

Department of Economics and Finance

Chair in Equity Markets and Alternative Investments

**“The milestone of the business combination vote in SPACs:
dilution mechanics, voting dynamics and the withdrawal
rights issue. The recent rejection of the DeA Capital/Agrati
transaction case study”**

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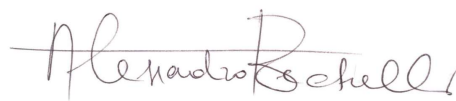
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A handwritten signature in dark ink, appearing to read 'Alessandro B. Schell', with a stylized, cursive script.

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INTRODUCTION

Research on Special Purpose Acquisition Companies has a widespread tradition among master thesis, but there has been less previous evidence for the analysis of three elements that can be considered the milestone of the business combination vote in SPACs: dilution mechanics, voting dynamics, and the withdrawal rights issue. This research therefore analyzes how does the vote to approve the business combination works and the right to withdraw provided to investor which do not vote in favor of the deal. Moreover, it aims to investigate the effects of dilution on company shareholders as the consequence of the deal and of the use of financial tools typically offered by SPACs.

SPACs are publicly traded companies that raise a blind pool capital through an Initial Public Offering (IPO) for the purpose of acquiring an existing company. The money raised through the IPO are contributed into a trust until the SPAC identifies an opportunity to invest in. Investors usually receive units composed of one share and one or more warrants which can also be traded separately from the shares. At this time, SPAC funds are used to purchase a controlling interest or a minority stake of a target company with the purpose of merging with it. Because of the merger, the private company will become listed denying any problems may occur in case of standard IPOs.

The first chapter is focused on a generical description of these vehicles and their origins and diffusion. It reports some evidence of the spread they have had in the last two decades in the US, in Europe and in our home market. In Italy, the first SPAC was listed in 2011 and their number has increased quickly.

Figure 1: IPOs of SPACs in Italy



Source: dati AIFI

In September 2019, 31 SPACs have been listed: 26 on AIM, 4 on MIV, 1 on MTA. Twenty-two business combinations have been completed, one SPAC was liquidated (Capital for Progress 2) and one business combination was rejected (IDeaMI). Eight SPACs are still listed, and two business combinations were announced (Industrial Stars of Italy 3/Sacef and Spactiv/Elisabetta Franchi). SPACs in Italy played a core role to allow middle companies to access to the stock exchange. AIM Italia, the market managed by Borsa Italiana S.p.A. is dedicated to mid-cap companies and it wants to allow firms with Revenues (usually) lower than €500 million to be listed and to raise capital on the public side. Figure 1 shows how sharply they increased in the last two years as capital raised and number of IPOs.

Furthermore, the purpose of the last paragraph is to discuss the business combination process with a focus on different scenarios through which it could be carried out and the timeline of the transaction. Acquisition of a controlling interest or minority stake and offers for subscription of new shares of the target from the SPAC are described below.

The aim of the second chapter is to go through the milestones of the business combination vote in SPACs. Voting dynamics are explained with a focus on the role and tasks of the Board of Directors of the SPAC and mechanisms of the shareholders' meeting. Listed companies on regulated (MTA and MIV) or non-regulated stock exchange (AIM) must follow stringent rules in terms of corporate governance and conflict of interest between directors and shareholders. Nevertheless, the core topic concerning voting dynamics is the mechanics of the vote of the shareholders' meeting. In Italy, SPACs are included within the category of Joint Stock Companies ("Società per Azioni") and they are mainly regulated by the Civil Code. In addition, the functioning of their shareholders' meeting has different features concerning SPACs listed on a regulated or a non-regulated stock exchange. Since the core role the shareholders' meeting have played in the recent rejection of DeA Capital/Agrati combination, it will be deeply analyzed with a focus on legal framework and constitutive and deliberative quorums.

The right of withdrawal is a tool provided by the law for those shareholders which do not agree with the relevant operation pursued by the SPAC. Those investors who vote against the approval and those who abstain from the vote can exercise the "withdrawal right" that allows them to withdraw from their investment and to get back the capital invested. Since the merger between the SPAC and the target firm requires to modify the social object of the vehicle, it is subjected to the approval of the ordinary and extraordinary shareholders' meeting. In this case, the law guarantees the chance to investors to retire from the investment and to be refunded. The value of the reimbursement must be computed

following some constraints and shares withdrawn may decrease the amount of the investment, might be sold to new investors or purchased from the SPAC.

In the end, the dilution mechanics in SPACs is explained and compared to the one occurring in case of share capital increase with Rights issue or Accelerated Book Building. Market/sponsor warrants, “Diritti di assegnazione” and special shares are financial tools used to incentive investors to purchase the units of the vehicle at the time of the IPO or to pay SPAC promoters. Warrants are derivatives that entitle their holders to buy the underlying stock of the issuing company at a fixed price called strike price until the expiry date. They can be exercised cashless or paying the strike price. In the first case, new shares are issued without a cash-in in favor of the company. In the latter one, new shares are issued at a higher value than the one paid from warrant holders. Special shares are securities than can be converted into ordinary shares with a convenient ratio. In this case, new shares are issued free and assigned to the holders of special shares (usually promoters) diluting the ownership of the company.

The three items discussed above, will be deeply analyzed at the light of the recent rejection of DeA Capital/Agrati business combination. The last chapter, in fact, aims to show the successful transactions of Space Holding and the unlucky experience of IDeaMI. It was promoted by Banca IMI and DeA Capital, raising €250 million at the time of the IPO and aiming to acquire and then complete the merger with Agrati. The extraordinary shareholders’ meeting called to vote about the merger plan did not approve the deal and the business combination was rejected. Voting dynamics and results, transaction timeline and post-business combination diluted shareholding will be showed with a focus on the main features and mechanisms of the transaction.

Could the recent rejection of IDeaMI be a breaking signal of the SPACs experience in Italy? Some ideas to answer this question will be expressed in the conclusion, with a focus on costs entrepreneurs must bear in terms of dilution and the loss of appeal of these vehicles. What can be certainly said is that in 2019 only one SPAC has been listed while standard IPOs (mainly on AIM) have increased significantly.

CHAPTER 1 – SPACS: WHAT THEY ARE, A FOCUS ON THE ITALIAN FINANCIAL MARKET AND THE BUSINESS COMBINATION PROCESS

1.1 What is a Special Purpose Acquisition Company (SPAC)?

1.1.1 Definition and historical framework

The aim of this chapter is to introduce SPACs discovering their origins and features of American and Italian SPACs markets. I will build a database of Italian SPAC transactions collecting data on size, promoters and identified target companies. Last paragraphs are dedicated to business combination: the agglomeration of the assets of two or more firms for their consolidation as one entity under single ownership.¹

A Special Purpose Acquisition Company (SPAC) is a publicly traded company that raises a blind pool² capital through an Initial Public Offering (IPO) for the purpose of acquiring an existing company. The money raised through the IPO of a SPAC are contributed into a trust until the SPAC identifies an opportunity to invest in. Shares of a SPAC are typically offered in relatively inexpensive units that include one common stock and a warrant conveying the right to purchase additional shares or fraction of them.³ It is promoted by a group of sponsors (either the management team or promoters) which usually seat in the SPAC BoD (Board of Director). A SPAC brings together experienced management teams, leading investors and other professionals, who can leverage their respective expertise to fund the SPAC, scout an attractive opportunity, acquire and then manage a new public company. The SPAC team has usually a term of 18 – 24 months to execute a business combination.⁴ In some cases, the target company must operate in a predetermined industry according to SPAC bylaw, otherwise can be a “generalist” (no specific sector). The operation of business combination must be approved by the shareholders’ meeting and completed within a limited horizon of time, otherwise the

¹ BusinessDictionary, Business combination

Source: <http://www.businessdictionary.com/definition/business-combination.html>

² Blind pool: an investment fund in which investors do not know what type of business activity or companies they are investing in

³ Investopedia, Special Purpose Acquisition Company (SPAC)

Source: <https://www.investopedia.com/terms/s/spac.asp>

⁴ NYSE, SPECIAL PURPOSE ACQUISITION COMPANIES (SPACs)

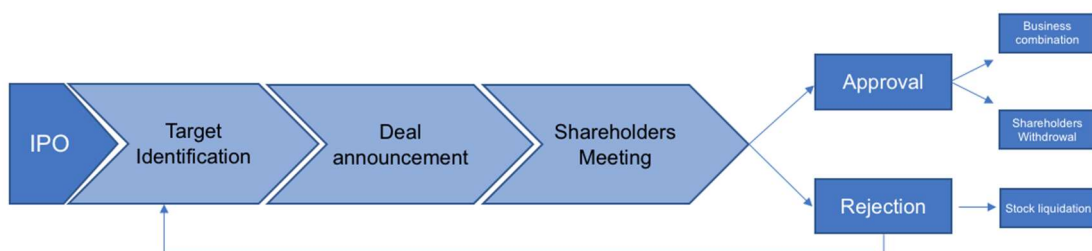
Source: <https://www.nyse.com/spac>

capital raised will be returned to investors. The business combination can be structured with:

- acquisition of target shares from current shareholders
- offer for subscription of new shares of the target
- merger between the target company and the SPAC
- more than one of the options above⁵

The shareholders' meeting is the place where the target company is presented to SPAC shareholders with detailed disclosure of its operations, its business and its financials. This information allows investors to check the way their money is invested by SPAC promoters and to vote in favor or against the business combination consciously. If it is not approved by the assembly, the management team can scout for a new target company or, alternatively, reimburse all investors and liquidate the SPAC (depending on SPAC bylaw). However, the SPAC is liquidated also in case the management is not successful in executing a business combination within the timeframe indicated in the bylaw. The figure below shows SPAC life cycle and the chance of business combination rejection by the shareholders' meeting, which can lead to the liquidation.

Figure 2: SPAC life cycle



Source: personal elaboration

The number of SPACs liquidated without the completion of the deal is relatively high in the US, (72 out of 204 until 2013, 35%) and lower in Europe, only 10% in the same period. The Italian experience is characterized by a large majority of successful deals

⁵ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, 2014

completed by SPACs, but has also happened that shareholders were not in favor of the business combination proposed. In the last chapter, I will analyze the recent rejection of the DeA Capital/Agrati transaction, the failed business combination between IDEaMI, an Italian SPAC listed on the AIM market of Borsa Italiana since December 2017 and Agrati S.p.A. (target company). IDEaMI is a SPAC promoted by Banca IMI (Corporate and Investment bank of Intesa Sanpaolo group) and DeA Capital, the corporate vehicle through which De Agostini group promotes its Private Equity investments and alternative asset management activities;⁶ on the other hand, Agrati is a worldwide leader in fasteners and components solution with more than 2,500 employees. In this case, IDEaMI shareholders' meeting voted against the business combination, probably due to the uncertainty of the financial markets coupled with an unclear background of the transaction.⁷ However IDEaMI (which is still listed on the AIM market) is still scouting a new target company to combine with. I will deeply analyze and benchmark the IDEaMI/Agrati case against two successfully completed business combination: Space3/Aquafil and Space4/Guala Closures.

A key role in SPAC activity is played by sponsors who provide money to finance the SPAC operating activities and current costs until the IPO. The “special purpose” of the company consist of searching and acquiring a private target company – which has the perspective to increase its business – with the aim of listing it on the stock exchange. Sponsors are mainly engaged to search the target company since they usually have a solid track record in M&A or Private Equity operations. SPACs sponsors do not receive a predetermined fee for scouting and managing the vehicle neither a management fee differently from Private Equity investment managers. Sponsors are paid when the business combination is completed with some warrants which allow them to buy ordinary shares at very convenient conditions or with special shares. In Italy, SPACs are regulated by the Regolamento dei Mercati organizzati e gestiti da Borsa Italiana S.p.A (il “Regolamento Mercati”), where they are defined as “società costituite con lo scopo di acquisizione di un business il cui soggetto sociale esclusivo prevede l’investimento in via prevalente in una società o attività nonché le relative attività strumentali” or “la cui strategia di investimento non è ancora stata avviata o completata e/o si caratterizza in termini di particolare complessità”⁸ and their shares (before the combination) are traded

⁶ DeA Capital S.p.A., Chi siamo

Source: <http://www.deacapital.it/IT/1/Chi%20siamo.aspx>

⁷ M. Magnano, Il Sole 24 Ore, IDEaMI, Soci bocchiano la business combination con Agrati

Source: <https://www.ilsole24ore.com/art/finanza-e-mercati/2018-12-03/ideami-soci-bocchiano-business-combination-agrati-123547.shtml?uuid=AEW67prG>

⁸ CONSOB, Regolamento mercati

on the MIV Market (Mercato telematico degli Investment Vehicles) reserved to professional and retail investors or on the AIM Italia market (Alternative Investments Market). MIV is the reference market for listing funds and vehicles which invest in real economy businesses. It allows to promote different investment strategies as Private Equity, Public and Private Debt, Venture Capital as well as industry-driven strategy: Real Estate, Infrastructure, Healthcare, etc. It is the regulated market dedicated to investment vehicles operated by Borsa Italiana. Investment vehicles include both Alternative Investment Funds (AIFs), European Long-term Investment Funds (ELTIFs) and Special Investment Vehicles (SIVs).⁹ AIM Italia is the non-regulated Borsa Italiana market; it is not subject to CONSOB (Commissione Nazionale per le Società e la Borsa) regulation and legislative constraints, and it is dedicated to small and medium enterprises. Around 115 companies comprising 13 different sectors and with an aggregate market capitalization of €6.9 billion are listed on AIM Italia.

1.1.2 SPACs origins and growth: from the US to the Italian market

SPACs are also known as blank-check companies: special not regulated vehicles with the feature that at the moment of the listing the target of the investment is unknown; those ones have begun to do business on the American financial market since 1980s and they were defined by the Security and Exchange Commission (SEC) “a development stage company that has no specific business plan, or purpose, or has indicated its business plan is to engage in a merger or acquisition with an undefined company, other entity or person”¹⁰. In the beginning, American SPACs were not listed on a fully regulated stock exchange but on the OTC (Over The Counter) Bulletin Board.¹¹ In 1992 American authorities introduced “Rule 419” in the Securities Act (1939). The introduction of this rule can be considered as SPACs “birth certificate” since it specified important rules which have been kept unaffected in the modern regulation. The three main pillars of Rule 419 were:

- funds raised through the IPO must be held in trust until the business combination

⁹ Borsa Italiana – Azioni, Mercati e quotazioni, MIV

Source: <https://www.borsaitaliana.it/fondi/chiusi/miv/home.htm>

¹⁰ Diritto bancario, La “Special Purpose Acquisition Company”

Source: <http://www.dirittobancario.it/approfondimenti/capital-markets/appunti-sulle-special-purpose-acquisition-companies-spac>

¹¹ An interdealer quotation system that is used by subscribing FINRA members to reflect market making interest in OTCBB-eligible securities

- the “way out” right for investors which can reject the business combination
- the time limit by which the company must complete the investment or dissolve the company and refund money to SPAC investors

A few years later, in 2005, AMEX (American stock exchange)¹² allowed the listing of SPACs, and in 2010, NYSE Amex adopted some specified listing standards to regulate these vehicles. Some of these standards (rules) require:

- at least 90% of the gross IPO and other investment proceeds to be held in trust
- the SPAC to complete one or more business combinations within three years after the IPO with an aggregate value of at least 80% of the net value (after excluding deferred underwriter’s fees and taxes payable on interest) of the funds held in trust
- the initial business combinations that satisfy the requirement above must be approved by a majority of the votes cast by public stockholders (subject to exclusions under NYSE rules for officers, directors and 10% stockholders)
- public stockholders voting against the proposed business combination to have the right to redeem their stock for a pro rata share of the trust funds if the deal closes, subject to a stated limit of the maximum number of shares that can exercise such redemption rights (which limit cannot be less than 10% of the shares sold in the IPO)¹³

Afterward, also Nasdaq and NYSE approved specific rules for SPACs with some additional constraints.

For what concern the historical SPACs analysis, starting from the early 2000s, Carol Boyer and Glenn Baigent wrote an interesting research in 2008 analysing the SPAC market in the US. As it is reported in their study, during the period from June 2003 to December 2006, there were 87 SPAC IPOs. The number of SPACs having an IPO grew from “1” in 2003, to “16” in 2004, “32” SPACs in 2005 and “38” for 2006. Thus, their popularity has grown each year. As further evidence of the growing importance of SPACs, during the same period, the Gross Proceeds at Offering in 2003 was \$21 million, and it grew until \$3,112 million in 2006.¹⁴

¹² The old name of New York Stock exchange (NYSE) Amex. AMEX has been acquired by NYSE Euronext in 2008 and integrated with other stock exchange. It is a different stock exchange from the NYSE.

¹³ SheppardMullin, Corporate & Securities Law Blog, SPACs 2.0: New SPAC Rules Changes Approved By NASDAQ And NYSE AMEX And New Market Features Make SPACs A More Attractive Investment Vehicle In 2011
Source: <https://www.corporatesecuritieslawblog.com/2011/03/spacs-2-0-new-spac-rules-changes-approved-by-nasdaq-and-nyse-amex-and-new-market-features-make-spacs-a-more-attractive-investment-vehicle-in-2011/>

¹⁴ C. Boye, G. Baigent, SPACs as Alternative Investments: An Examination of Performance and Factors that Drive Prices, The Journal of Private Equity, 2008

Figure 3: Growth of SPACs

	2003	2004	2005	2006
Quantity of SPAC offerings	1	16	32	38
Gross Proceeds at Offering	\$21,000,000	\$424,877,500	\$1,993,846,720	\$3,112,294,000

Source: C. Boye, G. Baigent, The journal of Private Equity, SPACs as Alternative Investments: An Examination of Performance and Factors that Drive Prices

The figure above shows the quantity of SPAC offerings and the relative Gross Proceeds at Offering. In terms of the Gross Proceeds at Offering, the median was \$50.355 million, with a maximum size of \$480 million. In terms of the pricing of SPACs, the average unit price was \$7.99, with a maximum of \$19.61 and a minimum of \$1.76. The average warrant traded at \$0.90, with a maximum warrant price of \$4.03 and the minimum at \$0.00. The average offer price of shares was \$7.06, with a maximum IPO price of \$10.10 and a minimum price of \$6.00.¹⁵ In the year 2007, SPACs number continued to growth accounted for nearly 25% of all IPOs in the US with 66 SPACs raising a combined \$12 billion.

Then, it is evident that before the global financial crisis, SPACs were primary players in the US market, with a continuously increasing Gross Proceeds amount and number of IPOs. As we can read from the figure below, SPACs IPOs number heated a peak in 2007, decreased sharply during the three years following and began to grow up again in the last five years. Target companies acquired by SPACs through business combination was active in different businesses. As reported by the Harvard Law School Forum on Corporate Governance and Financial Regulation on July 2018, in the period: January 1, 2014 – November 30, 2017, 66% of listed SPACs had specified industry focus like Energy (38%), Technology (14%), Healthcare (9%), Consumer (8%), Industrial (7%) and Media (6%). Millstream Acquisition Corporation was the first SPAC of the new generation¹⁶ in the US (listed in 2003 with Early Bird Capital as Global Coordinator) while Liberty Acquisition Holding Corporation was the first SPAC raising more than \$1 billion at the time of the IPO.

The first SPAC in Europe was Metal Enterprises Inc., listed on the AIM UK market in 2005.

¹⁵ *Ibidem*

¹⁶ As SPACS born after 2003 are named by M. Fumagalli

Figure 4: Summary of funds raised¹⁷

Year	# of SPAC IPOs	Average IPO Size (mn)	Gross Proceeds (mn)
2019	17	\$208.6	\$3,547
2018	46	\$233.7	\$10,750
2017	34	\$294.7	\$10,048
2016	13	\$269.2	\$3,499
2015	20	\$195.1	\$3,902
2014	12	\$145.8	\$1,750
2013	10	\$144.7	\$1,447
2012	9	\$54.5	\$491
2011	16	\$69.4	\$1,110
2010	7	\$71.8	\$503
2009	1	\$36.0	\$36
2008	17	\$226.0	\$3,842
2007	66	\$183.2	\$12,093
2006	37	\$91.5	\$3,384
2005	28	\$75.5	\$2,113
2004	12	\$40.4	\$485
2003	1	\$24.2	\$24
Total	346	\$170.6	\$59,025

Source: SPAC data, Summary of Funds Raised

A piece of interesting evidence to talk about analysing the US and the European SPACs market is the difference between the country of incorporation of the company and the IPO market where it is listed. Past evidence tells us that SPACs were often incorporated in countries with a very low tax level (*tax heavens*), but they were then listed on the stock exchange of a different country since it provides an easy and safe way to raise money. As reported by Prof. Fumagalli in his book *“Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia – un nuovo modo di fare private equity e di quotare le imprese in Borsa”*, some SPACs were incorporated in the British Virgin Islands (BVI), Bermuda, Cayman Islands, Brazil and Luxembourg but they were listed in British or Italian stock exchange like: AIM, AIM Italia or Euronext. Moreover, the country where they found their target company was also different from the IPO and the incorporation

¹⁷ SPAC Data, Summary of Funds Raised
Source: <http://www.spacdata.com/>

ones¹⁸ as it happened for Justice Holdings Ltd. Justice was a SPAC incorporated in the BVI and listed on the London Stock exchange (AIM UK market) in February 2011¹⁹ which raised \$1,440 million with the IPO, and it closed the business combination transaction with the American fast food hamburger chain Burger King Worldwide, Inc, acquiring the 29% of the company. Because of the deal, Burger King has been listed on NYSE since June 2012.

In the past decade, SPACs spread significantly also in Europe and in Italy, taking a primary role in the IPOs market. Since 2011, Italian SPACs have raised almost €4 billion, they have invested more than €3 billion listing new companies, and they still have almost €900 million to spend for business combinations.²⁰ In the next part of this chapter, I am going to analyse deeply the Italian market of SPACs, a relatively wide phenomenon compared to the American experience but which allows many Italian firms to become public.

1.2 The Italian experience

1.2.1 SPACs in Italy, IPOs and national framework

Equity markets cover a set of functions which are pivotal for the development of a market economy and include: (i) bringing companies and investors together; (ii) enabling issuers (i.e. companies) to raise new capital and (iii) facilitating the process of investors trading in shares, providing liquidity. SPACs are financial vehicles operating in Equity markets which allow companies to raise funds by providing them with access to a pool of private and institutional investors and they are also playing a leading role within the Italian financial market. SPACs general features have been shown in the paragraphs above: what they are, how the American SPACs market was born, and its evolution through the time. Hence, analysing the Italian experience there are some interesting points to focus on: how Italian SPACs were born, their IPOs, how they contribute to the Italian economic system, business combinations completed and the recent rejection of DeA Capital/Agrati and future perspectives.

¹⁸ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, 2014

¹⁹ FE INVESTIGATE, Justice Holdings Ltd

Source: <https://www.investigate.co.uk/ArticlePrint.aspx?id=201102140700081556B>

²⁰ F. Dagnino, A. Biglia, Il Sole 24 Ore – Diritto 24, Il fenomeno delle SPAC in Italia

Source: <http://www.diritto24.ilssole24ore.com/art/avvocatoAffari/mercatiImpresa/2019-03-19/il-fenomeno-spac-italia-163304.php>

The first SPAC listed in Italy (in January 2011) was Italy 1 Investment SA, a vehicle established in Luxembourg and promoted by Vito Gambirale, Roland Berger, Carlo Mammola, Giovanni Revoltella, Florian Lahnstein and Gero Wendenburg. It was listed on the MIV market, raising €150 million through the IPO and completed the business combination acquiring IVS Group in May 2012 (company operating in the vending machines sector).

