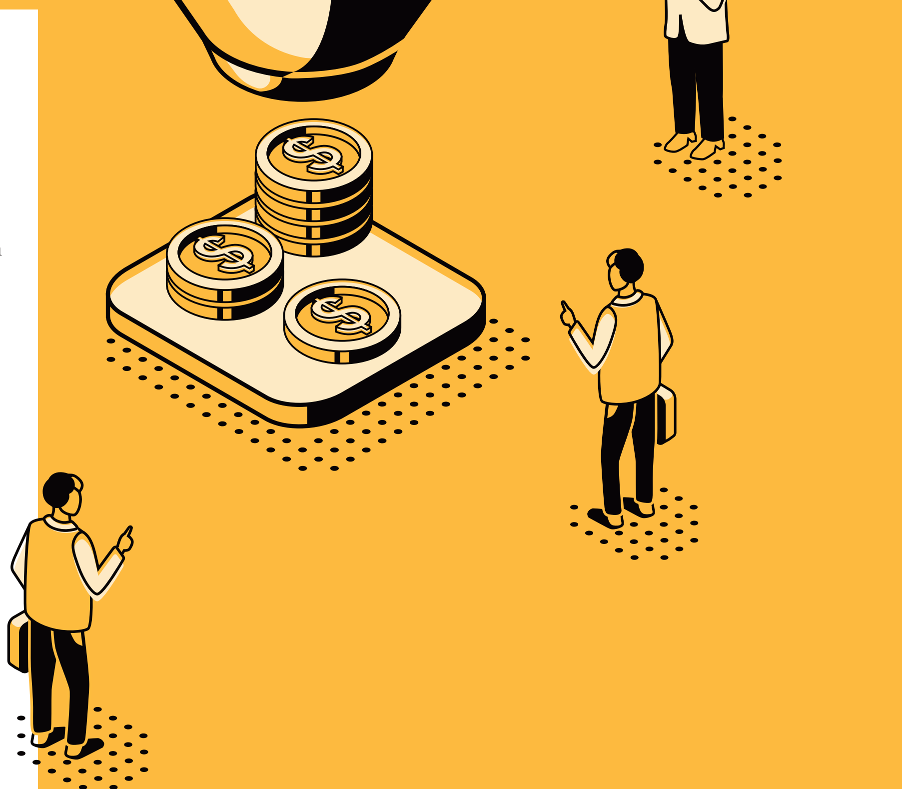
LONDON OPPORTUNITY

The rule that has impeded London's development as a SPACs centre is that a SPAC listing will be suspended when it identifies a potential acquisition target – in order to protect investors.

However, many investors have argued that such suspensions have had the opposite impact to protecting them, instead depriving them of the chance to sell their shares at an opportune time.

There is no such suspension rule in the US – and Amsterdam is more in line with the US than the UK on this.





The proposed changes from the FCA – currently under consultation – would no longer require suspension, although the new rules are likely only to apply to SPACs that raise in excess of £200m.

However, if the changes proposed by the FCA are implemented, how significant would they be? And what would they mean for the Channel Islands as well as London?

Gordon suggests it could be difficult to persuade SPAC promoters to buy into the £200m stipulation.

But he believes that if the rule changes go ahead, the LSE will undoubtedly be more competitive, especially given the big institutional investors based in London and the huge expertise there in relation to private equity-style acquisitions.

RINGING THE CHANGES

Gavin Wilkins, Chief Commercial Officer at Hawksford, certainly believes that changes to SPAC regulations in London could continue to ignite interest from new regions.

"Investors are keen to access opportunities in international growth markets, including those in Asia and the Middle East," he says.

"Measured changes that facilitate this and ultimately help emerging international companies to access London markets should, of course, be welcomed."

To get the full picture, however, he says, these should be viewed in tandem with domestic developments in those regions, including changes to local foreign ownership restrictions, changes to domestic securities laws to enable overseas capital raising – for example, in Vietnam – and the ongoing evolution of the UK's post-Brexit international trade arrangements.

"The UK has also made no secret of its desire to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)," Wilkins says.

"All of these factors contribute to interest in and from the Middle East, Asia and other key regions, with SPACs being a potential 'go-to tool' to facilitate that."