Figure 5: IPOs of SPACs in Italy



Source: dati AIFI

More than 30 IPOs have been completed after Italy 1 in the last eight years with a peak (as number of IPOs and capital raised) between the end of 2017 and the beginning of 2018. In the same period, the three biggest Italian SPACs were also listed: IDEaMI (€ 250 million), Space4 (€500 million) and Spaxs (€600 million). As we can see from the figure above, on the contrary, before 2017, the capital raised through SPACs was significantly lower. SPACs shares are traded on the MIV market or on the AIM Italia market, where they are defined as “*società costituite con lo scopo di acquisizione di un business specifico*” and they are included in “*società di investimento*” category.

One of the main reasons of SPACs introduction in Italy is the large number of opportunities to invest in “real economy” with a focus on Small and Medium Enterprises (SMEs). An interesting evidence is the large number of SMEs (c. 200) with a low leverage, an Equity Value (EqV) between €80 and €150 million and EBITDA margin >15% which can represent interesting business opportunities.

Since 2011, SPACs have raised c. €4 billion and they have invested more than €3 billion. Six corporates were listed in 2018 thanks to SPACs: Industrie Chimiche Fostestali (May), Cellular Italia (June), CFT (July), Guala Closures (August), Fine Foods Pharmaceuticals

(October) and Digital Value (November). Moreover, the first months of 2019 have already seen the combination of Banca Interprovinciale and Spaxs (the SPAC promoted by Corrado Passera, former CEO of Intesa Sanpaolo bank and Poste Italiane and former Italian Minister of Infrastructure and Transports) through which Illimity is born. It is a bank operating in three complementary markets: corporate credit, acquisition and servicing of NPL portfolios and direct banking. In addition, the business combination between ALP.I. and Antares Vision and the merger between Gear 1 and Comer Industries (the first Accelerated business combination transaction) have been carried out.²¹ SPACs have increasingly contributed to market capitalization of AIM Italia market (77% of SPACs have been listed on this segment) while 4 SPACs have been listed on MIV. Spaxs represent the only one listed on Borsa Italiana MTA.²²

In 2018, 7 SPACs IPOs raised €1.157 billion on AIM (89% of total capital raised by all IPOs in this market). The Alternative Investment Market confirmed its attraction for companies less structured than ones listed on MTA and for SPACs since it represents a growth opportunity for SMEs.²³ Furthermore, its attraction is the result of less strict requirements fixed by Borsa Italiana to list a company. Let us compare them with the MIV market ones. Formal AIM requirements at IPO are:

- free float: 10%
- certified financial statement: 1 (if existing)
- accounting principles: either Italian or International or American
- offering: mostly institutional - at least 5 Institutional Investors that cover 10% of free float
- other documents: admission document
- website: mandatory²⁴

For what concerns the MIV market, Borsa Italiana most relevant requirements at IPO are:

²¹ N. Pegoraro, Le SPAC italiane: confronto con l'esperienza USA e con altre forme di investimento in aziende non quotate, 2018

²² C. Trombetta, Smartmoney, Economia digitale, Tutto quello che c'è da sapere sulle SPAC a partire dal successo di Illimity

Source: <https://smartmoney.startupitalia.eu/economia-digitale/65150-20190305-illimity-si-quota-borsa-meno-anno-le-piu-grandi-spac-europee>

²³ FIRST online, Borsa: AIM, il 2018 è stato l'anno delle Spac

Source: <https://www.firstonline.info/borsa-aim-il-2018-e-stato-lanno-delle-spac/>

²⁴ Borsa Italiana - Azioni, Mercati e quotazioni, AIM Italia

Source: <https://www.borsaitaliana.it/azioni/mercati/aim-italia/requisitiAIMitalia/requisitiAIMitalia.en.htm>

- market capitalization: at least €40 million (€25 million for Fondi Immobiliari chiusi);
- free float: 25% and 35% for Real Estate Investment Companies (REIC) and Special Investment Vehicles (SIV);
- three certified annual reports (if existing)
- “Prospetto Informativo”: mandatory
- mandatory use of International Accounting Standards (IAS);
- very detailed investment policy which specifies the level of investment diversification and complexity;
- engagement of a Sponsor as Global Coordinator;
- management with at least three years of experience in strategic investment management and mandatory independent directors for REIC and Investment Companies (voluntary for Fondi chiusi and SIV).²⁵

MIV is also subject to the supervision of the Italian stock exchange authority (CONSOB) while it is not true for AIM (for this reason, it is classified as a non-regulated market); it is then clear that requirement to be admitted in this market are gauged on the needs of SMEs companies. A key role for IPOs on AIM is played by Nominated Advisor (Nomad). It must be approved by Borsa Italiana, and it can be a bank, a financial intermediary or a corporate finance advisor. Its main role is to assess the appropriateness of the company seeking to be admitted to the market, supporting it in maintaining an adequate profile of transparency and helping the company to comply with the rules deriving from being listed on AIM Italia. Furthermore, according with AIM regulation, main duties of Nomad are to evaluate whether a company is eligible for the admission to the market by performing a due diligence, to handle the listing process, coordinating all parties involved supporting the company in the preparation of the listing prospectus and to assist the company throughout all the period in which it is listed on the AIM Italia.

1.2.2 Italian SPACs and completed business combinations

SPACs represent an alternative way to the classic IPO or Private Equity investments to raise capital for a business. Tables 1 and 2 show the 31 SPACs listed on the Italian stock

²⁵ Borsa Italiana - Azioni, Mercati e quotazioni, Mercato MIV, Requisiti della quotazione, Borsa italiana
Source: <https://www.borsaitaliana.it/fondi/chiusi/miv/requisiti/quotazione.htm>

exchange. The average capital amount raised by SPACs is €132.5 million, with a minimum of €30 million (Gear 1) and a maximum of €600 million raised by Spaxs.

The first Italian SPAC, Italy 1 Investment, was listed on the MIV market in 2011 through a €150 million IPO. The target company was IVS Group, an active company in the vending machines industry. Capital for Progress 2, the second SPAC promoted by M. Capuano, A. Perricone, M. Fumagalli, A. Bianchi, B. Gattai, is an interesting case study since it was liquidated as the consequence of a too large exercise of withdrawal right. Capital for Progress 2 raised €65 million through its IPO in August 2017 and it was listed on the AIM market. After some months of scouting, its promoters identified ABK Group, an active company in floor production and ceramic wall tiles to complete the business combination and the shareholders' meeting approved the transaction too. During the period to exercise the withdrawal right, investors holding the 57.38% amount of capital exercised their right (the maximum threshold laid down by the SPAC bylaw to complete the business combination was 30%) and management was obliged to offer refunded shares to remaining SPAC shareholders.²⁶ After the one-month period offering, shares remained unsold and promoters decided to liquidate the entire capital raised. Among the 31 SPACs listed below, I will also analyze Space3/Aquafil and Space4/Guala Closures completed business combinations and the DeA Capital/Agrati rejection.

Some statistics about SPACs reported by the Tables below are:

- 31 SPACs: 26 on AIM, 4 on MIV, 1 on MTA
- 22 business combination completed
- 1 liquidated SPAC (Capital for Progress 2) and 1 business combination rejected (IDeaMI)
- 8 SPACs still listed (in June 2019) and 1 announced business combination (Industrial Stars of Italy 3).

²⁶ Capital For Progress, Comunicato stampa, Risolto l'accordo quadro con ABK
Source: <http://www.capitalforprogress.it/wp-content/uploads/2019/02/2019-02-01-Press-Release.pdf>

Table 1: Italian SPAC database

Name	Business combination	IPO stock exchange	IPO date	Capital raised	Promoters
Italy 1 Investment	Completed	MIV	27/01/11	150	V. Gamberale, G. Revoltella, C. Mammola, R. Berger, F. Lahnstein, G. Wendenburg
Made in Italy 1	Completed	AIM	27/06/11	50	M. Carloti, L. Giacometti, S. Strocchi
Industrial Stars of Italy	Completed	AIM	22/07/13	50	G. Cavallini, A. Arietti
Space1	Completed	MIV	18/12/13	134,6	S. Erede, R. Italia, G. Mion, C. Pagliani, E. Subert, A. Ambrosio, E. de Bernardi
Green Italy 1	Completed	AIM	27/12/13	36,2	M. Carloti, Idea Capital, VedoGreen, A. Lambiasi, F. Pintucci
IPO Challenger	Completed	AIM	26/05/14	50	S. Strocchi, A. Oggioni, L. Giacometti
Space2	Completed	MIV	31/07/15	304	S. Erede, R. Italia, G. Mion, C. Pagliani, E. Subert, A. Ambrosio, E. de Bernardi
Capital for Progress 1	Completed	AIM	04/08/15	51	M. Capuano, A. Perricone, M. Fumagalli, A. Bianchi
Glenalta Food	Completed	AIM	10/11/15	80	G. Lugli, L. Giacometti, S. Malagoli, S. Marengo
IPO Challenger 1	Completed	AIM	01/05/16	20	IPO club
Industrial Stars of Italy 2	Completed	AIM	27/05/16	50,5	G. Cavallini, A. Arietti
Innova Italy 1	Completed	AIM	19/10/16	100	F. Conti, P. Ferrario, M. Costaguta, F. Gianni, A. Pansa
Crescita	Completed	AIM	15/03/17	153	M. Armanini, DeA Capital, C. Dippolito, M. Drago, C. Moser, A. Tazartes, A. Toffoletto
Space3	Completed	MIV	05/04/17	152,8	S. Erede, R. Italia, G. Mion, C. Pagliani, E. Subert
Glenalta	Completed	AIM	19/07/17	102	L. Giacometti, G. Lugli, S. Marengo, S. Malagoli, L. Bachschmid
SprintItaly	Completed	AIM	21/07/17	153	Fineurop S.p.A., G. Bragiotti, M. Carloti, F. Pintucci

Source: personal elaboration

Table 2: Italian SPAC database

EPS Equita PEP	Completed	AIM	01/08/17	150	Equita PEP Holding S.r.l., Equita SIM S.p.A., S. Lustig, R. Rufini
EPS Equita PEP 2	-	AIM	01/08/17	74	Equita, Private Equity Partners
Capital for Progress 2	Failed (SPAC liquidation)	AIM	04/08/17	65	M. Capuano, A. Pericone, M. Fumagalli, A. Bianchi, B. Gattai
Spactiv	-	AIM	27/09/17	92.9	M. Borletti, P. De Spirt, G. Bavagnoli
Industrial Stars of Italy 3	Announced	AIM	19/10/17	150	A. Arietti, G. Cavallini, D. Milano, E. Arietti
IdeaMI	Rejected	AIM	11/12/17	250	Banca IMI, DeA Capital
Space4	Completed	MIV	21/12/17	500	S. Erede, R. Italia, G. Mion, C. Pagliani, E. Subert
Spaxs	Completed	MTA	30/01/18	600	C. Passera
ALP.I	Completed	AIM	01/02/18	100	Mediobanca, R. Marsella, S. Rangone, M. Perona; S. Giambelli
Ve11	-	AIM	27/02/18	100	Palladio Finanziaria
Life Care Capital	-	AIM	07/03/18	140	C. Castellano, A. Gaviati, L. Sala, J. Vender, TechWald S.p.A.
Gabelli Value for Italy	-	AIM	18/04/18	110	Gabelli Investment Partners International LLC
Archimede	Completed	AIM	17/05/18	47	A. Battista, G. Rosmarini, M. Carbone
The Spac	-	AIM	31/07/18	60	M. Galateri di Genola, V. Borromeo-Arese Borromeo, G. Lega
Gear 1	Completed	AIM	22/02/19	30	Comer IndustrieS, Eagles Oak S.r.l.

Source: personal elaboration

1.3 The business combination

1.3.1 Definition and possible scenarios

A business combination is essentially an event or transaction where an acquirer acquires control, or at least controlling interest, of either one or over one business and it can be aptly defined as amalgamation of the assets of two or more business entities for their consolidation as a single entity under single ownership.

The business combination is a crucial point in the relationship between the management of a SPAC and its shareholders since it is the “real SPAC IPO” and investors must approve or reject the operation to become shareholders of a new listed operative company. The shareholders’ meeting is preceded by a roadshow and some meetings with investors presenting them the transaction. Generally, stock exchanges’ and authorities’ regulations threat the business combination as a *reverse merger*, a sort of new IPO and it implies that SPACs and target companies must prepare all documentation needed: “Prospetto informativo”, “dati contabili pro-forma” and confidential documents.

Acquisitions, mergers, joint ventures, alliances, partnerships and other business combinations are no longer exceptions for most firms. They have become central to gaining a competitive advantage. All business combinations must have the potential to create joint value, it must be governed to realize this value, and must share value in a way that provides a reward to each party’s investment. Three essential pillars of business combinations are: (i) the combination must have the potential to create more value than the parties can alone; (ii) the combination must be designed and managed to realize the joint value (which partners and structures fit this goal best? How do they manage the risk and uncertainty in such combinations?) (iii) The value earned by the parties must motivate them to contribute to the combination (how do we divide the joint value created? How will value be shared over time?).²⁷

As reported in the first pillar, the business combination must produce synergies. If the main source of joint value is economies of scale in production, for example, then the combination, whatever its form, must successfully integrate investment and management of the production facilities. If the joint value comes from sales, then that aspect of the deal, similarly, needs coordinated management. Moreover, the essence of the third pillar is that the joint gains need to be divided in a way that leaves each party better off than it would

²⁷ Benjamin Gomes – Casseres, Making Mergers, Acquisitions and Business Combinations Work, Harvard Business Review, 2015

have been without the combination. The share of profit is the reward that encourages each party to contribute its resources to the combination. What matters is that each party earns a fraction high enough to convince it to redirect its assets and efforts from another use into the combination.²⁸ A business combination can be managed easily through the way of a voluntary acquisition, a merger, or a hostile takeover. In many cases, a preferred means of managing a business combination might be acquiring a controlling amount of stock.²⁹

SPACs must complete business combinations by 18 – 24 months from the IPO, sometimes it can happen they have a longer period if they have already found a target company, but they need more time for the execution. SPACs must invest at least 80% of money raised through the IPO in the acquisition to deny that a large amount of money remains unused. In the context of the business combination, SPACs can also issue new shares to pay the purchase consideration to the sellers. In fact, it can be comprised of cash from the SPAC's IPO, its capital stock, debt or some combination of the foregoing.³⁰ One of the main steps during the business combination is the approval of the deal from the shareholders' meeting: it must vote to approve or reject the operation. In the first scenario, SPAC achieves its goal and uses funds raised to purchase the target company. In the second one it must search a new company to acquire or must repay investors (depends on what the corporate bylaw imposes). In case shareholders' meeting approves the business combination, shareholders dissenting with the operation (which vote against the deal) must be repaid (the withdrawal rights issue) and a part of cash held in trust cannot be used to purchase the target company. SPACs can generally solve lack of cash to complete the business combination in different ways: (i) looking for new investors to replace who withdraw their investments; (ii) raising debt to finance the missing equity value quota; (iii) reducing deal dimension (i.e. acquiring less target shares).³¹ Hence, SPACs can complete business combinations taking control of a company (majority acquisition) or acquiring a minority interest. Let us propose an example to show different business combination scenarios.

First scenario: SPAC α raised €100 million through the IPO (80% from the market and 20% from its promoters) and acquires 100% of target company β outstanding shares (Equity Value: €100 million). In the beginning, SPAC α will be the holding company of

²⁸ *Ibidem*

²⁹ International financial reporting tool, Business Combination, Meaning and definition of Business Combination
Source: https://www.readyratios.com/reference/accounting/business_combination.

³⁰ J.M. Gallant, B. L. Ross, *Financer worldwide*, SPACs and the Business Combination Agreement, 2009

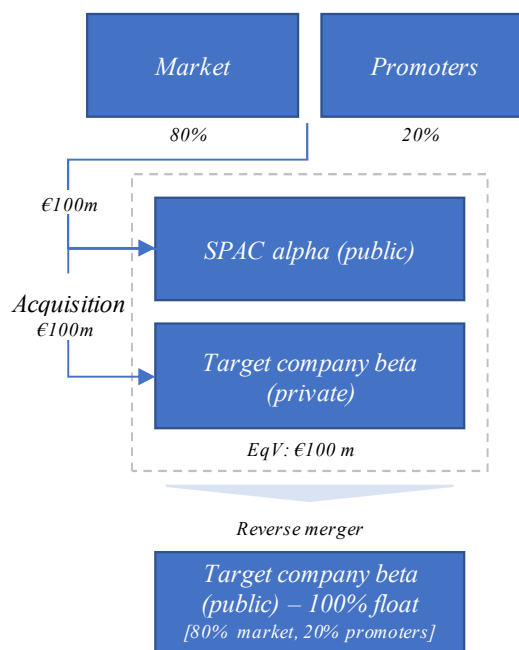
³¹ M. Fumagalli, *Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa*, 2014

its target (until the merger), and the result will be the listed target company with the SPAC shareholding.

Second scenario: SPAC α uses €100 million raised through the IPO to purchase 33.3% of the target company γ outstanding shares (Equity Value: €300 million). The post-acquisition result will be the listed target company with the 33.3% free float held by SPAC α shareholders. In this scenario, the majority shareholder post-merger will be the pre-business combination one.

Third scenario: SPAC α uses €50 million raised through the IPO to purchase 16.7% of the target company δ outstanding shares (Equity Value: €300 million) and moreover, δ makes a €50 million capital increase. Let us suppose new outstanding shares are bought by α . The post-merger result will be the listed target company with the 28.6% free float held by SPAC α shareholders. Differently from latter scenarios, δ Equity Value increased, but the final float is lower. In fact, despite a €100 million SPAC investment and a €300 million Equity Value like in the second scenario, a lower free float (28.6%) is the consequence of the capital increase.³²

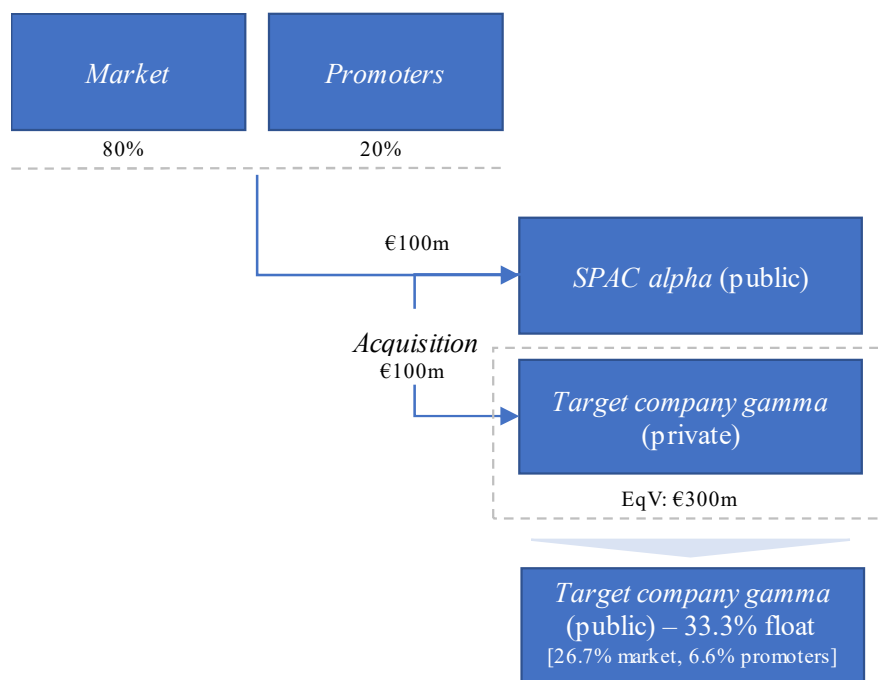
Figure 6: First scenario – Majority stake acquisition



Source: personal elaboration on M. Fumagalli, Lo sviluppo delle SPAC in Italia

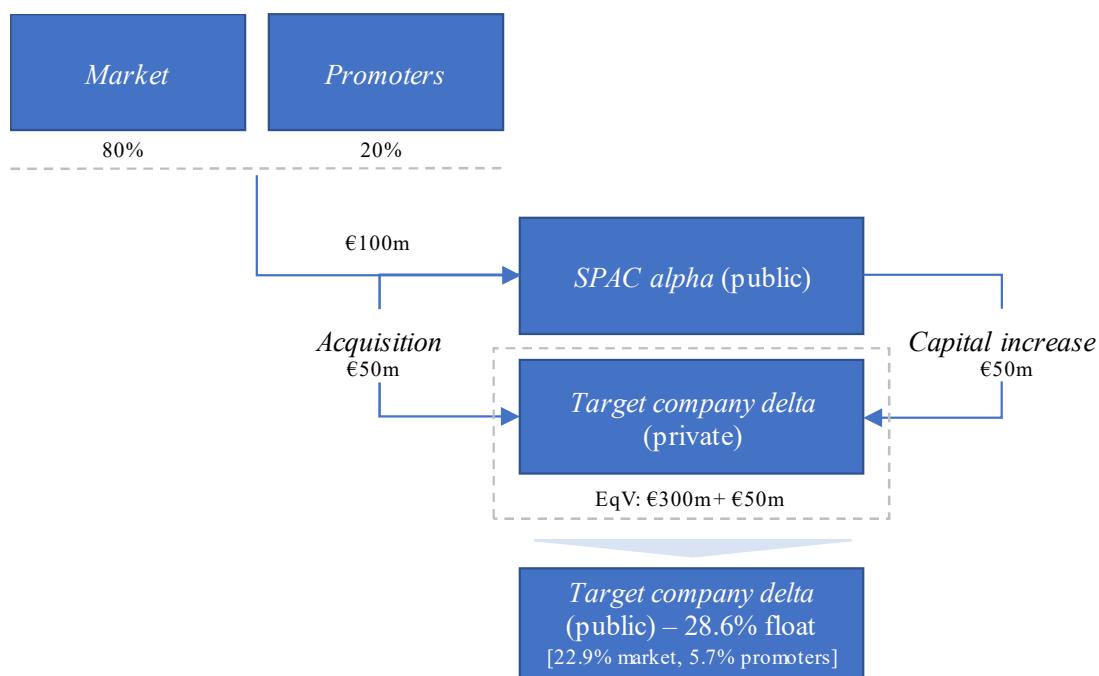
³² Ibidem

Figure 7: Second scenario – Minority stake acquisition



Source: personal elaboration on M. Fumagalli, Lo sviluppo delle SPAC in Italia

Figure 8: Third scenario – Acquisition and Capital Increase



Source: personal elaboration on M. Fumagalli, Lo sviluppo delle SPAC in Italia

1.3.2 Financial and legal framework

Business combination is the main goal and the core moment in SPACs life, and it requires to follow some physiological steps and further strides set forth by regulators. In Italy, rules to follow during the combination are mainly set by the Civil Code, CONSOB and Borsa Italiana S.p.A. regulation. Moreover, some additional dispositions are reported by SPAC and/or target bylaw that establish specific provisions in case of business combinations, mergers or further extraordinary financial operations. Companies involved in the business combinations do not follow a mandatory timeline to make a success of the deal. It could be helpful to enrich this analysis showing the timeline of the recent combination between Space4 and Guala Closures.

Here below the main steps to complete a business combination from the scouting to the merge among the SPAC and the target company:

- Board of Directors business combination approval (time T)
- shareholders' meeting business combination approval (T + 45)
- registration of the shareholders' meeting resolution which approves the business combination at the competent business register (T + 48)
- end of the period to exercise the withdrawal right (ex articolo 2437-bis, comma 1 del Civil Code) (T + 63)
- effective date of business combination (T + 108)
- end of the period for ordinary shares (object of withdrawal) liquidation payment (ex articolo 2437- quarter, comma 5, del Civil Code) (T + 243)³³

At time T, the SPAC Board of Directors approves the business combination subscribing a Framework Agreement (“Accordo Quadro”) with the target company in order to discipline the transaction and a merger plan, with the aim of merging by incorporation or through a reverse merger the operative company with the SPAC. Space4 decided to acquire the majority stake of Guala Closures S.p.A. (80%) and to complete a merger by incorporation with it. Figure 9 below shows the main terms of Space4/Guala Closures business combination: Space4 purchased 60,609,131 Guala Closures (GCL) ordinary shares (81.22% of Shareholders Equity) paying €409 million for an Equity Value of €504 million. GCL may decide to increase the number of shares Space4 must purchase

³³ Space4 – Investor relations, IPO, Documento di registrazione
Source: <https://www.space4spa.com/investor-relations/ipo.html>

to a maximum of 1,500,000 more. At the same time, Space4 can designate an investor to purchase a maximum of 1,480,646 ordinary shares (which itself should purchase).³⁴ Deal conclusion is the merger by incorporation between the two companies, considering a GCL Equity Value of €504 million and a Space4 share price of €10 (I will deeply analyze this case study in the last chapter).

Figure 9: Main terms of the Business Combination – Space4/Guala Closures

Principali termini della Business Combination

La Business Combination si articolerà nei seguenti passaggi principali:

- l'acquisizione da parte di Space4 e di Peninsula di massime n. 60.609.131 azioni ordinarie di Guala Closures, rappresentative del 81,22% del capitale sociale, da GCL, titolare alla data odierna dell'intero capitale sociale di Guala Closures, per un corrispettivo di circa Euro 409 milioni. Il corrispettivo si basa su una valutazione del 100% del capitale sociale di Guala Closures pari a circa Euro 504 milioni (l'“**Acquisizione**”); l'Acquisizione è strutturata sulla base di un meccanismo cd *Locked Box* con data di riferimento 31 dicembre 2017;
- GCL potrà esercitare la facoltà di incrementare il numero di azioni ordinarie che Space4 è tenuta ad acquistare fino ad un massimo di ulteriori 1.500.000 azioni ordinarie;
- Space4 ha la facoltà di designare un ulteriore investitore che acquisti parte delle azioni ordinarie Guala Closures che Space4 stessa dovrebbe acquistare, per un numero massimo di 1.480.646 azioni ordinarie; e
- la successiva fusione per incorporazione di Guala Closures in Space4, sulla base della medesima valutazione del 100% del capitale sociale di Guala Closures (Euro 504 milioni) e una valorizzazione dell'azione Space4 pari a Euro 10 (la “**Fusione**”).

Source: Space4 – Investor relations, IPO, Documento di registrazione

The call of the ordinary and extraordinary shareholders' meeting from the Board of Directors and the vote to approve or reject the business combination is the second step of the transaction (T + 45). Then, after the registration of the shareholders' meeting resolution which approves the business combination at the competent business register (T + 48), investors have a period (15 days) to exercise the withdrawal right and to be refunded of their money. Forty-five days after the business combination is effective and T + 243 days is the deadline for ordinary shares liquidation payment.

One of the main pros of investments in SPACs is the withdrawal right: if investors are not in favor of the transaction, they have a period to exercise their right, an easy way to disinvest money from SPAC and don't take part to the business combination.

³⁴ *Ibidem*

CHAPTER 2 – THE MECHANICS OF SPECIAL PURPOSE ACQUISITION COMPANIES

2.1 How do SPACs work?

2.1.1 SPACs constitution and IPO

SPACs are financial tools which born from the idea of their promoters, a group of professionals with a strong background in financial transactions (like M&A or Private Equity deals) and which decide to raise money to invest in a private company through a listed vehicle. Their aim is to purchase a controlling interest (or a minority stake) in the target company listing it as the consequence of the business combination.

To begin the SPAC planning process, founders usually approach an investment bank to manage the IPO. The chosen investment bank leads the offering process which includes structuring the capital raising terms, preparing and filing IPO documentation, and pre-marketing the investment offering for interested investors.³⁵

Figure 10: 1H 19 underwriters league table

Rank	Underwriter	Volume (\$mm)	Volume % Mkt Share	Volume Sold (\$mm)	Volume Sold % Mkt Share	Deal Count	Average Deal Size
1	Cantor	1,668.3	15.1%	1246.3	21.0%	6	278.1
2	Deutsche Bank	1,615.6	14.6%	882.5	14.9%	5	323.1
3	Goldman Sachs	1,338.6	12.1%	514.8	8.7%	4	334.6
4	Credit Suisse	937.5	8.5%	422.3	7.1%	3	312.5
5	Citigroup	850.0	7.7%	825.0	13.9%	2	425.0
6	BTIG	680.8	6.1%	193.6	3.3%	3	226.9
7	BofA	537.5	4.9%	194.0	3.3%	2	268.8
8	Stifel	530.2	4.8%	111.9	1.9%	2	265.1
9	Earlybird	448.5	4.1%	247.0	4.2%	2	224.3
10	Chardan	402.5	3.6%	198.1	3.3%	4	100.6
11	UBS	348.0	3.1%	63.8	1.1%	2	174.0
12	Jefferies	316.3	2.9%	275.0	4.6%	1	316.3
13	Nomura	300.2	2.7%	159.5	2.7%	1	300.2
14	Cowan	280.5	2.5%	190.0	3.2%	2	140.3
15	Barclays	233.0	2.1%	101.3	1.7%	1	233.0
16	Northland	172.5	1.6%	74.1	1.2%	1	172.5
17	B. Riley FBR	143.8	1.3%	125.0	2.1%	1	143.8
18	I-bankers	115.0	1.0%	45.0	0.8%	1	115.0
19	Craig-Hallum	108.0	1.0%	30.0	0.5%	1	108.0
20	Maxim	46.0	0.4%	40.0	0.7%	1	46.0

Source: SPACinsider, Underwriting and Legal league table, 1H19

Moreover, the bank advises the SPAC in the whole post-IPO process until the business combination completion. In the US, the syndicate is composed of four investment banks

³⁵ D. P. Stowell, Investment Bank, Hedge Funds and Private Equity, 3rd edition, 2018

(on average) and their fees are c. 7% of the capital raised.

The US market has seen a wide number of SPACs IPO and it is interesting to look at the underwriters' league table (which includes many different investment banks) while for the Italian market the analysis is obviously focused on a few numbers of advisors and operations. Investment banks work to IPOs through the Equity Capital Markets division (ECM); it is comprised of bankers who specialize in common stock issuance, convertible security issuance and equity derivatives. Common stock issuance includes initial public offerings, follow-on offering for companies that return to the capital markets for common stock offerings subsequent to issuing an IPO and secondary offerings. During IPOs, the Equity Capital Markets team assumes primary responsibility for executing the transaction. This involves close coordination with sales and trading professionals in the trading division to determine the investment appetite of their client base, which includes institutional and individual investors.³⁶ Figure 10 above shows the 1H19 underwriters league table reported by *SPACinsider*; it shows the 20 best underwriters in the US for Volume and number of deal. The league includes both Global investment banks (BofA and Citigroup) but also boutiques investment banks (Cantor, Jefferies, EarlyBird) and regional investment banks (Deutsche Bank, Credit Suisse, UBS and Nomura) that in the first six months of 2019 performed better than other players as SPACs underwriters. In Italy, the Deal Syndicate is usually composed of two investment banks that operate as Global Coordinators (manage execution process and lead pricing discussions) and a variable pool of banks as Bookrunners (involved in process and pricing discussion).

Figure 11: Frontispiece of the Documento di ammissione – IDeaMI S.p.A.



Source: IDeaMI – IPO, Documento di ammissione

As it is showed by Figure 11, Banca IMI and Banca Akros (Corporate and Investment banking division of BPM) were Joint Global Coordinators and Joint Bookrunners in

³⁶ M. Morelli, Equity Markets and Alternative Investments course, In class material, 2019

IDEaMI IPO; moreover, the latter was also Nominated Advisor (Nomad) and Specialist. A Nomad is a central figure for SPACs operating on AIM; it must be approved by Borsa Italiana and included on the AIM Italia Register. A Nomad can be a bank, an intermediary or a company mainly operating in the corporate finance sector. It must assess the appropriateness of the company to the admission in the market, supporting it in maintaining an adequate profile of transparency and stimulate the attention by the company to comply with the rules deriving from being listed on AIM Italia, maximizing the benefits thereof.³⁷

The main duties of a Nomad, so as provided by AIM Italia Rules, are the following:

- to make the due diligence described in the Rules of AIM Italia for the purpose of evaluating whether a company is eligible for admission to the market
- to handle the listing process, coordinating the team of advisors, defining the time schedule and guiding the company in the preparation of the admission document
- to provide advice to the company, once it is listed, about the requirements included in the Rules for companies. A Nomad assists the company listed on AIM Italia throughout the period of permanence on the market.³⁸

The company that lists on AIM Italia must choose a Global Coordinator, which participates in the markets of Borsa Italiana and in the Nomad Register with the duty of placing the securities of the company on the market, after defining with the company the type of target investors, the most adequate price and the investor relations strategy to be adopted. After being admitted, the company must provide itself with a specialist, who shall have the responsibility to support the liquidity of the security. A specialist does not always coincide with the Global Coordinator, which placed the securities during the admission phase, whilst the figure of the Global Coordinator and that of the Nomad may coincide, where the Nomad is an authorized intermediary.

In general, the going-public decision of a company is characterized by firm relying on two sets of investors, regular or informed investors who know the firm's true value and occasional or uninformed investors. The informed investors are the SPAC founders. In contrast to the traditional setting, a SPAC initiation has no assets in place and the founder may choose to produce information about possible investment opportunities. Target firms vary in their expected value and risk characteristics. Outside investors are atomistic

³⁷ Borsa Italiana – Mercati e quotazioni, AIM Italia, Nomad
Source: <https://www.borsaitaliana.it/azioni/mercati/aim-italia/gliadvisor.en.htm>

³⁸ *Ibidem*

investors and SPACs represent a high risk and high expected return asset in their investment opportunity set. One of the main problems faced by outside investors is the moral hazard (promoters may decide to complete a risky business combination without losing their own money), but sponsors equity participation partially resolves the problem and gives the founder the incentives to expend costly effort to acquire information about potential target firms. Founders and shareholders will prefer to pick a target firm that has higher expected value. A second dimension in the choice of the target for acquisition is the level of firm risk. While outside investors are risk-averse and strictly prefer a low risk target firm, a risk-neutral founder only cares about the target's expected value.³⁹

The IPO process formally begins with the deposit of the IPO documentation of the SPAC (the “Prospetto informativo” and “Documento informativo” are respectively the main documents requested for IPOs on MTA/MIV and on AIM) by underwriters, which operate on behalf of the management team, to the stock exchange regulator (CONSOB in Italy, SEC in the USA). The “Prospetto informativo” provides information about the IPO, it is an extensive document and it explains all details about:

- company general information
- risk factors
- dilution, new outstanding shares and warrants' mechanics
- conflict of interest between promoters and investors
- SPAC activities with a focus on business combination ("operazione rilevante")
- management team background

Moreover, it provides details about the way capital raised will be used (in case of target acquisition) but also how the repayment works if the SPAC is not able to complete the business combination. Underwriters and management team begin the work to the vehicle IPO once the regulator approves the IPO document.

Once the IPO is completed, 5% of funds raised selling SPACs units are usually used to pay underwriters fees, administrative and legal charges and other physiological expenses for the life of the SPAC. 95% of funds are deposited in an escrow account which cannot be accessed by the managers without the approval of the shareholders' meeting. Funds can only be invested in risk free assets, typically Treasury bond and are then kept unused until the business combination. In case the SPAC is not able to find the target company

³⁹ S. Chatterjee, N. K. Chidambaram, G. Goswami, Journal of International Money and Finance, Security Design for a Non-standard IPO: The Case of SPACs, 2014

or to receive the operation approval by the shareholders' meeting, investors will be refunded.

2.1.2 Units and warrants

During the IPO, units are offered to investors; they are composed of a common stock and one or more *market warrants* and their price is often c. \$10. Warrant is a derivative that gives the right, but not the obligation, to buy or sell a security – most commonly an equity – at a certain price before the expiration. The price at which the underlying security can be bought or sold is referred to as the exercise price or the strike price. As it happens for options, warrants that give the right to buy a security are known as call warrants; those that give the right to sell a security are known as put warrant. Warrants are in many ways similar to options, but a few key differences distinguish them. They are generally issued by the company (like in the SPACs case), not a third party, and they are traded over the counter or on an exchange. Unlike options, warrants are dilutive. When an investor exercises its warrants, it receives newly issued stock rather than already-outstanding stock. Warrants tend to have much longer periods between issue and expiration than options, of year rather than months. They do not pay dividends or come with voting rights. In general, investors are attracted to warrants as a means of leveraging their positions in a security, hedging against downside or exploiting arbitrage opportunities. SPACs have two different types of warrants: sponsor warrants and market warrants (they are freely offered to investors with the common stock). At the beginning, units are publicly traded as a single entity and after some trading days, stocks and warrants begin to be traded with distinct prices and singularly.⁴⁰ The free warrants offerings are also frequent for standard IPOs with the aim of providing a privilege to the shares subscribers and allowing investors to buy two different assets. Main features of warrants are:

- they are in the money since the first trading day
- the warrant option has the same characteristics of an American one that can be exercised at any time on or before the expiration date
- SPAC may ask that warrants will be exercise with “cashless” conversion, without a payment from the warrant's holder. In such case, the exercise price

⁴⁰ M. Fumagalli, *Lo sviluppo delle SPAC (Special Purpose Acquisiton Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa*, 2014

become zero and therefore the conversion ratio (number of shares obtainable for each warrant) will be adapted

- if the share price overcome a certain price, SPAC may redeem warrants paying a symbolic value with the aim of forcing investors to ask for the conversion (on the contrary they will lose their wealth)⁴¹

Cashless conversion is the direct conversion of ownership of an underlying asset without any initial cash outlay by the holder. Warrant holders would, upon exercise, receive a certain number of shares (as explained in the third bullet point) or the market value of the shares minus a certain amount of money linked to the strike price and the number of shares set by the warrants. For example, if the warrant is for the purchase of 10,000 shares at \$1 per share and the market price of the stock at exercise is \$10 per share, the holder will receive \$100,000 minus \$10,000 for a total value of \$90,000 or 9,000 shares. Differently, in the classic conversion way, the warrant holder pays \$1 (strike price) for one share with a market value of \$10. Selling the share, the holder will earn \$9, the intrinsic value of the warrant.

Usually, SPACs operating in the US provide management team participation into the vehicle with a (i) sponsor equity, which usually represent the 20% of the post IPO capital (in Italy the percentage is lower) (ii) sponsor warrants, approximately between the 1.5 and the 4% of the capital (iii) special shares and (iv) sponsor co-investment: units acquired at the same price of investors during the IPO or shares purchased close to the shareholders' meeting (usually they are subjected to *lock-up*). Generally, promoters participate in the SPAC capital through sponsors warrants (the more recent SPACs often require an upfront investment by founders through the purchase of them, usually at a price of \$1 per warrant. The upfront investment represents at-risk capital that the sponsors put up as "skin in the game") and their equity stake which represents the capital at risk of the sponsors' team. They are directly involved in the investment and in case of success, their capital gain will be higher than a fixed pre-established compensation. The compensation of the management team follows the model of Private Equity funds, a feature of the SPAC that has been highlighted by researchers who view SPACs as a form of Private Equity (e.g. Rodrigues and Stegemoller, 2011, and Davidoff, 2008). Sponsor shares are held in escrow and if an acquisition is not completed, the sponsor forfeits the shares and has no claim to the fund. Liquidation of the SPAC thus means that the sponsors receive nothing.

⁴¹ *Ibidem*

In addition, the SPAC sponsors must vote their stock with the majority of the public shares.⁴²

At the time of the IPO, the *reverse earn-out* is one of the main features of the Special Purpose Acquisition Companies' offerings (also used by Private Equity funds in M&A transaction). Earnout in general is a contractual provision stating that the seller of a business is to obtain additional compensation in the future if the business achieves certain financial goals. A reverse earn-out is a way to improve investors' interest to purchase company shares: selling shareholders and/or the listing company decides to pay to investors a certain amount if the company does not reach certain financial results. The aim of this mechanism is to loyal retail investors and give them a sort of guarantee on the investment. The business combination between Se.Sa (target company) and Made in Italy 1 (SPAC) is an example of reverse earn-out guaranteed by ITH (the seller) to the SPAC if the target did not reach a certain net income at the end of the period 2012/2013 (€20 million) and 2013/2014 (€24 million). Moreover, it established that this guarantee did not involve a cash payment but a dilution of the stake of ITH in the post-merger company.⁴³ After the IPO of the SPAC, the scouting period begins, and promoters must find and purchase a target company in order to complete the business combination.

2.2 Dilution mechanics in Equity Markets

2.2.1 Dilution mechanics in Rights issue, ABB and SPACs

Subsequently to the offering, warrants and ordinary shares of the SPAC begin to trade, and investors are exposed to market dynamics (including dilution.) At the same time, when the business combination is completed, the exercise and conversion of warrants and special shares held by SPAC investors and promoters may dilute the shareholding and the share price of the firm. Dilution occurs when a company issues new stock which results in a decrease of an existing stockholder's ownership percentage of that company. It can also occur when holders of stock options, such as company employees, or holders of other optionable securities exercise their options. When the number of shares outstanding

⁴² S. Chatterjee, N. K. Chidambaran, G. Goswami, *Journal of International Money and Finance*, Security Design for a Non-standard IPO: The Case of SPACs, 2014

⁴³ M. Fumagalli, *Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa*, 2014

increases, each existing stockholder owns a smaller, or diluted, percentage of the company, making each share less valuable.⁴⁴

Dilution is the consequence of many financial operations typical of Equity Capital Markets like the exercise of warrants, Right issues and Accelerated Book-Buildings (ABB) and of the remuneration process of SPACs promoters through the issues (and conversion) of special shares (“azioni speciali”).⁴⁵

A right issue is the offer of shares to existing shareholders pro-rata to their existing holding and is on average used to raise between 40 and 60% of the pre-money market capitalization. Shareholders may choose to:

- exercise their rights and purchase new shares they are entitled to
- sell their rights in the market at their prevailing price, suffering dilution of their % interest
- “tail-swallow”: sell the portion of their rights needed to exactly fund the subscription of the rest (cash neutral strategy); this strategy minimizes the dilutions and maintains the “Euro” investment unchanged
- do nothing: irrational economic behavior, sometimes due to lack of information/slow decision-making process⁴⁶

Dilution in this kind of offerings causes the reduction of the ownership in a certain company as the effect of the issuance of new shares. Let us say one investor (Investor A) owns 500 shares (50%) of a company and the shares are currently trading at €15 each. The company announces a capital increase of €1,000 million and a right issue in the ratio of 1 for 1 (each investor holding 1 share will be eligible to buy 1 new shares) at a discount price of €10 per share. Investor A, for example, may exercise its right (its portfolio value increases and the final percentage of capital too) or it may sell rights decreasing its final % of capital but receiving a Cash In from rights sold. Since the new shares are offered with a 33.33% discount, the post capital increase share price will be lower than the one at the Status Quo, but the wealth of company shareholders is not affected. The essence of the rights issue, indeed, is that the discount does not create or destroy any value for the issuer or its shareholders.⁴⁷

⁴⁴ Investopedia, Dilution

Source: <https://www.investopedia.com/terms/d/dilution.asp>

⁴⁵ BeBeez, CREDIMI, Spac, un altro modo di quotarsi in borsa

Source: <https://blog.credimi.com/spac-un-altro-modo-di-quotarsi-in-borsa>

⁴⁶ M. Morelli, Equity Markets and Alternative Investments course, In class material, 2019

⁴⁷ *Ibidem*

The Theoretical Ex-Rights Price (TERP) is €12.50⁴⁸ since the company applies the discount and the value of right is €2.50. The post capital increase market capitalization of the company is €25,000 million, and the final percentage of the capital of Investor A is 50% if it subscribes the rights. Alternatively, it is 25% (dilution: 25%) if it decides to sell rights. In the first case, the investor must pay €5,000 million for the subscription while in the second one it receives a Cash In of €1,250 million. In both cases, the total value of portfolio net of cash investment is €7,500 million.

Figure 12: Dilution mechanics in capital increase with Rights issue

<i>Status Quo</i>		
Initial Share Price (€)		15.00
Shares Outstanding (m)		1,000
Market Cap (€m)		15,000
New Shares Issued (m)		1,000
Issue Price (€)		10.00
Capital Increase Amount (€m)		10,000
TERP (€)		12.50
Value of Right (€m)		2.50
Investor A Initial Shareholding		
Position in Shares (m)		500
Value of Position (€m)		7,500
% of Capital (%)		50.00
New Shares A is Entitled to (m)		500
Value of Rights (€m)		1,250
<i>Options Available to Shareholder</i>		
	Investor A Subscribes	Investor A Sells Rights
Shares Subscribed (m)	500	0
Rights Sold (m)	0	500
Cost of Subscription (€m)	5,000	0
Cash In from Rights Sold (€m)	0	1,250
Final No. Of Shares Held (€m)	1,000	500
Value of Final No. Of Shares Held (€m)	12,500	6,250
Final % of Capital	50%	25%
Cash Investment	(5,000)	1,250
Total Value of Portfolio Net of Cash Investment (€m)	7,500	7,500

Source: personal elaboration on M. Morelli, Equity Markets and Alternative Investments course

Calculus are shown in Figure 12 above.

An ABB is a form of offering which involves offering shares, usually to institutional investors, in a short time period, with little to no marketing. The book build of the offering

⁴⁸ Borsa Italiana, TERP formula: COS'È IL TERP? Il Theoretical ex right price o prezzo teorico ex diritto
Source: <https://www.borsaitaliana.it/notizie/sotto-la-lente/prezzo-teorico-ex-diritto-133.htm>

is usually done very quickly, without the documentation needed for a classic book building and is often used when a company is in immediate need of financing. It is a placement executed over a few hours, generally at a small discount to the prevailing market price.⁴⁹ The ABB does not offer the chance to existing shareholders to exercise or buy the right to purchase new issued shares.