COMPETING EXCHANGES?

In terms of vying for SPACs business in Europe, Gruna at IQ-EQ accepts that it may be that London takes some business away from Amsterdam. But he suspects the exchanges will complement one another rather than be competitive – especially following Brexit.

"The SPACs frenzy has now moved to Europe as European stock exchanges adjust their listing rules to be more SPAC-friendly," he says. "For instance, the *UK Listings Review,* published in March 2021, recommends liberalising the rules for UK-listed SPACs and safeguarding investors."

He is upbeat about the prospects for the Channel Islands, too. "I would hope the rule changes to LSE listings would be good for Jersey," he says.

"The island is certainly tried and tested when it comes to LSE and AIM listings. There is good regulation in Jersey, its legal system is highly respected, and its proximity to London is an advantage."

He adds: "Jersey companies listed in the UK will be subject to the Takeover Code, which will also be attractive to investors. The code provides greater scrutiny on governance and reporting, which boosts credibility and essentially provides a stamp of approval.

"The flexibility of Jersey companies, combined with the advantage of listing on the buoyant LSE, can be the ideal route for SPAC sponsors willing to raise money in Europe."

Whenever we see a major surge in activity in a certain area, the inevitable question is whether we are witnessing a bubble. So does the SPAC frenzy represent a herd mentality from investors that are desperate to enhance returns but are in some instances unfamiliar to this market?

"It's too early in the cycle to say," says Gruna. "If there is a degree of following the herd, this is where regulation in jurisdictions comes in to protect investors. You are not going to have a universal regulation but you could have a concerted effort from all quarters explaining to investors what they are getting themselves into."

Anderson from Carey Olsen says there are critics about the rise of SPACs, not least because the trend means retail investors are getting in on the party. "While these investors may be from the ultra-high-net-worth space, they are still individuals and there are concerns about this," he says.

Wilkins points out that, while SPACs should largely be viewed as a good thing – easing access to opportunities and capital – detractors have questioned whether they pose additional risks and whether less suitable companies could use them to find their way into public markets.

"In the case of a single-deal SPAC, there are circumstances in US markets where a target company may not be subject to the same level of regulatory scrutiny as it would if it were going for an IPO in its own right," he explains.

"In the UK, it's more likely that deal would be viewed as an RTO and the admission rules applicable to the target would be the same as those for an IPO."

Wilkins accepts there have been failures in the past that have led to accusations of aggressive financial engineering, but there have been many success stories.

"While there is always an element of caveat emptor in an open market, I think one should remain cognitive of the differences between a SPAC and an IPO and pay due regard to the strength and track record of the management team that has been assembled."

CHANGE IN ECONOMIC ENVIRONMENT

Whether a bubble is about to burst or not, Anderson believes the SPACs market may have peaked.

But that doesn't mean there will necessarily be a marked slowdown any time soon, he adds, or that the LSE has in any way missed the boat in taking a significant slice of SPAC business.

Wilkins takes a similar line. "While I gave up trying to predict the future a long time ago, there is still a lot of dry powder in the market and a lot to unwind, with speculation around future inflation and interest rates.

"Will companies still be queuing up to come to market a few years down the line? Who knows? But right now, with so many deals in the pipeline and deep pools of capital across the UK and Europe, it's likely that the SPAC attack has a few more miles to run. ■

CASE STUDY: GUERNSEY JOINS THE PARTY

Carey Olsen recently advised Genius Sports on its public listing on the New York Stock Exchange following its successful business combination with dMY Technology Group II, an NYSE-listed special purpose acquisition company. The deal represented the first NYSE-listed SPAC transaction to involve a Guernsey company.

With more than $145m in cash and no financial debt on the balance sheet, Genius Sports is expected to continue to capitalise on the considerable growth expected in the global online sports betting market.

Commenting on the business combination and listing, Carey Olsen's Chris Anderson says: "The driving factor behind this was the provision of new capital and the ability to expand into new markets. Genius Sports has significant tie-ups with the National Football League and the US listing helped here."

"SPACS HAVE TAKEN OVER THE IPO SPACE BECAUSE THEY ARE A QUICKER WAY TO A LISTING"