2.2.2 Dilution in SPACs: market/sponsor warrants and special shares

Italian SPACs have usually assigned market warrants for free to their investors at the time of the IPO but in the last years number of warrants offered is slightly decreased. The aim of this strategic choice is to discourage short-term investors who purchased shares with the aim of withdrawing or sell them on the market before the business combination completion keeping warrants in portfolio to gain on their appreciation. On the other hand, past experience tells us that SPACs have adopted different strategy to enhance their attractiveness but also to discourage opportunistic behaviors: Industrial Star of Italy and Space, for example, have assigned their warrants twice: the first time at the time of the initial offering and the second at the time of the business combination.⁵⁰

The exercise of market warrants is not an offering of new shares to the public or to existing shareholders, but the right warrant holders may use to increase their stake in the SPAC purchasing new issued shares paying the strike price. As just reported in the previous paragraph, market and sponsor warrants are respectively offered to investors and sponsors. While investors receive them within the units they buy at the time of the IPO (shares + warrant) sponsor warrants are usually assigned free and they are regulated by a document called “Regolamento sponsor warrant”. Market warrants of Italian SPACs usually provide the cashless exercise option, but there are some exceptions: Made in Italy 1, Industrial Stars of Italy and GreenItaly required to pay a little amount of cash called “prezzo di sottoscrizione azioni” to exercise warrants (“quasi cashless” conversion). Moreover, SPACs have also the chance to recall warrants if the share price increases and exceeds a certain value (cap) denying an excessive dilution as the consequence of warrants exercise. They fixed a sort of threshold called “prezzo soglia” to fix a maximum number of shares gettable by the conversion.⁵¹

⁴⁹ Investopedia, Accelerated Bookbuild

Source: <https://www.investopedia.com/terms/a/acceleratedbookbuild.asp>

⁵⁰ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, 2014

⁵¹ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, 2014

Obviously, in a typical conversion situation where warrant holders must pay to exercise their option, the exercise rate (how many shares for 1 warrant) is equal to one. Differently, the number of shares (N) provided by the cashless conversion is:

$$N = \frac{(\text{share price} - \text{strike price})}{\text{share price}}$$

If a threshold price is fixed by the SPAC,⁵² number of shares (Nt) is equal to:

$$Nt = \frac{(\text{threshold price} - \text{strike price})}{\text{threshold price}}$$

A different scenario is the case where SPACs ask to pay the “prezzo di sottoscrizione azioni” (called exercise price) to complete the conversion. In this case, the number of shares (Np) is equal to:

$$Np = \frac{(\text{share price} - \text{strike price})}{(\text{share price} - \text{exercise price})}$$

Share price is the market price of trading shares, strike price is the one you usually must pay exercising a warrant to receive company shares while the exercise price, as reported above, is a little amount of cash required by SPACs to exercise a warrant purchasing new shares or through a cashless conversion.⁵³

Furthermore, special shares conversion (held by promoters) can also dilute the share price of the company.

Special shares have the following features:

- they are not transferrable until the effective date of the business combination
- they do not have the chance to vote during ordinary and extraordinary shareholders' meeting and then they can't vote the approval or rejection of the business combination
- they do not receive dividends at the same time of investors of the SPAC (but at a certain period after the business combination)

⁵² And the share price is higher than the threshold

⁵³ *Ibidem*

- in case of SPAC liquidation, holders of special shares have the right to be refunded before ordinary shareholders⁵⁴

Dilution risk as the consequence of the special shares' conversion is usually reported by the "Documento di ammissione" or the "Prospetto informativo" at the time of the IPO. IDeaMI, for example, reported a list of possible risks investors can face in case of conversion in the fourth chapter of its Documento di ammissione. IDeaMI issued 875,000 special shares and fixed some conditions for a gradual conversion of them. Moreover, it simulates a computation of the dilution for ordinary shares in case of conversion of special shares and assuming a 30% of withdrawing as the consequence of the business combination (details will be deeply analyzed in the last chapter).

2.3 Voting dynamics

2.3.1 Legal framework and Board of Directors responsibilities

Italian SPACs are constituted as Joint Stock Companies ("Società per Azioni") and are included into the public company category. Previously, I have treated about their constitution, IPOs and business combination. Nevertheless, the completion of the combination needs to be approved from the shareholder' meeting following the rules of the country where they operate. However, SPACs listed on AIM (the non-regulated market of Borsa Italiana) and on MTA or MIV are subjected to different regulation. Companies listed on AIM are not subject to CONSOB supervision since they are not included among "società che fanno ricorso al mercato del capitale di rischio".

As follows a list of the key issues to take into consideration in the context of a business combination:

- Board of Directors structure and responsibilities
- voting dynamics and rules of the shareholders' meeting
- the withdrawal rights issue (the guarantee to SPACs investor to be refunded of their investments if they do not agree with the deal)
- the cashless exercise of warrants
- promoters' activities and guarantees

⁵⁴ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, 2014

- the applicability of the Takeover bid (“Offerta Pubblica di Acquisto – OPA”) discipline⁵⁵

The Board of Directors of the SPAC is involved in crucial decisions in the life of the vehicle like the scouting of the target firm and all administrative tasks to manage the company.

For what concerns the regulation of the BoD, SPACs listed in different markets follow different rules. MTA and MIV-listed companies are strictly regulated while AIM allows smaller, less-viable companies to float shares with a more flexible regulatory system than is applicable to the main market. The first ones, for example, are obliged to provide the “Relazione sul governo societario” and to explain the state of compliance with the Corporate Governance Code (“Codice di Autodisciplina”) provided by the committee for the Corporate Governance promoted by Borsa Italiana. The Corporate Governance Code is a document setting a series of rules like what the tasks of the BoD are and its composition, tasks of Independent directors, Internal committees’ mechanisms, appointments and remuneration of the Board and others.

As it is specified by the first Principle of the Code, the adoption and compliance of it is voluntary; moreover, as it is stated by the third one:

“each Italian company with listed shares adopting the Code shall provide in its corporate governance report and proprietary shareholdings (“Corporate Governance Report”) accurate, concise, exhaustive and easily understandable information on the manner through which each single recommendation contained in the principles and criteria has been effectively implemented during the period covered by the report”.⁵⁶

Because of the adoption of the Code, SPACs listed on MIV have a relevant number of Independent directors (Italy 1 Investment: 4 out of 9, Space1: 3 out of 8). Differently, SPACs listed on AIM have a lighter board structure and a not defined number of Independent members. Since promoters (or people which represent their interests) are usually members of the BoD, the presence of Independent directors could be a way to represent the interests of investors into the committee (also if they are often nominated before the IPO and then they are not directly expression of them). Independent directors play an active role to balance the activity of the executive committee (usually composed

⁵⁵ *Ibidem*

⁵⁶ Borsa Italiana – Regolamenti, Corporate Governance, Codice di Autodisciplina

Source: <https://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2018clean.pdf>

by promoters and dedicated to operating activities like the target company scouting). In the US, Nasdaq imposes that the choice of the target firm⁵⁷ will be submitted to the approval of the Independent directors' majority. It allows to deny any conflict of interest between promoters and the target.⁵⁸

Their engagement would enhance the way some decisions are taken by promoters denying conflict of interest between them and investors concerning: (i) the way funds are allocated during the scouting period, (ii) the choice of consultants to make the due diligence, (iii) the information folder approval and provided to the shareholders' meeting and (iv) the determination of the value of the withdrawal right.⁵⁹

Promoters are entitled to held deferred shares ("azioni postergate") and they usually would be encouraged to deposit funds with financial institutions with a doubtful rating but offering higher interest rates (hoping for higher capital gain). Deferred shares, indeed, are less affected by losses than ordinary ones and then can create conflict of interests (moral hazard) between investors and promoters. Moreover, the management team is usually employed in other jobs because they need for a secure inflow of cash in case the SPAC would not be able to carry out the business combination, giving no compensation to its managers. Possible conflicts of interest are usually clearly stated by the prospectus aiming to protect investors.⁶⁰ 'EPS Equita Pep' (an Italian SPAC listed on AIM in August 2017) reported the possibility of conflict of interest as follow:

"si segnala che tutti i membri del consiglio di amministrazione dell'Emittente esercitano attività imprenditoriali e/o professionali ulteriori rispetto all'attività svolta presso l'Emittente e, pertanto, sono portatori di interessi inerenti ad attività professionali non connesse a EPS. Gli stessi, inoltre, svolgono [...] attività simili a, ovvero potenzialmente in conflitto con, quelle dell'Emittente."⁶¹

For what concerns the due diligence process, promoters would be tempted to engage cheaper consultants or less qualified professionals. Generally, the management team will be careful to contain costs and increase revenues to be better refunded (of its capital at risk invested in the SPAC) in case of liquidation of the vehicle.

⁵⁷ Before being presented to the shareholders' meeting in order to approve the business combination

⁵⁸ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, 2014

⁵⁹ CONSOB sets a series of rules which in some cases are also strengthened by SPACs by-laws dispositions to regulate the conflict of interest among sponsors and acquired companies

⁶⁰ N. Michielotto, Special Purpose Acquisition Companies in Italy: an empirical analysis, 2017

⁶¹ EPS – Equita PEP SPAC – Investor relations, IPO, Documento di ammissione

Source: <http://www.epspac.it/wp-content-epssecure/uploads/2017/07/EPS-Documento-ammissione.pdf>

The determination of the value of the withdrawal right (especially for AIM-listed companies) is a direct responsibility of the BoD. As reported by the article 2437-*ter* of the Civil Code:

“Il valore di liquidazione delle azioni è determinato dagli amministratori, sentito il parere del collegio sindacale e del soggetto incaricato della revisione legale dei conti, tenuto conto della consistenza patrimoniale della società e delle sue prospettive reddituali, nonché dell'eventuale valore di mercato delle azioni”.⁶²

Hence, they would be tempted to undervalue the right discouraging the go out of the operation. For those companies listed on MIV or MTA the article adds more detailed rules providing clear indications to directors.

2.3.2 Shareholders' Meeting mechanics and voting dynamics

The approval of the combination from the shareholders' meeting is a milestone of the business combination. If the general meeting approves it and the financing and other conditions specified in the acquisition agreement are satisfied, the business combination will be consummated, and the SPAC and the private firm will combine into a new publicly traded operating company.⁶³ The ordinary and extraordinary sessions of the shareholders' meeting must be called to vote several issues which need the green light of both the assemblies.

As it is stated by the article 2364 of the Civil Code, the ordinary assembly is summoned for voting on the ordinary issues and activities of the company. It is involved in the following tasks:

“[...] approva il bilancio; nomina e revoca gli amministratori; nomina i sindaci e il presidente del collegio sindacale; e, quando previsto, il soggetto incaricato di effettuare la revisione legale dei conti; determina il compenso degli amministratori e dei sindaci, se non è stabilito dallo statuto; delibera sulla responsabilità degli amministratori e dei sindaci; delibera sugli altri oggetti attribuiti dalla legge alla competenza dell'assemblea, nonché sulle autorizzazioni eventualmente richieste dallo statuto per il compimento di

⁶² Civil Code, art. 2437-ter

⁶³ Harvard Law School Forum of Corporate Governance and Financial Regulation, Special Purpose Acquisition Companies: An Introduction
Source: <https://corpgov.law.harvard.edu/2018/07/06/special-purpose-acquisition-companies-an-introduction/>

atti degli amministratori, ferma in ogni caso la responsabilità di questi per gli atti compiuti; approva l'eventuale regolamento dei lavori assembleari”.⁶⁴

Private companies involved in a business combination are usually held by a majority shareholder (directly involved in the negotiation with promoters). On the other hand, SPAC investors are called to approve the combination and the success of the vote would not be taken for granted. Investors must decide about the purchase and the merger with the target, valuing growth perspective, capital gains from the investment, profitability of the company and all the consequences of the acquisition. An investor presentation is usually prepared from the SPAC and the target to educate investors and to present the combination. It is mainly focused on describing the deal and the business of the firm and it may include an introduction⁶⁵, key investment highlights, key financials (Revenues, EBITDA, EBIT, Net Income and CAPEX) and the transaction overview (timeline, corporate valuation and the shareholding structure pre and post-merger). It should help investors to consciously decide about the approval or the rejection of the business combination.

In addition, the combination needs to be approved from the extraordinary meeting. The Civil Code (art. 2365) requires the favorable vote of EGM to approve the following issues:

“L'assemblea straordinaria delibera sulle modificazioni dello statuto, sulla nomina, sulla sostituzione e sui poteri dei liquidatori e su ogni altra materia espressamente attribuita dalla legge alla sua competenza”⁶⁶

Hence, the approval of the “progetto di fusione” (merger plan) drafted by the BoD of the SPAC and the target, pursuant the article 2501-ter of the Civil Code, must be approved by the extraordinary assembly since it always includes some modifies to the bylaw of the companies involved in the combination and other extraordinary items not included in the competences of the OGM.

Space3 called the ordinary and extraordinary shareholders' meeting sessions on April 16th, 2018 to approve the business combination with Aquafil publishing the notice of call reported below. As it is stated by the second point, the extraordinary session was convoked to approve the merger plan (in this case merger for incorporation, or “fusione per incorporazione” of Aquafil into Space3) which implied the modify of the company

⁶⁴ Civil Code, art. 2364

⁶⁵ Describing company business

⁶⁶ Civil Code, art. 2365

bylaw, the social object and the statutory purpose.^{67 68} As regards the vote of the ordinary meeting, the first point sets the need of approving the use of funds raised by the SPAC to take in place the acquisition of Aquafil.

Figure 13: Space3 agenda of the shareholders' meeting of April 2018

ORDINE DEL GIORNO

1. In sede ordinaria, autorizzazione del Consiglio di Amministrazione all'esecuzione dell'operazione di integrazione societaria tra Space3 S.p.A. e Aquafil S.p.A. quale "Operazione Rilevante" ai sensi dell'art. 3.2 dello statuto di Space3 S.p.A., ai sensi e per gli effetti dell'art. 2364, comma 1, n. 5 c.c. e come richiesto dall'art. 8.2 paragrafo (i) dello statuto di Space3 S.p.A. Delibere inerenti e conseguenti, ivi inclusa l'autorizzazione del Consiglio di Amministrazione all'utilizzo delle somme depositate sui conti correnti vincolati costituiti da Space3 S.p.A. ai sensi del Regolamento dei mercati organizzati e gestiti da Borsa Italiana S.p.A., come richiesto dall'art. 8.2. paragrafo (ii) dello statuto di Space3 S.p.A..
2. In sede straordinaria, approvazione del progetto di fusione per incorporazione di Aquafil S.p.A. in Space3 S.p.A.. Deliberazioni inerenti e conseguenti, ivi incluse le modificazioni statutarie derivanti, anche ai sensi e per gli effetti dell'articolo 49, comma 1, lett. g) del Regolamento adottato con delibera Consob n. 11971/99 ai fini dell'esenzione dall'obbligo di offerta pubblica di acquisto totalitaria.
3. In sede ordinaria, approvazione del progetto di ammissione alle negoziazioni sul Mercato



- Telematico Azionario organizzato e gestito da Borsa Italiana S.p.A. delle azioni ordinarie e dei "Market Warrant Space3 S.p.A.". Deliberazioni inerenti e conseguenti.
4. In sede straordinaria, autorizzazione alla richiesta di esclusione dalle negoziazioni sul Mercato Telematico degli *Investment Vehicles* delle azioni ordinarie e dei "Market Warrant Space3 S.p.A.", subordinatamente al rilascio del provvedimento di ammissione dei medesimi strumenti finanziari sul Mercato Telematico Azionario organizzato e gestito da Borsa Italiana S.p.A.. Deliberazioni inerenti e conseguenti.
 5. In sede ordinaria, nomina del Consiglio di Amministrazione (previa determinazione del numero dei componenti), determinazione della durata in carica e degli emolumenti dei componenti del Consiglio di Amministrazione, il tutto con decorrenza dalla data di efficacia della fusione per incorporazione di Aquafil S.p.A. in Space3 S.p.A.. Deliberazioni inerenti e conseguenti.

⁶⁷ Space3 – Investor relations, General meetings, Avviso di convocazione assemblea ordinaria e straordinaria
Source: https://www.space3spa.com/static/upload/be-/be-3791344_1_space3---avviso-convocazione-assemblea.PDF

⁶⁸ The article 2365 of the Civil Code imposes the approval of the extraordinary assembly in case of modification of the company bylaw

6. In sede ordinaria, rinuncia all'azione di responsabilità ai sensi dell'art. 2393 c.c. nei confronti degli amministratori dimissionari. Deliberazioni inerenti e conseguenti.

Source: Space3 – General meetings, Avviso di convocazione assemblea ordinaria e straordinaria

The aim of SPACs promoters is that the number of shareholders who take part in the meeting will be as higher as possible. The main goal of reaching broad participation in the vote is to deny the rejection of the business combination. The completion of the combination, indeed, may find two different kinds of hurdles: shareholders' meeting may not reach the quorums needed to approve the transaction or, alternatively, a high number of investors could withdraw their funds from the SPAC.⁶⁹

Constitutive and deliberative quorums of the shareholders' meeting are set from the legislation depending on whether it is ordinary or extraordinary sessions (and first or second call). As it is stated by the article 2368 of the Civil Code, the ordinary meeting must comply with the following rules:

“L'assemblea ordinaria è regolarmente costituita quanto è rappresentata almeno la metà del capitale sociale, escluse dal computo le azioni prive del diritto di voto nell'assemblea medesima. Essa delibera a maggioranza assoluta, salvo che lo statuto richieda una maggioranza più elevata. Per la nomina alle cariche sociali lo statuto può stabilire norme particolari.”⁷⁰

The constitutive quorum of the ordinary assembly is (at least) the presence of the 50% of the share capital and the one to pass solutions is the absolute majority of voting shareholders (the bylaw may impose a higher quorum). If the assembly is not regularly constituted at the time of the vote, it may be called again (“seconda convocazione”). In this case, the legislator does not impose a constitutive quorum, but the deliberative one is the 50% + 1 of voting shares.

As it follows the dispositions of the article 2368 (Civil Code) concerning the vote of the EGM:

“L'assemblea straordinaria delibera con il voto favorevole di [tanti soci che rappresentino] più della metà del capitale sociale, se lo statuto non richiede una maggioranza più elevata.

⁶⁹ M. Fumagalli, *Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa*, 2014

⁷⁰ Civil Code, art. 2368

Nelle società che fanno ricorso al mercato del capitale di rischio l'assemblea straordinaria è regolarmente costituita quando è rappresentata almeno la metà del capitale sociale o la maggiore percentuale prevista dallo statuto e delibera con il voto favorevole di almeno i due terzi del capitale rappresentato in assemblea.”⁷¹

AIM-listed companies and the ones listed on a regulated stock exchanges must comply with different majorities. As regards the first group, the law does not provide for the constitutive quorum of the EGM while the deliberative one is the share capital majority (and, as the consequence, the assembly is regularly constituted if the presence of the share capital majority is reached). Furthermore, the constitutive and deliberative quorum in second call shall be considered met with the favorable vote of more than 1/3 of the share capital.⁷²

For the second group, the constitutive quorum in the first call is the 50% or more of the share capital, and the deliberative one is 2/3 of the share capital voting. For the second call, the assembly is validly constituted if the number of members participating is higher than 1/3 of the share capital and the resolution is valid with the favorable vote of at least the 2/3 of them (shareholders that participate to the assembly).

Voting dynamics and majorities are decisive for the business combination approval or rejection as it is happened for IDeaMI/Agrati business combination that was rejected because the EGM (in second call) did not reach the deliberative quorum (1/3 of the share capital voting in favor with the merger plan).

2.4 Withdrawal rights issue

2.4.1 What the right of withdraw is and how it works

A withdrawal involves removing funds from a bank account, savings plan, pension or trust. In some cases, conditions must be met to withdraw funds without penalization, and penalization for early withdrawal usually arises when a clause in an investment contract is broken.⁷³ Withdrawal right is a unique guarantee offered to investors who disagree with the business combination. Basically, once the target is selected by the sponsors, the

⁷¹ Civil Code, art. 2368

⁷² “per le deliberazioni concernenti il cambiamento dell'oggetto sociale, la trasformazione della società, lo scioglimento anticipato, la proroga della società, la revoca dello stato di liquidazione, il trasferimento della sede sociale all'estero e l'emissione delle azioni di cui al secondo comma dell'articolo 2351”

⁷³ Investopedia, Withdrawal

Source: <https://www.investopedia.com/terms/w/withdrawal.asp>

shareholders' meeting of the SPAC is called to decide whether to approve or not the combination. Those investors who voted against the approval and those who abstained from the vote can exercise the “withdrawal right” that allows them to withdraw from the investment and to get back their funds.⁷⁴ Investors dissenting on the proposed business combination can withdraw their investment even if the transaction is approved by the majority of shareholders and go through. Similarly, in case the SPAC would be unable to carry out a combination by the time limit, the company would be liquidated, and investors receive their share of proceeds.⁷⁵

The right of withdraw could be also a mandatory condition for the completion of the deal. Indeed, a cash outflow as the consequence of withdrawals accounting for less than a certain percentage of the amount raised at the time of the IPO is usually one of the minimum requirements for the approval of the combination.

As regards the regulation of the right of withdraw in Italy, we must consider the article 2437 (and the following ones) of the Civil Code. The first comma says:

“Hanno diritto di recedere, per tutte o parte delle loro azioni, i soci che non hanno concorso alle deliberazioni riguardanti:

- la modifica della clausola dell'oggetto sociale, quando consente un cambiamento significativo dell'attività della società
- la trasformazione della società
- il trasferimento della sede sociale all'estero
- la revoca dello stato di liquidazione
- l'eliminazione di una o più cause di recesso previste dal successivo comma ovvero dallo statuto
- la modifica dei criteri di determinazione del valore dell'azione in caso di recesso
- le modificazioni dello statuto concernenti i diritti di voto o di partecipazione”⁷⁶

As reported by the first point, the right of withdraw can be exercised by shareholders who do not vote in favor or abstained from the vote to change the social object (“oggetto sociale”) of a company. Usually, the bylaw of each SPAC includes an article defining the social object of the company and any possible changes of it in case of the completion of the relevant operation. Since the merger of the SPAC with the target company involves

⁷⁴ Space Holding, What is a SPAC?

Source: <https://www.spaceholding.it/en/spac.html>

⁷⁵ Investor presentation SPACTIV, SPAC overview - Pros for SPAC investors

Source: <https://bebeez.it/files/2017/09/Spactiv-Presentazione.pdf>

⁷⁶ Civil Code, art. 2437

the modification of the social object of the vehicle, shareholders' meeting in extraordinary session must approve this item. Consequently, those who do not approve this issue have the right to withdraw their funds from the investment.

The value of the right of withdraw is set following the dispositions of the article 2437. Companies listed on a regulated stock exchange must compute the value doing the average of the share prices (at the end of each trading day) of the six months before the publication of the call for the shareholders' meeting⁷⁷ taking a decision concerning the business combination. In case the value of the right diverges from the value of funds raised with the offering and held in segregated escrow, SPACs must face a problem of lack of funds and may include within their bylaw different terms which regulate the refund value.

SPACs listed on AIM have different rules for setting the value of the right of withdraw. Regulators imposed the value shall be determined by company directors taking account of corporate survival and asset, revenues perspective and, eventually, the market value of the company (looking at the share price and the market capitalization). Moreover, the article 2437 states that bylaw may set different criteria to compute a more appropriate value of refund.

Article 8 of the bylaw of Innova Italy 1 S.p.A. (€100 million SPAC listed on AIM in October 2016) shows the way through which the right of withdraw could be exercised.⁷⁸

Figure 14: Article 8 of Innova Italy 1 bylaw

ARTICOLO 8.	
8.1	Il socio può recedere nei casi previsti dalla legge.
8.2	Il valore di liquidazione delle azioni è determinato ai sensi dell'art. 2437-ter, comma 2, del codice civile, salvo quanto previsto al successivo paragrafo 8.3.
8.3	Ai fini della determinazione del valore di liquidazione delle azioni, qualora il recesso venga esercitato prima che la Società abbia perfezionato l'Operazione Rilevante, il Consiglio di Amministrazione (ovvero l'esperto nel caso di cui all'art. 2437-ter, comma 6, del codice civile) attesa la natura della Società fino a tale data, dovrà applicare il criterio, essendo esso coerente con quanto previsto dall'art. 2437-ter, commi 2 e 4, del codice civile, della consistenza patrimoniale della Società e, in particolare, delle somme depositate sul Conto Corrente Vincolato.
8.4	I soci hanno diritto di conoscere la determinazione del valore di liquidazione delle azioni ai fini del recesso almeno 15 (quindici) giorni prima della data fissata per l'Assemblea chiamata a deliberare su una materia per la quale sia previsto il diritto di recesso.

Source: Innova Italy 1 – Documenti societari, Statuto

⁷⁷ In case its deliberations involve the chance of exercise the right of withdraw

⁷⁸ Innova Italy 1 – Documenti societari, Statuto

Source: <http://www.innovaitaly1.it/wp-content/uploads/2016/10/Stututo.pdf>

As reported by first comma, investors can withdraw their funds in accordance with the law and the value of withdraw is calculated following the dispositions of the article 2437-ter of the Civil Code. Furthermore, the third one says in case the right would be exercised before the completion of the combination, the BoD must determine the value in accordance with the law and applying the criteria of the survival ad assets (“consistenza patrimoniale”) of the company and consistently with value of the sums deposited on the company’s escrow account.

Once investors exercised the right and its value is established, capital reimbursement involves a cash outflow from the SPAC and the amount of the investment is resized.

If withdrawn shares exceed a certain percentage of the capital of the SPAC, it might be the cause for the failure of the combination. This is the case of Capital For Progress 2 which proposed to complete the combination with ABK (ABK Group Industrie Ceramiche S.p.A.) but was not able to make a success of the deal. The shareholders’ meeting of Capital For Progress 2 expressed a favorable vote for the business combination but the 57.38% of the share capital exercised the right of withdraw (30% was the threshold set as a mandatory condition for the completion of the transaction). As the consequence of a too high number of funds withdrawn from the investment, SPAC promoters tried to sell the company’s refunded shares on the market, but unfortunately, they did not reach enough offers to repay the capital withdrawn. Hence, the framework agreement between the SPAC and ABK Group was dissolved, and investors were refunded.⁷⁹

⁷⁹ Capital For Progress – Press, Comunicati stampa, Accordo quadro con ABK
Source: <http://www.capitalforprogress.it/wp-content/uploads/2019/02/2019-02-01-Press-Release.pdf>

CHAPTER 3 – CASE STUDY: THE SUCCESSFUL TRANSACTIONS OF SPACE HOLDING AND THE REJECTION OF THE DEA CAPITAL/AGRATI BUSINESS COMBINATION

3.1 Space3/Aquafil business combination

3.1.1 Space3 constitution and demerger from Space2

Space Holding is an investment firm founded in 2013 by experienced professionals⁸⁰ in investment banking, private equity and corporate law industries, with the goal of supporting the development of Italian high-growth potential companies willing to open their capital through a listing in the short/medium term.⁸¹ It promoted four different SPACs listed on the Milan Investment Vehicles stock exchange, organized and managed by Borsa Italiana S.p.A. (MIV) and successfully completed their relevant combination with Avio, Fila, Aquafil and Guala Closures. Since the successful experience of Space Holding, the aim of this chapter is to analyze the Space3 and Space4 IPOs/Demerger and business combination with a focus on the items previously discussed: constitution, units and warrants, dilution, voting dynamics of the shareholders' meeting and withdrawal right.

Space3 is the third SPAC promoted by Space Holding, a five senior advisors' team with significant and complementary professional backgrounds (Sergio Erede, Roberto Italia, Gianni Mion, Carlo Pagliani and Edoardo Subert). Space3 demerged from Space2 in 2017, it was listed on the regulated market for investment vehicles, the MIV and with c. €153 million of cash it was the largest Italian SPAC (in April 2017).

Its aim was to find a company that is an example of Italian industrial excellence and interested in opening its capital to institutional investors through the listing of its shares on the stock exchange.⁸² Space Holding focused on leading Italian companies in their niche sector, with global presence and strong competitive positioning to accelerate their growth prospects and to support their journey towards the capital market, by granting the alignment of interests among investors, entrepreneurs and Space Team.⁸³ Space3 has

⁸⁰ With a proven track record in enhancing the shareholder value of public and privately-owned companies

⁸¹ Space Holding, Company Team Contacts
Source: <https://www.spaceholding.it/en/index.html>

⁸² Space3, Space3 S.p.A.
Source: <https://www.space3spa.com/space3-s-p-a.html>

⁸³ Space Holding, Company Team Contacts
Source: <https://www.spaceholding.it/en/chi-siamo.html>

attracted investments from wealthy Italian entrepreneurial families and from high-profile Italian and foreign institutional investors.

At the time of the demerger, Space3 received €152,797,144 of cash from Space2 (in addition to €50,000 of share capital: 5,000 ordinary shares with €10 per share book value, already paid by Space2 at the time of Space3 constitution). As the consequence of the capital increase of €15,372,500 (functional to the merger with Aquafil) through the issue of 14,995,000 ordinary shares and 400,000 special shares (meant to SPAC promoters) the total amount of shares was 15,400,000 (15 million of ordinary ones and 400,000 of special ones).⁸⁴ Space3 shareholders equity at the first semester of 2017 was 151,748,332 (€15,422,500 share capital, €137,421,644 capital reserve and capital loss for 1,095,812).⁸⁵

Figure 15: Capital structure of Space3 after the demerger operation

A seguito dell'operazione di scissione parziale e proporzionale di Space2 S.p.A., avvenuta in data 5 aprile 2017, il capitale sociale di Space3 è pari a Euro 15.422.500, con n. 15.400.000 azioni complessive di cui n. 400.000 speciali, queste ultime possedute dalla società Space Holding S.r.l..

Dalla suddetta operazione straordinaria, la Società ha ricevuto liquidità per Euro 152,8 milioni (oltre al capitale iniziale di costituzione di Euro 50 mila). Tali somme sono state depositate per un ammontare pari al 98,5% dei proventi complessivi della scissione, ovvero Euro 150,5 milioni, in conti vincolati presso primarie istituzioni finanziarie (fiduciariamente intestati alla società SPAFID S.p.A.). Tali somme costituiscono le "Somme Vincolate" utilizzabili dalla Società esclusivamente previa autorizzazione dell'assemblea, allo scopo di effettuare l'Operazione Rilevante.

L'ammontare pari al 1,5% dei proventi complessivi dell'operazione di scissione (Euro 2,3 milioni), unitariamente alle risorse iniziali, pari ad Euro 50 mila, rappresentano invece le cosiddette "Somme Utilizzabili". Le Somme Utilizzabili rappresentano le risorse a disposizione del management per finanziare, oltre le spese di funzionamento della Società (i.e. le spese generali ed amministrative), le attività inerenti il perseguimento dell'oggetto sociale quali i costi di ricerca, selezione, due diligence sulla potenziale società Target ed esecuzione dell'Operazione Rilevante.

Source: Space3 – Financial reports, Relazione finanziaria semestrale al 30 giugno 2017

The pre-business combination Space3 shareholding was⁸⁶: (i) Multilabel Sicav: 7.07%; (ii) Del Vecchio Leonardo: 6.00%; (iii) Pioneer Investment Management Sgr: 5.00%⁸⁷ and 81.93% was held by the market. The shareholding composition reported above was the same of the Space2 one since the operation of demerger did not affect the shareholding of the SPAC.

⁸⁴ Space3 – Demerger, Progetto di scissione

Source: <https://www.space3spa.com/en/investor-relations/demerger.html>

⁸⁵ Space3 – Financial reports, Relazione finanziaria semestrale al 30 giugno 2017, p. 4

Source: <https://www.space3spa.com/static/upload/spa/space-3-bilancio-sem-300617.pdf>

⁸⁶ Shareholders with more than the 5% of the share capital;

⁸⁷ Space3 – Demerger, Relazione del consiglio di amministrazione di Space3 S.p.A. sul progetto di scissione parziale e proporzionale di Space2 S.p.A. in favore di Space3 S.p.A.

Source: <https://www.space3spa.com/static/upload/10/10.-aggiornamento-relazione-cda-space3---scissione.pdf>

Moreover, subsequently to the demerger plan (“Progetto di Scissione”) approval by the shareholders’ meeting of Space3, the vehicle presented the request for admission to listing on the MIV stock exchange for their shares and warrants to the Italian authorities. The admission to listing approval, in fact, is a mandatory condition for the completion of the demerger and for being listed on a regulated market.

At the end of March 2017, Borsa Italiana S.p.A. and CONSOB authorized the admission to trade on the MIV of ordinary shares and market warrants issued by Space3 at the time of the demerger. Since April 5th, 2017, ordinary shares and market warrants of Space3 started trading on the MIV.⁸⁸

3.1.2 Units, warrants and the exercise mechanics

Space3 issued 15,000,000 ordinary shares, 400,000 special shares, 3,750,000 market warrants (assigned to shareholders with a ratio of 1 warrant every 4 ordinary shares) which traded separately from ordinary shares on the MIV. Moreover, shareholders had the right to receive 3,750,000 warrants more at the time of the business combination (1 warrant every 4 ordinary shares).

In addition, the extraordinary shareholders’ meeting of the company approved a capital increase (with no rights issue) of 2,034,885 shares (Azioni di Compendio, €0.10 each: €203,488.50) to serve market warrants. They were regulated by the “Regolamento dei market warrant Space3 S.p.A.”.⁸⁹ As reported in the second chapter (dilution mechanics paragraph) formula used by the SPAC to calculate the number of shares to assign for each warrant was:

$$Np = \frac{(\text{monthly average share price} - \text{strike price})}{(\text{monthly average share price} - \text{exercise price})}$$

The monthly average share price (Prezzo Medio Mensile) is the arithmetic average of daily trading share prices registered during the exercise period; the strike price (Prezzo Strike) was €9.5 per share while the exercise price (Prezzo di Sottoscrizione) is the one at which warrants holders may underwrite the Azioni di Compendio (€0.10 for each Azione di Compendio). Since Space3 set a threshold price for the exercise of market

⁸⁸ Space3 – Investor relations, Press Releases

Source: <https://www.space3spa.com/en/press/press-releases/scissione-parziale-e-proporzionale-di-space2-s-p-a-a-favore-di-space3-s-p-a-provvedimento-di-borsa-italiana.html>

⁸⁹ Terms and conditions are reported by the third point of it

warrants (Prezzo di Accelerazione) the formula used to calculate the number of shares assigned for each warrant in case the share price would be higher than €13.0 was:

$$Nt = \frac{(\text{threshold price} - \text{strike price})}{(\text{threshold price} - \text{exercise price})}$$

The aim of offering market warrants is to attract investors giving them the chance to secure a capital gain while remaining invested into the SPAC until and beyond the completion of the business combination. Space3 market warrants can be exercised by warrant holders until a time-limit (“Termine di Decadenza”) which is the first date among the first trading day after five years since the efficacy of the business combination or the first trading day after 60 days since the publication of the Comunicazione di Accelerazione (the communication through which the SPAC informs warrant holders that the monthly average price is equal or higher than the threshold one). Market warrants that will not be exercised until the time limit will become worthless.⁹⁰

Moreover, Space3 issued 800,000 sponsor warrants assigned to its promoters (€13.0 strike price)⁹¹ and the extraordinary assembly approved a capital increase of €10,400,000 issuing at most 800,000 ordinary shares (Azioni di Compendio) to enable the exercise of them.⁹² Differently from market warrants, they gave the right to underwrite one (1) Azione di Compendio paying the strike price and diluting the ownership of company shareholders. Sponsor warrants and special shares are tools to remunerate SPAC promoters and are strictly linked to the performance of the company (post-business combination).

As reported by the “Documento Informativo” of Space3, it assigned 400,000 special shares to its promoters giving them the right to get 4.5 ordinary shares from each special one. They can be exercised after the completion of the business combination and contingent on certain conditions to be met.

⁹⁰ Space3 – Corporate Governance, Corporate documents, Regolamento dei “market warrant Space3 S.p.A. Source: <https://www.space3spa.com/en/corporate-governance/corporate-documents.html>

⁹¹ They are regulated by the “Regolamento dei sponsor warrant Aquafil S.p.A.”

⁹² In the context of this offering any right issue can be exercised by company shareholders



3.1.3 Space3/Aquafil business combination

From April 5th, 2017, Space3 shares and warrants started to trade on the MIV stock exchange and the business combination process with Aquafil began. Once Aquafil was chosen as target company by promoters and the deal was approved by the Board of Directors of Space3, the ordinary and extraordinary shareholders' meeting was called by the BoD to approve the business combination and the merger plan.

Business combination transaction and voting dynamics

The business combination can be divided into two steps occurring simultaneously upon merger completion. The acquisition: Space3 acquired 24% interest in Aquafil from Aquafin Capital S.p.A. (for a total cash consideration of €108 million and €450 million EqV) and the reverse merger of Aquafil into the SPAC.⁹³ At the time of the business combination Aquafin Capital shareholding was: Aquafin Holding: 85.4%; TH IV: 9.0%; TH Fides: 4.5%; La Finanziaria trentina 1.2%.⁹⁴

Table 3: Aquafil and Space3 pre-business combination shareholding

Pre-business combination shareholding					
					
Ordinary shares			Ordinary shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
Aquafin Capital	100.00	26,542,000	Multilabel SICAV	7.07	1,060,500
			Del Vecchio Leonardo	6.00	900,000
			Pioneer Inv. Mgmt Sgr	5.00	750,000
			Market	81.93	12,289,500
<i>Total</i>	100.00	26,542,000	<i>Total</i>	100.00	15,000,000
Special shares			Special shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
-	-	-	Space Holding	100.00	400,000
-	-	-			
<i>Total</i>	-	-	<i>Total</i>	100.00	400,000

Source: Space3 – General meetings, Progetto di fusione

Ordinary and extraordinary shareholders' meeting was called to approve the business combination and the merger plan voting about six issues as it is laid down by the notice of call of the assemblies (published on Milano Finanza). The ordinary meeting must

⁹³ Space3 – Investor relations, Business Combination, Comunicato stampa: 15 giugno 2017

Source: <https://www.space3spa.com/static/upload/spa/space3--comunicato-14-giugno-2017n.pdf>

⁹⁴ Space3 – Investor relations, Business Combination, Investor presentation

Source: <https://www.space3spa.com/static/upload/201/201706-project-water---investor-presentation-v197.pdf>

approve (as we can read in Figure 13 - second chapter): (#1) the use of funds raised by the SPAC to take in place the acquisition of Aquafil; (#3) the trading admission project of the ordinary shares and market warrants of Space3 on the MTA stock exchange (#5) the appointment of the Board of Directors of the new company as resulting from the merger between Aquafil and Space3 and (#6) the waiver to a notice of discontinuance (“Rinuncia all’azione di responsabilità”) for the resigning members of the Board of Directors. Furthermore, the extraordinary meeting must approve (#2) the project of the reverse merger of Aquafil into Space3 and (#4) the authorization of the exclusion the trading of Space3 ordinary shares from the MIV market (subordinated to the approval of the third issue by the ordinary meeting).⁹⁵

Shareholders’ meeting of Space3 (Joint Stock Company listed on a regulated stock exchange) approved each issue in the first call. Voting results are reported in Table 4. Share capital voting in the assembly was higher than 60% of the total (15,000,000 shares) and shares capital voting in favor too.⁹⁶

Table 4: Voting results of the ordinary and extraordinary assembly – Space3

Shareholders meeting outcome						
	#1		#2		#3	
	Number of shares	%	Number of shares	%	Number of shares	%
<i>Votes in favor</i>	10,075,807	99.90	10,075,807	99.90	10,070,807	99.90
<i>Votes against</i>	10,414	0.10	10,414	0.10	10,414	0.10
<i>Abstained</i>	0	0.00	0	0.00	0	0.00
<i>Total</i>	10,086,221	100.00	10,086,221	100.00	10,081,221	100.00
Share capital voting		67.24		67.24		67.21
Share capital voting in favour		67.17		67.17		67.14
	#4		#5a and #5b		#6	
	Number of shares	%	Number of shares	%	Number of shares	%
<i>Votes in favor</i>	10,070,807	99.90	9,720,790	96.42	9,090,873	96.19
<i>Votes against</i>	10,414	0.10	10,414	0.10	360,431	3.81
<i>Abstained</i>	0	0.00	350,017	3.47	0	0.00
<i>Total</i>	10,081,221	100.00	10,081,221	100.00	9,451,304	100.00
Share capital voting		67.21		67.21		63.01
Share capital voting in favour		67.14		64.81		60.61

Source: personal elaboration on Space3 – General meetings, Rendiconto sintetico delle votazioni ai sensi dell’art. 125-quater, comma 2 del D. Lgs. 58/1998

On July 31st, 2017 - Space3 announced that the shareholders’ meeting of Aquafil approved the merger plan and the business combination. Space3 shareholders who do not

⁹⁵ Space3 – Investor relations, General meetings, Avviso di convocazione assemblea ordinaria e straordinaria
Source: https://www.space3spa.com/static/upload/be-/be-3791344_1_space3---avviso-convocazione-assemblea.PDF

⁹⁶ Space3 – General meetings, Rendiconto sintetico delle votazioni ai sensi dell’art. 125-quater, comma 2 del D. Lgs. 58/1998

Source: https://www.space3spa.com/static/upload/201/2017-07-28_rendiconto-sintetico.pdf

agree with the merger (i.e. shareholders not attending the shareholders' meeting or voting against the motion or abstaining) were entitled to exercise, from July 31 until August 15, 2017 (inclusive), the right to withdraw in accordance with: (a) article 2437, paragraph 1 letter (a) of the Civil Code, as the adoption of the new bylaw by the company resulting from the merger will significantly change company activities; and (b) article 2437, paragraph 2, letter (a) of the Civil Code, as the adoption of the new bylaw by the company resulting from the merger will extend the duration of the company until December 31, 2100.⁹⁷

Moreover, the unitary liquidation value of ordinary shares was established to €10.739 per share, according to the criteria set out by the Article 7 of Space3 bylaw and in accordance with article 2437-ter, paragraph 3, second point of the Civil Code. In order to exercise the right to withdraw, shareholders must: have held the shares upon which withdrawal is exercised at the time of the shareholders' meeting; not have agreed with the shareholders' meeting approval; and have held such shares uninterruptedly from the shareholders' meeting to the date on which the right to withdraw is exercised.⁹⁸

Liquidation procedure for shares for which the right to withdraw has been exercised must follow these steps: (i) firstly, shares shall be offered as options to other Space3 shareholders in proportion to the number of shares held by each; alongside the exercise of the options, shareholders shall have the right to exercise a pre-emption right on ordinary shares which may remain unopted; (ii) secondly, where on conclusion of the rights option residual ordinary Space3 shares remain unopted and for which the pre-emption right is not exercised by shareholders, in accordance with an agreement signed on June 15, 2017 between Space3 and Quaestio Capital SGR S.p.A. ("Quaestio"), these shares shall be acquired by Quaestio at a price per share equal to the unitary liquidation value established for withdrawal up to a maximum total value of Euro 20,000,000; (iii) finally, where on the outcome of the processes at points (i) and (ii) above, residual ordinary Space3 shares subject to the exercise of the right to withdraw exist, these shares shall be directly acquired by Space3 through the utilization of available reserves, without placement on the market.⁹⁹

Since any shareholder exercised its right to withdraw until the time limit, the business combination was completed with success and any share was refunded.

⁹⁷ Space3 – News, Press Releases, Manner and conditions for exercise of right to withdrawal on Space3 S.p.A. shares
Source: <https://www.space3spa.com/en/press/press-releases/modalita-e-termini-per-l-esercizio-del-diritto-di-recesso-spettante-agli-azionisti-ordinari-di-space3-s-p-a.html>

⁹⁸ *Ibidem*

⁹⁹ Space3 – News, Press Releases, Manner and conditions for exercise of right to withdrawal on Space3 S.p.A. shares
Source: <https://www.space3spa.com/en/press/press-releases/modalita-e-termini-per-l-esercizio-del-diritto-di-recesso-spettante-agli-azionisti-ordinari-di-space3-s-p-a.html>

Aquafil: Valuation, pre and post-business combination shareholding and dilution mechanics

Given the complexity of the business combination, Space3 and Aquafil prepared an investor presentation aiming to educate about the target and the transaction. Aquafil is engaged in nylon fibers and polymers production, offering flooring solutions as well as fashion and sportswear textile applications.¹⁰⁰ Bonazzi family (Aquafin Holding) is the majority shareholder of the company and Giulio Bonazzi is its Chairman and CEO.

2016 Aquafil Revenues were €483 million of which 47% in Europe; 21% Italy; 17% in the USA; 11% in Asia and Oceania and 6% in the Rest of the World.¹⁰¹ Aquafil 2017 expected (2017E) Revenues were c. €525 million and 13.6% EBITDA margin (€71.5 million). 2017E Net Financial Position Pro-Forma at the Business Combination was 1.7x EBITDA (c. €121.6 million of debt).

Aquafil estimated Enterprise Value (EV) was €615 million. Implied multiples on 2017 financials were:

- EV/EBITDA multiple: c. 8.6x
- EV/EBIT multiple: c. 13.8x
- P/E multiple: c. 17.6x

From the EV formula, we can compute the EqV of the company.

$$EV = \text{Equity Value} + \text{Net Financial Position} + \text{Minority Interests} - \text{Associates}$$

Given Aquafil Minority Interests and Associates were nil, the Equity Value was equal to EV – Net Financial Position. Net Financial Position is Cash and Bank Deposit – Financial Debt (i.e. 2016A Net Financial Position = 55.0 – 242.5 = -187.5 million).

2017E Net Financial Position was equal to €165 million and Aquafil 2017E EqV was: 615 – 165 = €450 million¹⁰² (cash consideration paid from Space3 to Aquafin Capital S.p.A. for the 24% interest acquisition was €108 million).¹⁰³

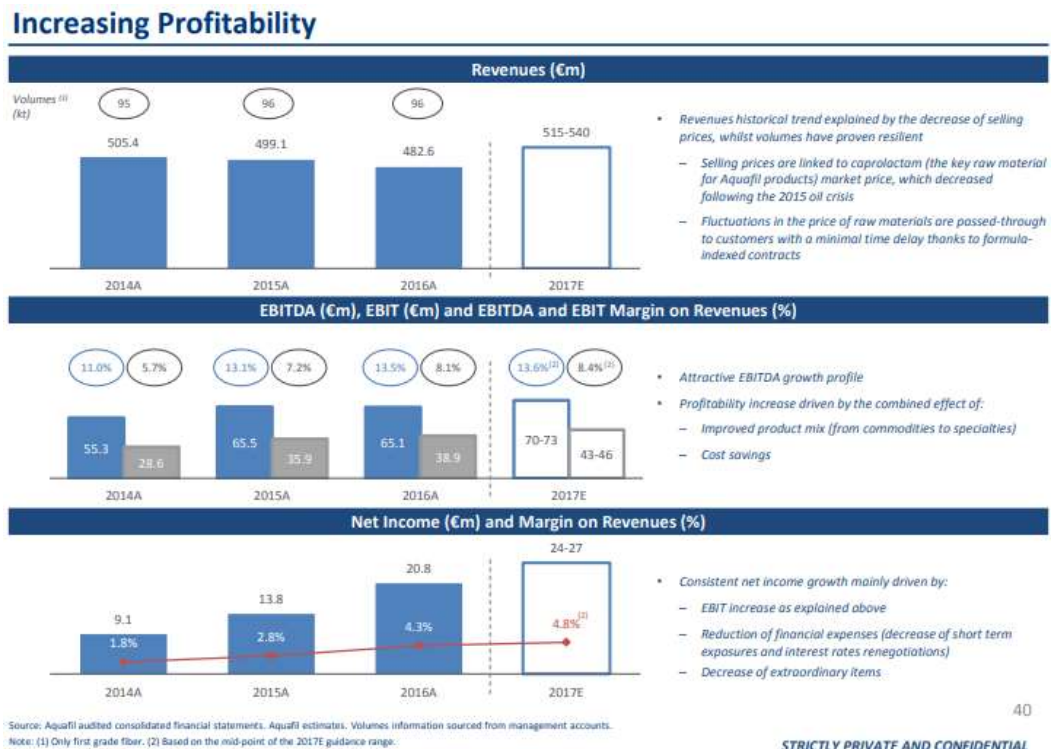
¹⁰⁰ Space3 – Investor relations, Business Combination, Investor presentation
Source: <https://www.space3spa.com/en/investor-relations/business-combination.html>

¹⁰¹ Space3 – Investor Relations, Business combination, Investor Presentation
Source: <https://www.space3spa.com/static/upload/201/201706-project-water---investor-presentation-v197.pdf>

¹⁰² *Ibidem*

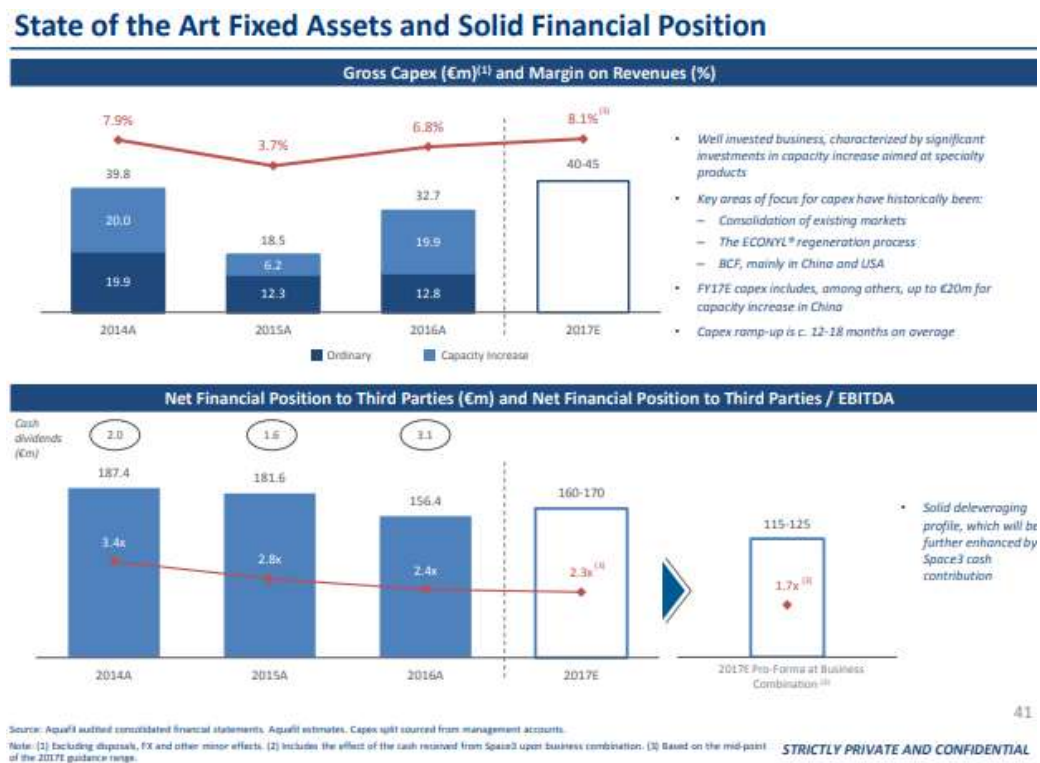
¹⁰³ *Ibidem*

Figure 16: 2014A-2016A Revenues, EBITDA, EBIT and Net Income of Aquafil



Source: Space3 – Investor presentation, Key Financials

Figure 17: 2014A-2016A Gross Capex and Net Financial Position of Aquafil






Source: Space3 – Investor presentation, Key Financials

Due to the closing of the acquisition, Space3 shareholders' meeting approved the merger plan between Space and Aquafil. Total shares of Aquafil at the time of the acquisition were 26,542,000; Space3 acquired 6,370,080 of them (€16.9543 each). Post-acquisition shareholding was:

- Aquafin Holding: 17,518,409 (66.00%)
- Space3: 6,370,080 (24.00%)
- TH IV: 1,738,568 (6.55%)
- Managers: 590,542 (2.22%)
- Quaestio: 324,401 (1.22%)¹⁰⁴

At the time of the merger, Aquafil shareholders (excluding Space3) received new issued shares of Space3. The exchange ratio ("Tasso di Concambio") was: 1.69543 new Space3 ordinary shares for each old Aquafil share. Moreover, 140,000 special shares of Space3 were converted into 630,000 new issued ordinary shares.¹⁰⁵ Hence, once the merger was completed, the market capitalization of the new company (which assumed the name of Aquafil) was €408.9 million and shares issued were 50,090,078 (41,514,058 listed shares: Class A, 8,316,020 unlisted shares: Class B and 260,000 special shares: Class C).

Table 5: Aquafil and Space3 post-business combination shareholding

Post-business combination shareholding					
			 		
Ordinary shares			Total shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
Aquafin Holding	66.00	17,518,409	Aquafin Holding	59.30	29,701,236
Space3	24.00	6,370,080	TH IV	5.88	2,947,620
TH IV	6.55	1,738,568	Multilabel SICAV	2.12	1,060,500
Aquafil Managers	2.22	590,542	Aquafil Managers	2.00	1,001,223
Quaestio	1.22	324,401	Del Vecchio Leonardo	1.80	900,000
			Space Holding	1.26	630,000
			Quaestio	1.10	549,999
			Pioneer Inv. Mgmt Sgr	1.50	750,000
			Market	24.53	12,289,500
			Special shares	0.52	260,000
<i>Total</i>	100.00	26,542,000	<i>Total</i>	100.00	50,090,078
Special shares			Special shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
-	-	-	Space Holding	65.00	260,000
-	-	-	converted at the B.C.	35.00	140,000
<i>Total</i>	-	-	<i>Total</i>	100.00	400,000

Source: Space3 – General meetings, Progetto di fusione

Notes: Space3

¹⁰⁴ Space3 – Investor Relations, General Meetings, Progetto di Fusione

Source: <https://www.space3spa.com/static/upload/wat/water---progetto-di-fusione.pdf>

¹⁰⁵ Resulting from the merger

Once the merger was completed, shareholding dilution was the consequence of the exercise of the 35% special shares (140,000 special shares were converted into 630,000 ordinary shares; 4.5-to-1) and Space3 shareholding increased from 31.05% (in case of special shares not exercised) to 31.72% (pie chart on the left side below).¹⁰⁶

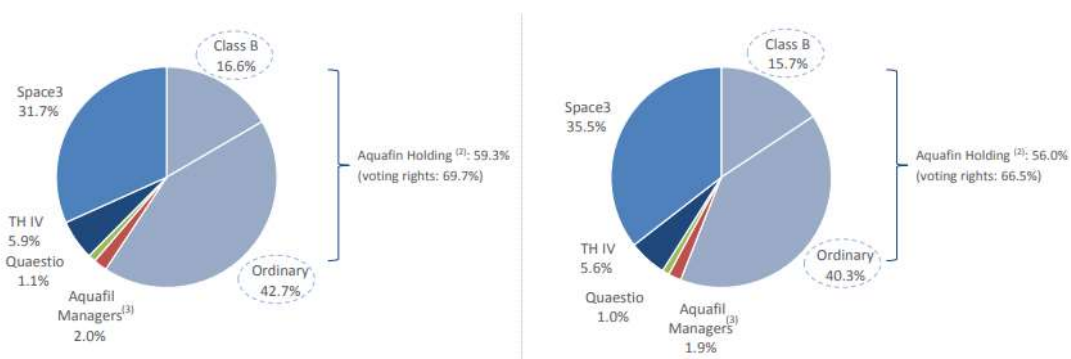
Moreover, pro-forma shareholding was also computed in case the share price would have reached €13.00 per share (Prezzo di Accelerazione and threshold price for the exercise of the 100% of special shares). In the latter case, all special shares would be exercised and market warrants too (but pre-exercise of sponsor warrants). The pie chart on the right side of the figure below shows the post-dilution shareholding including in the compute the exercise of special shares and market warrants as well. Market warrants issued by Space3 were 7,500,000 and the number of shares to assign for each of them is:

$$Nt = \frac{13 - 9.5}{13 - 0.10} = 0.27131783 \text{ shares}$$

Total number of shares assigned to warrants holders would be: 7,500,000 * Nt = 2,034,884. In addition, number of shares issued at the time of the conversion of the special ones would be: 400,000 * 4.5 = 1,800,000. Issued shares by Aquafil in this scenario would be 53,034,962 (Space3 shareholding: 35.51% of the total; Table 6).

In addition, Space3 assigned 800,000 warrants to its promoters which would be converted once the share price of the new firm will exceed €13.00. In this scenario, shareholders bear a dilution of their ownership into the company since the new issuance does not affect the share price, but the percentage of ownership held by each of them (Table 8).



Figure 18: Pro-Forma Aquafil shareholding



Source: Space3 – Business combination, Investor presentation

¹⁰⁶ Space3 – Investor Relations, Business combination, Investor Presentation
Source: <https://www.space3spa.com/static/upload/201/201706-project-water---investor-presentation-v197.pdf>

Table 6: Aquafil post-merger shareholding (€13 euro share price)

 synthetic fibres and polymers			 synthetic fibres and polymers		
Ordinary shares			Special shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
Aquafin Holding	56.00	29,701,236	Space Holding	0.00	0
TH IV	5.56	2,947,620	<i>converted at €13 per share</i>	60.00	240,000
Multilabel SICAV	2.27	1,204,366	<i>converted at the B.C.</i>	40.00	160,000
<i>of which from market warrants</i>	0.27	143,866	Total	100.00	400,000
Aquafil Managers	1.89	1,001,223			
Del Vecchio Leonardo	1.93	1,022,093			
<i>of which from market warrants</i>	0.23	122,093			
Space Holding	3.39	1,800,000			
<i>of which from special shares</i>	0.52	1,800,000			
Quaestio	1.04	549,999			
Pioneer Inv. Mgmt Sgr	1.61	851,744			
<i>of which from market warrants</i>	0.19	101,744			
Market	26.32	13,956,680			
<i>of which from market warrants</i>	3.14	1,667,180			
Total	100.00	53,034,962			

Source: personal elaboration

Notes: Space3 []

Tables 7 and 8 below show the effect of the dilution on the shareholding and the share price of the company. The conversion of special shares affects the share price since the new issuance dilutes the capital value held by each shareholder. The market capitalization does not vary while the number of shares issued increases. On the other hand, the exercise of warrants (which traded on the stock exchange at a certain price), does not affect the share price of the company since the chance they would be exercised is just considered by the market and it is implicit into the price.¹⁰⁷ As the consequence of the exercise, Warrants holders received new shares and Aquafil shareholding is diluted.

Table 7: Share price post-dilution with full exercise of warrants and special shares

Share price dilution		
Share price pre-dilution (€)	10.00	13.00
No. Of ordinary shares pre-dilution	41,262,846	43,718,942
Market cap.	412,628,462	568,346,246
Special shares converted	140,000	400,000
Ordinary shares from the conversion	630,000	1,800,000
No. Of ordinary shares post-dilution	41,892,846	45,518,942
Share price post-dilution (€)	9.85	12.49
Dilution (€)	0.15	0.51
Dilution (%)	1.50	3.95

Source: personal elaboration

¹⁰⁷ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisiton Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, p. 88, 2014

Table 8: Post-dilution shareholding – share price €13.00



Shareholders	%	Ordinary shares		Diluted Market cap.	Market cap.
		No. of Shares	No. of Shares listed		
Aquafil Holding	55.17	29,701,236	21,385,216	267,014,274	278,007,808
TH IV	5.48	2,947,620	2,947,620	36,803,772	38,319,060
Multilabel SICAV	2.24	1,204,366	1,204,366	15,037,628	15,656,758
<i>of which from market warrants</i>	0.27	143,866	143,866	1,796,304	1,870,262
Aquafil Managers	1.86	1,001,223	1,001,223	12,501,199	13,015,899
Del Vecchio Leonardo	1.90	1,022,093	1,022,093	12,761,780	13,287,209
<i>of which from market warrants</i>	0.23	122,093	122,093	1,524,445	1,587,209
Space Holding	4.83	2,600,000	2,600,000	32,463,414	10,400,000
<i>of which from special shares</i>	0.52	1,800,000	1,800,000	22,474,671	-
<i>of which from sponsor warrants</i>	0.01	800,000	800,000	9,988,743	10,400,000
Quaestio	1.02	549,999	549,999	6,867,248	7,149,987
Pioneer Inv. Mgmt Sgr	1.58	851,744	851,744	10,634,815	11,072,672
<i>of which from market warrants</i>	0.19	101,744	101,744	1,270,371	1,322,674
Market	25.92	13,956,680	13,956,680	174,262,106	181,436,840
<i>of which from market warrants</i>	3.10	1,667,180	1,667,180	20,816,293	21,673,343
Total	100.00	53,834,962	45,518,942	568,346,233	568,346,233

Source: personal elaboration

In conclusion, the syndicate which advised the companies during the deal was composed by Studio Legale BonelliErede (Space3 legal advisor), Freshfields Bruckhaus Deringer (Aquafil legal advisor) and Citigroup (Space3 buy-side financial advisor).¹⁰⁸ KPMG and PwC were appointed as accounting firm while Intermonte SIM was the sponsor Investment bank (underwriter) involved for the admission process of Space3 units on the MTA stock exchange.¹⁰⁹

¹⁰⁸ Finance Community, Aquafil in Borsa con la business combination con Space3
Source: <https://financecommunity.it/aquafil-in-borsa-con-la-business-combination-con-space3/>

¹⁰⁹ *Ibidem*

3.2 Space4/Guala Closures: main differences with Space3/Aquafil

3.2.1 Space4 constitution, IPO, units, warrants and dilution

Space3 and Space4 represents respectively the third and the fourth SPACs promoted by Space Holding S.p.A. and they were established in two different ways. Space3 is the result of a €150 million demerger from Space2 in the context of the business combination with Avio. On the other hand, Space4 was created through a standard IPO process. It was constituted as a SIV (Special Investment Vehicle) on September 2017 to complete the business combination with a 24 months term from the IPO. Its initial share capital was €100,000 (10,000 ordinary shares, €10 each).

Space4 raised €512,400,000 of which €500,000,000 through the issuance of 50,000,000 ordinary shares via public offering (€10 per share) and €12,400,000 issuing 1,240,000 special shares reserved to sponsors. As the consequence of the IPO, sponsors held 1,250,000 special shares and €12,500,000 share capital since 10,000 initial shares were converted into special ones as well. Special shares are not entitled to ordinary dividends, do not have voting rights and convert in ordinary share with a 4.5-1 ratio at certain triggers.¹¹⁰ Special shares conversion will dilute the share capital percentage and value held by company shareholders (see Figure 19 below).¹¹¹ Furthermore, Space4 issued 2,500,000 sponsor warrants and 20,000,000 market warrants (4 warrants every 10 shares; 2 at the time of the IPO and 2 at the time of the business combination).

Figure 19: Special shares conversion and shareholding dilution

- La conversione delle massime n. 1.250.000 Azioni Speciali detenute dalla Società Promotrice in Azioni Ordinarie, in parte alla data di efficacia dell'Operazione Rilevante, in parte al verificarsi degli eventi di cui all'articolo 5 dello Statuto (ivi compreso in caso di OPA), determinerà una diluizione del patrimonio netto per azione per i titolari delle Azioni Ordinarie (*cf.* Capitolo 2, Paragrafo 2.5, della Nota Informativa).

Source: Space4 – IPO, Documento di registrazione

Intermonte SIM S.p.A. advised Space4 IPO as Sponsor, Joint Global Coordinator and Joint Bookrunner.

¹¹⁰ Space4 – Investor relations, Business combination, Investor presentation

Source: https://www.space4spa.com/static/upload/pro/project-giove_investor-presentation_020518-vfinal.pdf

¹¹¹ As reported by the Space4 “Documento di Ammissione”

Goldman Sachs International acted as Joint Global Coordinator and Joint Bookrunner.¹¹²

Guala Closures: valuation and the business combination

Founded in Italy in 1954 Guala Closures Group is today a leading global producer of non-refillable and aluminium closures for spirits, wine, oil and vinegar, water and beverages, food and pharmaceuticals. It operates in 5 continents through 29 production plants and a sales network covering over 100 countries.¹¹³

Prior to combination, Guala was controlled by Private Equity Investors (85.2% stake) and participated by managers (14.8%). Mr. Marco Giovannini (founder) was Guala Closures Chairman and CEO. In 2017 the company reported Revenues of €535 million of which 54% in Europe; 20% in Americas; 13% in Asia; 9% in Oceania and 3% in Africa.¹¹⁴

Business combination process can be divided into three steps occurring simultaneously upon merger completion. The first one was the Acquisition: Space4 jointly with Peninsula (PII) and Quaestio acquired 81.2% interest in Guala Closures for a total cash consideration of €409 million from Private Equity investors and Management (through GCL Holding S.p.A.) and they remained invested with a 4.0% and 14.8% stake respectively. The second step was the €25 million capital increased reserved and fully underwritten by Guala Closures Management. Shares were also linked to market warrants (1 million) giving the rights to the holders to subscribe for a new share for every warrant post business combination at a price of €13 per share. The total Guala Closures management team investment was a €100 million. The last one was the merger by incorporation of Guala Closures into Space4. Guala Closures shareholders (i.e. Peninsula, Quaestio, Management and residual Private Equity Investors) received 0.675381 new shares of Space4 in exchange for each old share (implying a share price equal to €6.75381, corresponding to an equity value of €504m on the basis Space4 price per share of €10.00).¹¹⁵ Upon merger completion, Guala Closures asked to be admitted to trading on MTA (STAR segment) leaving the MIV stock exchange.

As follows a summary of the main step of the business combination:

- April 16th, 2018: Space4 and Guala Closures Board of Directors approved the business combination

¹¹² Space4 – Investor relations, IPO, Documento di registrazione

Source: <https://www.space4spa.com/static/upload/spa/space4---documento-di-registrazione.pdf>

¹¹³ Guala Closures, The company

Source: <https://www.gualaclosures.com/category/thecompany/>

¹¹⁴ Space4 – Investor relations, Business combination, Investor presentation

Source: https://www.space4spa.com/static/upload/pro/project-giove_investor-presentation_020518-vfinal.pdf

¹¹⁵ *Ibidem*

- May 28th, 2018: Space4 ordinary and extraordinary shareholders' meeting approved the transaction
- June 13th, 2018: End of the period to exercise the withdrawal right by Space4 shareholders
- July 29th, 2018: End of creditor opposition period
- August 1st, 2018: Merger effectiveness
- August 2nd, 2018: Transition to the STAR segment (MTA)¹¹⁶

Guala Closures was valued using Discounted Cash Flow and Multiples methods. At the time of the combination, Guala Closures expected Revenues of €570 million for 2018 and 20.7% EBITDA margin (€117.9 million). 2017 Net Financial Position was €552.5 million; 2018E Pre cash contribution at Business Combination was €530 million (while Post cash contribution at Business Combination was 3.0x EBITDA: c. €359.1 million of debt). Guala Closures Enterprise Value (EV) was €1,079 million and the Equity Value (EqV) was €503.7 million [$EqV = 1,079.0 - 552.5$ (Net Financial Position) – 6.4 (TFR = employee benefit) – 16.4 (Minority Interest) = 503.7]. Implied multiples on 2017 financials were:

- EV/EBITDA multiple: c. 9.1x
- P/E multiple pre-money: c. 23.7x
- P/E multiple post-money: c. 19.7x

Since the Space4 Equity Value was €503.7 million, the value of the majority stake (81.2%) acquired was €409 million.¹¹⁷

Guala Closures: voting dynamics, withdrawal rights issues and pre and post-business combination shareholding

Differently from the business combination approval by shareholders' meeting of Space3, Space4 ordinary and extraordinary meeting approved the transaction with a lower percentage of votes favorable. Nevertheless, each item proposed was approved but some investors who did not participate in the shareholders' meeting or which abstained or voted against the transaction exercised the withdrawal right in accordance with the Civil Code dispositions.

¹¹⁶ *Ibidem*

¹¹⁷ *Ibidem*

6,378,568 ordinary shares (12.76%) were withdrawn by June 13th, 2018. Nevertheless, the business combination was successfully completed since the percentage of shares withdrawn was lower than the 33% of the share capital of the SPAC (the maximum threshold set by Space4 as a mandatory condition for the efficacy of the business combination).

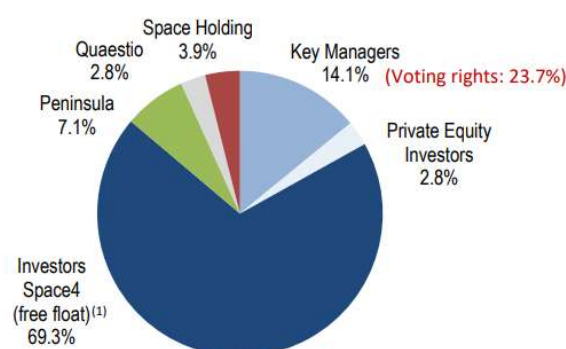
The value of liquidation for each share was set to €9.903 in accordance with the article 7 of the bylaw of the SPAC and the article 2437-ter of the Civil Code.

Withdrawn shares were offered to Space4 shareholders: 3,162,992 (6.33%) of them were purchased and 1,514,692 (3.03%) in addition were bought by PII and Quaestio (in accordance with the back-stop agreement between Space4 and PII and Quaestio). Although, 1,700,884 (3.40%) shares remained unsold implying a decrease of the stake acquired into Guala Closures.¹¹⁸

Guala shareholding post combination resulting as follows:

- Guala Closures: 9,566,616 (14.24%)
- Peninsula II Capital: 6,613,614 (9.84%)
- GCL Holdings LP S.à.r.l.: 4,226,805 (6.29%)
- Space Holding: 3,159,887 (4.70%)
- Quaestio: 2,504,897 (3.73%)
- Private Equity Opportunities Fund II SCS-SIF: 573,195 (0.85%)
- Space4 investors: 40,539,860 (60.34%)

Figure 20: Shareholding at the business combination – no withdrawal right exercise



Source: Space4 – Business combination, Investor presentation

¹¹⁸ Space4 – News, Press Releases, Risultati definitivi in merito all'esercizio del diritto di recesso
Source: <https://www.space4spa.com/en/press/press-releases/risultati-definitivi-in-merito-all-esercizio-del-diritto-di-recesso.html>

The pie chart above shows the shareholding at the time of the business combination not considering withdrawal right and any subsequent repurchases (they affected the stake held by Space4).

Lazard (financial advisor) and Studio Legale Bonelli Erede advised Space4 while Credit Suisse and Barclays acted as Guala Closures sell-side advisors.¹¹⁹ Giovannelli & Associati and Freshfields Bruckhaus Deringer were appointed as legal advisors.¹²⁰ KPMG was chosen as accounting firm from both companies.¹²¹

3.3 The recent rejection of DeA Capital/Agrati

3.3.1 IDEaMI constitution and IPO

IDEaMI is the first institutional special purpose acquisition vehicle promoted by Banca IMI and DeA Capital; targeting medium-sized, non-listed, Italian companies with high value-creation potential. IDEaMI focused on aligning the interests of investors and promoters, supported by an innovative structure and by the significant financial commitment of its promoters who have invested in ordinary shares of the SPAC totaling 16.5% of the capital raised.

It was constituted as a Joint Stock Company (S.p.A.) at the beginning of November 2017 with €100,000 share capital (10,000 shares issued, €10 each) and the aim to be listed on the AIM stock exchange (target fund raising was set at €200 million - or at most 250) and with a 24 months term to complete the business combination.¹²² IDEaMI issued 25,000,000 ordinary shares and 865,000 special shares at €10 each raising €250,865,000 in total. 10,000 shares issued at the time of its constitution were converted into special ones. Units were composed of 5 warrants each 10 shares; 2 at the beginning of the trading period and 3 at the time of the completion of the business combination.

Promoters subscribed 4,125,000 ordinary shares (16.5% of the total offering) and 875,000 special shares, which are not listed and not entitled to ordinary dividends, do not have

¹¹⁹ Finance Community, Space4 con Lazard porta Guala Closures in Borsa
Source: <https://financecommunity.it/space4-lazard-porta-guala-closure-borsa/>

¹²⁰ Finance Community, Tutti gli advisor della business combination tra Space4 e Guala Closures
Source: <https://legalcommunity.it/tutti-gli-advisor-della-business-combination-space4-guala-closures/>

¹²¹ Guala Closures Group, Governance
Source: <http://investor.gualaclosures.com/it/>

¹²² IDEaMI – Corporate Governance, Documenti societari, Statuto
Source: <http://www.ideamispac.com/Allegati/Statuto.pdf>

voting rights, and convert into ordinary shares with a 6-to-1 ratio (higher than the one of Space3).

In accordance with the “Documento di ammissione”, IDEaMI must complete the deal by the earliest date among the 31st of December 2020 and the end of the 24th month from the IPO. However, the SPAC would have six additional months in case an agreement between IDEaMI and the target firm (aiming to complete the business combination) would be subscribed and communicated to the market.¹²³

The target company must operate in one of the following markets: manufacturing, pharmaceutical, consumer & retail, wellness and cosmetics, specialized mechanics, food, design and luxury or business services. Investments into Real Estate companies, Financial firms (Financial and Banking activities) or Start-Up are not allowed¹²⁴ and the vehicle will be liquidated in case the business combination will not be approved by the shareholders' meeting by the term outlined above or in case the assembly will vote to dissolve the company (liquidation value would be lower than the share price at the time of the IPO).

The post-IPO IDEaMI shareholding was: (i) Banca IMI: 8.25%; (ii) DeA Capital: 8.25%; and the market 83.50%. Promoters are two financial institutions with a deep knowledge of corporate finance, Private Equity and M&A.

DeA Capital (De Agostini group) is an Italian Asset Management firm involved in two activities that complement each other: 1) Alternative Asset Management, through its wholly owned subsidiaries: DeA Capital Real Estate SGR (Italy's real estate asset manager) and DeA Capital Alternative Funds SGR (which manages Private Equity and credit funds); 2) Private Equity Investment, through Indirect investments in Private Equity and Real Estate Funds managed by the Group's asset managers and through Direct Investments (currently minority investments in IDEaMI, Cellularline and Migros in Turkey).¹²⁵

Banca IMI is the Corporate and Investment bank of Intesa Sanpaolo group and it is active in investment banking, structured finance and capital markets, operating in the main national and international markets, through offices in Milan, Rome and a London branch, and a subsidiary, Banca IMI Securities Corporation, based in New York.¹²⁶

¹²³ Going also beyond the 24th month from the IPO

¹²⁴ IDEaMI – Investor Relations, IPO, Documento di ammissione

Source: http://www.ideamispac.com/Allegati/Documento_di_ammissione.pdf

¹²⁵ Borsa Italiana – Stock, DeA Capital (company profile)

Source: <https://www.borsaitaliana.it/borsa/azioni/scheda/IT0001431805.html?lang=it>

¹²⁶ Banca IMI, Profile

Source: <https://www.bancaimi.com/en/bancaimi/chisiamo/lasocieta/profilo.html>

3.3.2 Units, warrants and the exercise mechanics

As already shown in the previous paragraph, IDEaMI issued 250 million ordinary shares, 875,000 special ones (10 euro each) and 5 warrants each 10 shares (2 at the beginning of the trading period and 3 at the time of the completion of the business combination).¹²⁷ Warrants strike price (Prezzo Strike) is €12.5, the threshold price (Prezzo Soglia) is €15.5 while the exercise price (Prezzo di Sottoscrizione Azioni) amounts to €0.10. Warrants (2 each 10 shares) traded on the AIM stock exchange separately from ordinary shares. On the other hand, the right to receive 3 warrant each 10 shares is included within the shares and they will be physically assigned at the time of the business combination. Warrants holders may ask to convert them into ordinary shares from the beginning of the second month after the business combination if the share price is higher than the strike price. The shareholders' meeting of the SPAC approved a capital increase for a maximum amount of €405,875 (issuing 4,058,750 Azioni di compendio at €0.10 euro each) designed to allow the exercise of market warrants. Number of shares assigned for each warrant is:

$$Np = \frac{(\text{monthly average price} - \text{strike price})}{(\text{monthly average price} - \text{exercise price})}$$

In addition, IDEaMI fixed a threshold price not to dilute more than a certain amount the company shareholding and to put a limit to capital gains provided by warrants. If the monthly average share price would be higher than the threshold one, the SPAC will communicate the beginning of the exercise period (Condizione di Accelerazione). Market warrant not exercised until the time limit will become worthless. The formula used to calculate the number of shares assigned for each warrant during the Condizione di Accelerazione is the same used by Space3.¹²⁸

$$Nt = \frac{(\text{threshold price} - \text{strike price})}{(\text{threshold price} - \text{exercise price})}$$

In the latter case, if the share price will exceed the Prezzo di Accelerazione (€15.5), the number of shares assigned for each warrant will be:

¹²⁷ Warrants are regulated by the "Regolamento dei warrant IDEaMI".

¹²⁸ IDEaMI – Investor Relations, IPO, Regolamento Warrant
Source: http://www.ideamispac.com/Allegati/Regolamento_Warrant.pdf

$$\frac{(15.5 - 10.5)}{(15.5 - 0.10)} = 0.3247$$

Given the highest number of market warrants issued would be 12,500,000 and Nt equal to 0.3247, Azioni di Compendio issued for this purpose will be 4,058,750 (12,500,000 * 0.3247).

Ordinary shares are currently trading on the AIM stock exchange while special ones are not listed and can be converted in the following way:

- 20% are converted at the time of the business combination
- 20% in addition is converted if - by 48 months from the business combination – the share price would exceed €11 for a period of 15 days out of 30 consecutive trading days
- 20% in addition is converted if the share price would exceed €12
- 20% in addition is converted if the share price would exceed €13
- 20% in addition is converted if the share price would exceed €14

Furthermore, special shares will be converted at all (100%) in the following cases:

- before the business combination - one or more than one member of the Board of Directors would cease to be part of the Board for any different reason
- the extraordinary shareholders' meeting will present a proposal to appoint a new BoD in accordance with the bylaw
- the ordinary shareholders' meeting will appoint different members of the BoD from those indicated into the previous point

Each special share will be automatically converted into one ordinary share after 48 months from the completion of the business combination without any modification of the share capital of the company.¹²⁹

¹²⁹ IDeaMI – Investor Relations, IPO, Documento di ammissione
Source: http://www.ideamispac.com/Allegati/Documento_di_ammissione.pdf

3.3.3 DeA Capital/Agrati business combination

From the beginning of December 2017, IDEaMI shares and warrants started to trade on the AIM stock exchange and the scouting period began. Once Agrati was chosen as target company and the deal was approved by the Board of Directors of both the firms, the ordinary and extraordinary shareholders' meeting was summoned aiming to approve the business combination.

Business combination transaction and voting dynamics

Once SPAC promoters decided to purchase a minority stake into Agrati, the Boards of Directors of IDEaMI and Agrati met in October 2018 to approve the business combination. For the purposes of the transaction, IDEaMI, Agrati and Agrati Holding S.p.A. (the owner of 100% of Agrati's share capital) signed an agreement governing, among other issues, the merger (the "Framework Agreement"). In addition, they approved the plan for the merger (the "Merger Plan"), and IDEaMI called a shareholders' meeting to vote on the transaction with first and second calls on 30th November 2018 and 3rd December 2018 respectively.¹³⁰

In addition, IDEaMI organized an Investor presentation meeting¹³¹ analyzing key items about Agrati: Investments highlights, Company overview, Positioning and perspectives, Key financials and the Transaction overview. Founded in 1939 in Veduggio, north of Milan, Agrati engages in the development, production, and distribution of fastening systems and advanced solutions mainly in the automotive market. Its main products are Bolts, Nuts, Special Screws and AFP. It has 12 production plants, 5 logistic centers and 12 sales and application offices worldwide. Cesare Agrati is the President and CEO of the company while Paolo Pozzi is the group CEO. Its share capital at the time of the business combination was €20,000,000 (20,000,000 shares issued).¹³² Shareholding of Agrati and IDEaMI before the combination is reported by the Table below.



After Investor Presentation, shareholders were called in ordinary and extraordinary meeting to approve the business combination. Notice of call for shareholders' meeting was published on 30 October 2017 on Milano Finanza.

¹³⁰ IDraMI – Investor Relations, Comunicati stampa, Comunicato Stampa Business Combination IDEaMI-Agrati
Source: <http://www.ideamispac.com/upload/news/eng/Comunicato%20Stampa%20Business%20Combination%20IDEaMI-Agrati.pdf>

¹³¹ To provide investors necessary information to consciously vote the approval or the rejection of the business combination

¹³² *Ibidem*

Table 9: Agrati and IDEaMI pre-business combination shareholding

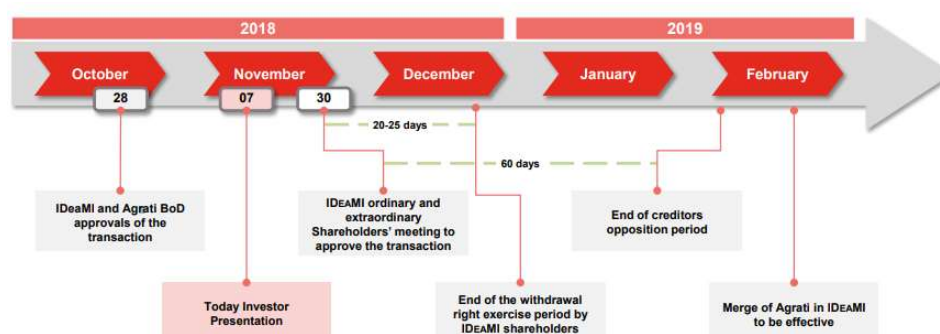
Pre-business combination shareholding					
					
Ordinary shares			Ordinary shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
Agrati Holding	100.00	20,000,000	Banca IMI	8.25	2,062,500
			DeA Capital	8.25	2,062,500
			Market	83.50	20,875,000
<i>Total</i>	100.00	20,000,000	<i>Total</i>	100.00	25,000,000
Special shares			Special shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
-	-	-	Banca IMI	50.00	437,500
-	-	-	DeA Capital	50.00	437,500
<i>Total</i>	-	-	<i>Total</i>	100.00	875,000

Source: IDEaMI – Operazione rilevante, Progetto di fusione

Issues to be voted by the ordinary assembly were: #1 deliberation in accordance with the article 2386 of the Civil Code; #2 authorization to the Board of Directors for the completion of the business combination and to use money held in escrow; #3 Appointment of the Board of Directors of IDEaMI, the term of office and its remuneration; #4 Appointment of the Board of Auditors, its president and its remuneration; #5 The entrustment to a new accounting firm and its compensation.

Furthermore, the issue to be voted by the extraordinary one was: #1 The approval of the merger plan (reverse merger) of Agrati into IDEaMI.¹³³

The transaction timeline¹³⁴ and Agenda (“Ordine del giorno”) of the ordinary and extraordinary shareholders’ meeting are showed below.

Figure 21: Transaction Timeline

Source: IDEaMI – Operazione rilevante, Investor presentation

¹³³ IDEaMI – Corporate Governance, Assemblee, Avviso convocazione Assemblea Business Combination

Source: <http://www.ideamispac.com/upload/news/ita/Avviso%20convocazione%20Assemblea%20Business%20Combination.pdf>

¹³⁴ IDEaMI – Operazione rilevante, Investor presentation

Source: <http://www.ideamispac.com/upload/news/ita/IDEaMI-Agrati%20Investor%20Presentation.pdf>

Figure 22: Agenda of the ordinary and extraordinary shareholders' meeting

- ORDINE DEL GIORNO**
- "Parte ordinaria:*
- 1) *Deliberazioni ai sensi dell'art. 2386 c.c.. Deliberazioni inerenti e conseguenti.*
 - 2) *Proposta di autorizzazione del Consiglio di Amministrazione di IDEAMI S.p.A. al compimento dell'Operazione Rilevante (come definita ai sensi dello Statuto della Società) con A. Agrati S.p.A. ai sensi e per gli effetti dell'art. 15.2 punti (i) e (ii) e autorizzazione del Consiglio di Amministrazione di IDEAMI S.p.A. all'utilizzo delle somme depositate sul Conto Vincolato ai sensi dell'art. 7.3, punti (i) e (ii) dello Statuto. Deliberazioni inerenti e conseguenti.*
 - 3) *Nomina del Consiglio di Amministrazione, previa determinazione del numero dei componenti e del periodo di durata della carica; determinazione dei compensi, il tutto con decorrenza dalla data di efficacia verso terzi della fusione per incorporazione di A. Agrati S.p.A. in IDEAMI S.p.A. Deliberazioni inerenti e conseguenti.*
 - 4) *Nomina del Collegio Sindacale e del suo Presidente; determinazione dei compensi, il tutto con decorrenza dalla data di efficacia verso terzi della fusione per incorporazione di A. Agrati S.p.A. in IDEAMI S.p.A. Deliberazioni inerenti e conseguenti.*
 - 5) *Conferimento dell'incarico di revisione legale dei conti per il periodo 2019-2021, previa risoluzione consensuale del rapporto con l'attuale società di revisione legale dei conti, e determinazione del corrispettivo ai sensi del D.Lgs. 39/2010 il tutto con decorrenza dalla data di efficacia verso terzi della fusione per incorporazione di A. Agrati S.p.A. in IDEAMI S.p.A.. Deliberazioni inerenti e conseguenti.*
- Parte straordinaria:*
- 1) *Progetto di fusione per incorporazione di A. Agrati S.p.A. in IDEAMI S.p.A.. Deliberazioni inerenti e conseguenti, anche ai sensi e per gli effetti dell'art. 49, comma 1, lett. g) del Regolamento Consob 11971/1999 come successivamente modificato ai fini dell'esenzione dall'obbligo di offerta pubblica di acquisto totalitaria."*

Source: IDEaMI – Operazione rilevante, Avviso di convocazione Assemblea Business Combination

The plan for the reverse merger of Agrati into IDEaMI envisaged the acquisition of 2,964,427 Agrati shares from the SPAC in the first place (or at least 2,371,542 shares in case 30 % of IDEaMI shareholders will exercise their right of withdraw). Then, a capital increase of IDEaMI will be aimed to cancel Agrati ordinary shares giving its shareholders 2.53 new issued shares for each of the old one.¹³⁵

Agrati: valuation, pre and post-business combination hypothetical shareholding and dilution mechanics

Agrati was valued using Discounted Cash Flow (DCF) and Multiples methods. Company 2017 Revenues were c. €658 million, 15.5% EBITDA margin (€102.0 million) and Net Financial Position was €234.6 million (2.3x EBITDA).

Agrati Enterprise Value (EV) was computed (in investor presentation) based on financial results about 1H2018, and it amounts to €713 million; hence, the Equity Value (EqV) was €506 million [EqV = 713 – 215 (Net Financial Position) + 8 (surplus asset related to minority shareholding in ABF) = 506]. Implied multiples on 1H2018 financials were:

- EV/EBITDA adj. multiple: c. 7.0x

¹³⁵ IDEaMI – Operazione rilevante, Progetto di fusione con allegati



Source: <http://www.ideamispac.com/upload/news/ita/Progetto%20di%20fusione%20con%20allegati.PDF>

- EV/EBIT adj.: c. 11.0x¹³⁶

Given the Equity Value of Agrati was €506 million, the value of the minority stake (14.82%) acquired from the SPAC amounted to €75 million.¹³⁷ Table 10 and 11 below shows (hypothetic) business combination mechanics and resulting shareholding as the consequence of the acquisition and the merger.

Agrati Holding will hold 17,035,573 ordinary shares which will be converted into 2.53 IDEaMI new shares each (43,100,000 in total) for the purpose of the merger. The effects of dilution would have occurred at the time of the business combination (special shares conversion) and of the warrants exercise. At the time of the merger, number of shares issued from the new company is 68,100,000 (€10 each) and its shareholding is the one of Table 10.

Table 10: Agrati pre and post-merger shareholding

					
Ordinary shares			Ordinary shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
Agrati Holding	85.18	17,035,573	Agrati Holding	63.29	43,100,000
IDEaMI	14.82	2,964,427	<i>of which from the exchange</i>		43,100,000
			Banca IMI	3.03	2,062,500
			DeA Capital	3.03	2,062,500
			Market	30.65	20,875,000
<i>Total</i>	100.00	20,000,000	<i>Total</i>	100.00	68,100,000

Source: personal elaboration on IDEaMI – Operazione rilevante, Progetto di fusione

Moreover, the transaction includes to provide 5,046,359 “Diritti di assegnazione” to Agrati that will be converted into ordinary shares until the earliest of the following deadlines: five years after the business combination efficacy or 60 days from the beginning of the “Condizione di accelerazione”. “Diritti di assegnazione” are financial tools very similar to warrants; they have a strike price (€10.5), a barrier price (prezzo barriera: €13.0) and a threshold price (prezzo soglia: €15.5). Their exercise is linked to the share price of the company and they can be converted into ordinary shares in case it will exceed the barrier price. Number of ordinary shares to be assigned for each “Diritto di assegnazione” is:

¹³⁶ IDEaMI – Operazione rilevante, Investor presentation

Source: <http://www.ideamispac.com/upload/news/ita/IDEaMI-Agrati%20Investor%20Presentation.pdf>

¹³⁷ IDEaMI – Operazione rilevante, Investor presentation

Source: <http://www.ideamispac.com/upload/news/ita/IDEaMI-Agrati%20Investor%20Presentation.pdf>

$$Nd = \frac{\text{monthly average price} - \text{strike price}}{\text{monthly average price}}$$

Alternatively, if the share price exceeds the threshold price, number of shares assigned is:

$$Nd = \frac{\text{threshold price} - \text{strike price}}{\text{threshold price}}$$

In this case, the highest number of shares assigned for each “Diritto di assegnazione” is:

$$\frac{(15.5 - 10.5)}{15.5} = 0.3226$$

Hence, the maximum number of ordinary shares issued for this purpose is: $0.3226 * 5,046,359 = 1,627,955$.¹³⁸ Moreover, the merger plan entails that Agrati purchases 240,624 special shares from Banca IMI and DeA Capital (in equal parts) that will be converted as it is laid down by the bylaw of the SPAC. Hence, given the conversion of the 20% of them at the time of the business combination, 1,050,000 ($175,000 * 6$) new ordinary shares will be issued and assigned to Agrati: 288,749 and SPAC promoters: 761,251.¹³⁹

At this time, IDEaMI and DeA Capital will own 3.5% each of voting shares (2,062,500 ordinary shares purchased at the time of the IPO and 380,626 shares provided by the conversion of the special ones) and Agrati and SPAC investors shareholding will be diluted (Table 11 below). The market capitalization of the new company will be €681 million (33.2% free float: market shares + Banca IMI's without look up)¹⁴⁰ and ordinary shares at the time of the business combination assuming the no withdrawal hypothesis are 69,150,000 (share price: €9.85; €0.15 dilution). Banca IMI and DeA Capital stake value is €24.04 million each (a significant capital gain considering it valued €20.63 million before the business combination). Finally, Agrati shareholding will be the following:

- Agrati Holding: 43,388,749 (62.75%)
- Banca IMI: 2,443,126 (3.53%)

¹³⁸ IDEaMI – Operazione rilevante, Progetto di fusione con allegati

Source: <http://www.ideamispac.com/upload/news/ita/Progetto%20di%20fusione%20con%20allegati.PDF>




¹³⁹ *Ibidem*

¹⁴⁰ IDEaMI – Operazione rilevante, Investor presentation

Source: <http://www.ideamispac.com/upload/news/ita/IDEaMI-Agrati%20Investor%20Presentation.pdf>

- DeA Capital: 2,443,126 (3.53%)
- Market: 20,875,000 (30.19).¹⁴¹

Table 11: Agrati and IDEaMI post-business combination shareholding

Post-business combination shareholding					
			 		
Ordinary shares			Ordinary shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
Agrati Holding	85.18	17,035,573	Agrati Holding	62.75	43,388,749
IDEaMI	14.82	2,964,427	<i>of which from the exchange</i>		43,100,000
			<i>of which from the special shares conversion</i>		288,749
			Banca IMI	3.53	2,443,126
			<i>of which from the special shares conversion</i>		380,626
			DeA Capital	3.53	2,443,126
			<i>of which from the special shares conversion</i>		380,626
			Market	30.19	20,875,000
Total	100.00	20,000,000	Total	100.00	69,150,000
Special shares			Special shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
-	-	-	Agrati Holding	22.00	192,499
-	-	-	Banca IMI	29.00	253,750
Total	-	-	DeA Capital	29.00	253,750
			Total	80.00	700,000
			<i>converted at the B.C.</i>	<i>20.00</i>	<i>175,000</i>
			Total	100.00	875,000

Source: personal elaboration on IDEaMI – Operazione rilevante, Progetto di fusione

Moreover, once the business combination is completed, in case the share price will exceed €14.0 per share, “Diritti di assegnazione”, 100% of special shares and market warrants will be converted/exercised.¹⁴²

Table 12: Share price post-dilution with full exercise of warrants, “Diritti di assegnazione” and special shares conversion

Share price dilution		
Share price pre-dilution (€)	10.00	15.50
No. Of ordinary shares pre-dilution	68,100,000	73,786,705
Market cap.	681,000,000	1,143,693,928
Special shares converted	175,000	875,000
Ordinary shares from the conversion	1,050,000	5,250,000
No. Of ordinary shares post-dilution	69,150,000	79,036,705
Share price post-dilution (€)	9.85	14.47
Dilution (€)	0.15	1.03
Dilution (%)	1.52	6.64

Source: personal elaboration on IDEaMI – Operazione rilevante, Progetto di fusione

¹⁴¹ Ibidem

¹⁴² Ibidem

Table 13: Post-business combination shareholding – share price €15.50

Shareholders	%	No. of Shares	Diluted market cap.	Market cap.
Agrati Holding	58.42	46,171,699	668,123,649	693,283,303 ¹
<i>of which from "Diritti di assegnazione"</i>		1,627,955	23,557,185	25,233,303
<i>of which from the exchange</i>		43,100,000	623,674,890	668,050,000
<i>of which from the special shares conversion</i>		1,443,744	20,891,575	-
Banca IMI	5.44	4,300,475	62,229,656	37,158,877 ¹
<i>of which from exercise of market warrant</i>		334,847	4,845,373	5,190,127
<i>of which from the special shares conversion</i>		1,903,128	27,539,052	-
DeA Capital	5.44	4,300,475	62,229,656	37,158,877 ¹
<i>of which from exercise of market warrant</i>		334,847	4,845,373	5,190,127
<i>of which from the special shares conversion</i>		1,903,128	27,539,052	-
Market	30.70	24,264,056	351,110,965	376,092,872 ¹
<i>of which from exercise of market warrant</i>		3,389,056	49,041,051	52,530,372
Total	100.00	79,036,705	1,143,693,928	1,143,693,928

Source: personal elaboration on IDEaMI – Operazione rilevante, Progetto di fusione

Tables above shows the dilution and shareholding as the consequence of a €15.5 share price and the full conversion of financial tools previously discussed. In this case, 5,250,000 ordinary shares are provided from the conversion of special ones (free); 4,058,750 shares (paying the exercise price, €0.10 for each warrant, €405,875 in total) are issued as the consequence of market warrants exercise and 1,627,955 from “Diritti di assegnazione”.¹⁴³

Market warrants exercise should not affect the share price of the company since the dilution they cause should be implicit into the price of the units. The dilution faced by Agrati Holding must be considered in terms of the ownership of the firm: issuing new shares assigned to warrant holders, their percentage of shareholding decrease. On the other hand, special shares would dilute the share price of the firm since new shares are issued free and assigned to promoters in a 6-to-1 conversion ratio.

Promoters' shareholding increases from 3.53% to 5.44%. In this scenario, share price falls from €15.5 to €14.47 since new shares are issued free. Capital gains obtained by promoters dilutes company shareholding.

¹⁴³ IDEaMI – Operazione rilevante, Progetto di fusione con allegati

Source: <http://www.ideamispac.com/upload/news/ita/Progetto%20di%20fusione%20con%20allegati.PDF>

Voting results of the ordinary and extraordinary general meeting

Shareholders' meeting was summoned in the first and second call to approve the business combination. Constitutive quorum was not reached in the first call.¹⁴⁴ Second call extraordinary general meeting voting results and constitutive and deliberative quorums of the assemblies are shown in Table 14. Twenty-five million (25,000,000) shares in total had the right to participate in the vote.

Table 14: Voting results of the ordinary and extraordinary assembly – IDeaMI

Shareholders meeting voting results				
	#1		#2	
	Number of shares	%	Number of shares	%
<i>Votes in favor</i>	6,986,500	73.87	6,521,500	68.95
<i>Votes against</i>	10,000	0.11	10,000	0.11
<i>Abstained</i>	2,461,374	26.02	2,926,374	30.94
<i>Total</i>	9,457,874	100.00	9,457,874	100.00
Share capital voting		37.83		37.83
Share capital voting in favour		27.95		26.09

Source: personal elaboration on IDeaMI – Operazione rilevante, Verbale Assemblea ordinaria e straordinaria

In accordance with the dispositions of the Italian Civil Code, second call ordinary meeting (companies listed on a non-regulated stock exchange) does not require a constitutive and deliberative quorum to be valid. Nevertheless, the quorum for valid constitution and resolutions of second call extraordinary meeting is 1/3 (33.33%) of the share capital.¹⁴⁵

The second issue to be voted by the assemblies was the approval of the merger plan which also included the adoption of a new company bylaw for the firm resulting from the merger. Share capital voting was 37.83% while the one voting in favor was 26.08% (less than the deliberative quorum).¹⁴⁶

As it can be read from the extract of the minute of IDeaMI shareholders' meeting below, the notary of the assembly acknowledged the rejection of the merger plan and the assemblies were interrupted.¹⁴⁷

¹⁴⁴ IDeaMI – Operazione rilevante, Verbale Assemblea ordinaria e straordinaria

Source: <http://www.ideamispac.com/upload/news/ita/Verbale%20assemblea%20IDeaMI.pdf>

¹⁴⁵ *Ibidem*

¹⁴⁶ *Ibidem*

¹⁴⁷ The approval of this issue was propaedeutical to the follow one

Business combination rejection was mainly linked to three causes: financial market instability (uncertainty about the Italian political environment), the low performance of mid-cap Italian market and the loss of appeal of Special Purpose Acquisition Companies. The failure of the deal was not linked, in fact, with corporate performance but with the strong volatility of the Italian stock market, FTSE MIB particularly, that from May to December, struggling with a macroeconomic slowdown and with the skyrocketing spread (c. 270 basis points) for the Government economic maneuver, has lost almost 24%. In addition, FTSE AIM Italia fell 11% in the same period.

Figure 23: Minute of IDeaMI shareholders' meeting

Messun altro chiedendo la parola, il Presidente:

- dà atto che gli intervenuti risultano essere n. 66 soggetti legittimati al voto portatori di complessive n. 9.457.874 azioni rappresentanti il 37,83% circa del capitale sociale avente diritto di voto;
- pone in votazione per alzata di mano alle ore 10,59 la proposta di delibera di cui è stata data lettura e sopra trascritta.

Favorevoli n. 6.521.500 azioni.
 Contrarie n. 10.000 azioni.
 Astenute n. 2.926.374 azioni.
 Come da dettagli allegati.

Il Presidente accerta che l'assemblea ha deliberato con il voto favorevole di circa il 68,95% dei presenti, l'astensione di circa il 30,94% dei presenti e il voto contrario di circa il 0,11% dei presenti. Alla luce del mancato raggiungimento del quorum deliberativo di legge sul capitale sociale ordinario, il Progetto di Fusione non risulta approvato; in conseguenza di ciò non sorge per gli Azionisti il diritto di recesso ai sensi di legge e di statuto.

Per effetto di quanto sopra è tenuto conto che le ulteriori proposte di delibera in sede ordinaria presuppongono la positiva deliberazione in merito al Progetto di Fusione, si sospende dal metterle in votazione.

Source: IDeaMI – Operazione rilevante, Verbale Assemblea ordinaria e straordinaria

CONCLUSION

In the first chapter I have described Special Purpose Acquisition Companies, their features and how they were born in the US and spread in Europe and in Italy. I build a database of Italian SPAC transactions collecting data on size, promoters and identified target companies. In Italy 31 SPACs were listed, twenty-two of them completed the business combination, Spactiv and Industrial Stars of Italy 3 announced their combinations (Elisabetta Franchi and Salcef respectively) and six SPACs are still scouting for a target company. Two business combination were rejected: Capital For Progress 2 was liquidated (the number of shares withdrawn exceeds the threshold set as a mandatory condition for the completion of the business combination) and IDeaMI/Agrati is still scouting for a new target firms since the business combination was not approved from the extraordinary shareholders' meeting.

I analyzed how the business combination works, its mechanics and timeline. Usually, main steps to complete the combination are (i) the approval of the business combination plan from the Board of Directors of the SPAC and the target (ii) the shareholders' meeting approval of the combination and the merger plan (iii) the registration of the shareholders' meeting resolution which approves the business combination at the competent business register (iv) the exercise of the withdrawal right for those shareholders which do not agree with the combination (v) the liquidation payment of withdrawn shares. I also showed three different ways to complete the combination: majority and minority stake acquisition or capital increase to serve a minority stake acquisition.

The second chapter is focused on the SPAC mechanics, the Initial Public Offering and the milestone of the business combination vote: dilution mechanics, voting dynamics and the withdrawal rights issue. The IPO of the SPAC, usually on the MIV or on the AIM stock exchange, is a speed process through which the vehicle raises its funds with the purpose to acquire and then merge with a private company aiming to list the target firm as the consequence of a reverse merger with it. SPACs must approach an investment bank to manage the IPO. The chosen investment bank leads the offering process which includes structuring the capital raising terms, preparing and filing IPO documentation, and pre-marketing the investment offering for interested investors. The "Prospetto informativo" (MIV) and the "Documento di Ammissione" (AIM) provides information about the IPO. They are extensive documents and explain all details about: (i) company general information, (ii) risk factors, (iii) dilution, new outstanding shares and warrants' mechanics, (iv) conflict of interest between promoters and investors, (v) SPAC activities with a focus on the business combination ("operazione rilevante") and the (vi)

management team background. At the time of the IPO, units are offered to investors; they are usually composed of one ordinary share and one or more warrants.

Once the SPAC is listed and the target firm is scouted, the purpose of the vehicle is to complete the business combination. The approval of the combination and the merger plan from the shareholders' meeting is a main step for the completion of the operation. Shareholders' meeting is usually called in a first and second call to approve all the necessary items for the completion of the combination. Constitutive and deliberative quorums for the ordinary and extraordinary general meeting are summarized in the table below.

Table 15: Constitutive and deliberative quorums – general meetings

Ordinary meeting		
	First call	Second call
<i>Constitutive (% on total shares)</i>	50.00	-
<i>Deliberative (% on voting shares)</i>	50.00 + 1 vote	50.00 + 1 vote
Extraordinary meeting		
MIV		
	First call	Second call
<i>Constitutive (% on total shares)</i>	50.00	33.33
<i>Deliberative (% on voting shares)</i>	66.66	66.66
AIM		
	First call	Second call
<i>Constitutive (% on total shares)</i>	50.00 + 1 vote	33.33
<i>Deliberative (% on total shares)</i>	50.00 + 1 vote	33.33

Source: personal elaboration

The withdrawal rights issue is a unique guarantee offered to investors who disagree with the business combination. Basically, once the shareholders' meeting of the SPAC is called to decide whether to approve or not the transaction those shareholders who voted against the approval and those who abstained from the vote can exercise the “withdrawal right”. It allows them to withdraw from their investment and to get back the capital invested. It is regulated by the article 2437 of the Civil Code and the value of the right of withdraw must be computed in accordance with the law or the dispositions set by the company bylaw of the SPAC.

At the same time, when the business combination is completed, the exercise and conversion of warrants and special shares held by SPAC investors and promoters may dilute the shareholding and the share price of the firm. Dilution occurs when a company issues new shares which results in a decrease of an existing shareholder's ownership

percentage of that company. I compared the dilution that occurs in case of capital increase with Rights issue, Accelerated Book Building and in case of exercise of market and sponsor warrants and special shares. These tools are very used by SPACs: the first ones are used to enhance the attractiveness of the SPAC but also to discourage opportunistic behaviors. Moreover, warrant holders might use them to increase their stake in the SPAC purchasing new issued shares paying the strike price. Special shares are mainly used to pay promoters since they will be converted into ordinary shares with a favorable ratio (i.e. Space3: 4.5-to-1 and IDEaMI: 6-to-1).

The case studies on the successful transactions of Space Holding and the rejection of DeA Capital/Agrati are the focus of the last chapter. There, I deeply analyzed the way in which those SPACs were formed, the acquisition of the target and the reverse merger. I elaborated several Tables showing the pre and post-business combination shareholding of the companies. I computed the effects of dilution as the consequence of the conversion of special shares and the exercise of market and sponsor warrants and “Diritti di assegnazione”. I replicated this computation for IDEaMI. As follows a summary of the main features of Space3, Space4 and IDEaMI.

Table 16: Side-by-side summary – Space Holding and IDEaMI

			
Date	Apr-17	Dec-17	Dec-17
Size	€152m (15m ordinary shares at c. €10 p.s.)	€500m (50m ordinary shares at €10 p.s.)	€250m (25m ordinary shares at €10 p.s.)
Promoters Background	Space Holding - Professionals	Space Holding - Professionals	Institutions, DeA and Banca IMI
Target/Sector	Aquafil (Nylon)	Guala Closures (Aluminium closures)	Agrati (Fasteners)
Market Warrants	2 x 4 ordinary shares, 1 at the IPO, 1 at BC. Total: 7.5m. Conversion: max 0.2713 ordinary shares for every market warrant (total 2.035m additional shares). Strike price: €9.5 Max price: € 13	4 x 10 ordinary shares, 2 at the IPO, 2 at BC. Total: 20m. Conversion: max 0.2326 ordinary shares for every market warrant. Strike price: €10 Max price: € 13	5 x 10 ordinary shares, 2 at the IPO, 3 at BC. Total: 12.5m. Conversion: max 0.3247 ordinary shares for every market warrant (total 4.08m additional shares). Strike price: €10.5 Max price: € 15.5
Sponsor Warrants	2 x 1 special share. Total: 0.8m. Conversion: max 1 ordinary share for every sponsor warrant. Strike price: €13	2 x 1 special share. Total: 2.5m. Conversion: max 1 ordinary share for every sponsor warrant. Strike price: €13	n.a.
Special Shares	<ul style="list-style-type: none"> 0.4m Conversion: 4.5 ordinary shares per every special share (35% at the BC, for the 5 years since BC €11 @25% - €12 @20% - €13 @20%) – residual post 5 years, 1 to 1 ratio 	<ul style="list-style-type: none"> 1.25m Conversion: 4.5 ordinary shares per every special share (35% at the BC, for the 5 years since BC €11 @25% - €12 @20% - €13 @20%) – residual post 5 years, 1 to 1 ratio 	<ul style="list-style-type: none"> 0.875m Conversion: 6 ordinary shares per every special share (20% at the of BC, for the 48 months since BC and for 15 of 30 days share price higher than €11 @20% - €12 @20% - €13 @20%, €14 @20%) – residual post 48 months, 1 to 1 ratio

Source: personal elaboration

Special Purpose Acquisition Companies have slowed their spread in the last twelve months. In 2019, only one SPAC has been listed while the number of IPOs on AIM

increased sharply. As it emerges from the analysis, going public and invest in a SPAC have some pros and cons compared to the standard IPOs. The timing to going public through a SPAC is shorter than the Initial Public Offering since once the negotiation among the target and promoters is completed the firm will be listed within 2/3 months (6 months from the kick-off meeting for IPOs). SPACs are less time consuming for the management team of the target firm than the IPO. Indeed, it is mainly involved in the negotiation during the scouting period while for IPOs it plays a key role in the whole process.

Concerning costs a company must pay for going public, promoters' incentives are the main expenses to bear in case of a SPAC and they are diluted in time. They are more diluted and progressive to higher end of post business combination performance. On the other side, underwriting makes up the largest component of IPO costs by far. On average, companies incur an underwriter fee equal to 3-4% of gross proceeds, plus an additional quota of offering costs directly attributable to the IPO. The GIMA TT offering, for example, a 100% secondary offering to institutional investors only, has a base deal size of €385 million (representing a 35% free float). The full deal size post full exercise of the Greenshoe was: €424 million (38.5% free float and Equity Value at listing of c. €1.1 billion). Fees paid at the time of the IPO amounted to c. €15 million (3.5% of the free float).

At the time of the business combination of IDEaMI/Agrati, the market capitalization of the company would be €681 million with a 33.2% free float (€226.1 million); fees to pay for an initial offering in this case would be c. €8/9 million (3.5% of €226.1 million free float). The dilution Agrati Holding and SPAC investors would bear at the time of the combination would be c. €9.6 million instead [$€0.15$ (dilution per share) * 64,263,749 (ordinary shares held by Agrati Holding and SPAC investors)]. Moreover, we must consider the dilution they would pay in the time. The dilution occurred in case of appreciation of the share price will increase the cost of going public for the company and its shareholders; moreover, it will decrease the capital gain for SPAC investors.

Even if the main causes of the recent rejection of IDEaMI/Agrati business combination can be brought back to the financial market instability, the uncertainty about the Italian political environment and the low performance of mid-cap Italian market; the high cost to face with (also compared with a standard IPO) could be one of the reason for the lack of appeal of the SPAC.

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INTRODUCTION

SPACs are publicly traded companies, promoted by experienced professionals in M&A and Private Equity operations, that raise a blind pool capital through an Initial Public Offering (IPO) for the purpose of combining with a private company. The money raised through the IPO are contributed into a trust until the SPAC identifies an opportunity to invest in. Investors usually receive units composed of one share and one or more warrants which can also be traded separately from the shares. At this time, SPAC funds are used to purchase a controlling interest or a minority stake of a target company with the purpose of merging with it. Because of the merger, the private company will become listed denying any problems may occur in case of standard IPOs. This research mainly analyzes how does the vote to approve the business combination works, the right to withdraw provided to investors which do not vote in favor of the deal and the effects of dilution on company shareholders as the consequence of the deal and of the use of financial tools typically offered by SPACs.

The first chapter is focused on a generical description of these vehicles and their origins and diffusion. It reports some evidence of the spread they have had in the last two decades in the US, in Europe and in our home market. Furthermore, the purpose of the last paragraph is to discuss the business combination process with a focus on different scenarios through which it could be carry out and the timeline of the transaction.

The aim of the second chapter is to go through the milestone of the business combination vote in SPACs. Voting dynamics are explained with a focus on the role and tasks of the Board of Directors of the SPAC and the mechanics of the vote of the shareholders' meeting. The right of withdraw is a tool provided by the law for that shareholders which do not agree with the relevant operation pursued by the SPAC. Those investors who vote against the approval and those who abstain from the vote can exercise the "withdrawal right" that allows them to withdraw from their investment and to get back the capital invested. In the end, the dilution mechanics in SPACs is explained and compared to the one occurring in case of share capital increase with Rights issue and ABB.

The three items discussed above will be deeply analyzed at the light of the recent rejection of DeA Capital/Agrati business combination. The last chapter, in fact, aims to show the successful transactions of Space Holding and the unlucky experience of IDEaMI. It was promoted by Banca IMI and DeA Capital, raising €250 million at the time of the IPO and aiming to acquire and then complete the merger with Agrati. The extraordinary shareholders' meeting called to vote about the merger plan did not approve the deal and the business combination was rejected. Voting dynamics and results, transaction timeline and post-business combination diluted shareholding will be showed with a focus on the main features and mechanisms of the transaction.

Could the recent rejection of IDEaMI be a breaking signal of the SPACs experience in Italy? Some ideas to answer this question will be expressed in the conclusion, with a focus on costs entrepreneurs must bear in terms of dilution and the loss of appeal of these vehicles.

CHAPTER 1 – SPACS: WHAT THEY ARE, A FOCUS ON THE ITALIAN FINANCIAL MARKET AND THE BUSINESS COMBINATION PROCESS

1.1 What is a Special Purpose Acquisition Company (SPAC)?

The aim of this chapter is to introduce SPACs discovering their origins and features of American and Italian SPACs markets. I will build a database of Italian SPAC transactions

collecting data on size, promoters and identified target companies. Last paragraphs are dedicated to business combination: the agglomeration of the assets of two or more firms for their consolidation as one entity under single ownership.¹⁴⁸

A Special Purpose Acquisition Company (SPAC) is a publicly traded company that raises a blind pool¹⁴⁹ capital through an Initial Public Offering (IPO) for the purpose of acquiring an existing company. The money raised through the IPO of a SPAC are contributed into a trust until the SPAC identifies an opportunity to invest in. Shares of a SPAC are typically offered in relatively inexpensive units that include one common stock and a warrant conveying the right to purchase additional shares or fraction of them.¹⁵⁰ It is promoted by a group of sponsors which usually seat in the SPAC BoD (Board of Director). A SPAC brings together experienced management teams, leading investors and other professionals, who can leverage their respective expertise to fund the SPAC, scout an attractive opportunity, acquire and then manage a new public company. Once the transaction is completed, a new publicly traded company is formed.¹⁵¹ Money raised by the SPAC must be used to carry out a business combination with a private company. It can be structured with: (i) acquisition of target shares from current shareholders, (ii) offer for subscription of new shares of the target, (iii) merger between the target company and the SPAC, (iv) more than one of these options.¹⁵²

The operation of business combination must be approved by the shareholders' meeting and completed within a limited horizon of time; otherwise, the capital raised will be returned to investors. If it is not approved by the assembly, the management team can scout for a new target company or, alternatively, reimburse all investors and liquidate the SPAC (depending on SPAC bylaw).

The number of SPACs liquidated without the completion of the deal is relatively high in the US, (72 out of 204 until 2013, 35%) and lower in Europe, only 10% in the same period. In the last chapter, I will analyze the recent rejection of the DeA Capital/Agrati transaction, the failed business combination between IDEaMI, an Italian SPAC listed on the AIM market of Borsa Italiana since December 2017 and Agrati S.p.A. (target company). IDEaMI is a SPAC promoted by Banca IMI and DeA Capital; on the other hand, Agrati is a worldwide leader in fasteners and components solution. In this case, IDEaMI shareholders' meeting voted against the business combination, probably due to the uncertainty of the financial markets coupled with an unclear background of the transaction.¹⁵³

A key role in SPAC activity is played by sponsors who provide money to finance the SPAC operating activities and current costs until the IPO. The "special purpose" of the company consist of searching and acquiring a private target company – which has the perspective to increase its business – with the aim of listing it on the stock exchange. Sponsors are mainly engaged to search the target company since they usually have a solid track record in M&A or Private Equity operations. SPACs sponsors do not receive a predetermined fee for scouting and managing the vehicle neither a management fee differently from Private Equity investment managers. Sponsors are paid when the

¹⁴⁸ BusinessDictionary, Business combination

Source: <http://www.businessdictionary.com/definition/business-combination.html>

¹⁴⁹ Blind pool: an investment fund in which investors do not know what type of business activity or companies they are investing in

¹⁵⁰ Investopedia, Special Purpose Acquisition Company (SPAC)

Source: <https://www.investopedia.com/terms/s/spac.asp>

¹⁵¹ NYSE, SPECIAL PURPOSE ACQUISITION COMPANIES (SPACs)

Source: <https://www.nyse.com/spac>

¹⁵² M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, 2014

¹⁵³ M. Magnano, Il Sole 24 Ore, IDEaMI, Soci bocciano la business combination con Agrati

Source: <https://www.ilsole24ore.com/art/finanza-e-mercati/2018-12-03/ideami-soci-bocciano-business-combination-agrati-123547.shtml?uuid=AEW67prG>

business combination is completed with some warrants which allow them to buy ordinary shares at very convenient conditions or with special shares. In Italy, SPACs are listed on the MIV or on the AIM Italia (Alternative Investments Market). MIV is the reference market for listing funds and vehicles that invest in real economy business. AIM Italia instead is the non-regulated market managed by Borsa Italiana; it is not subject to CONSOB regulation and legislative constraints, and it is dedicated to small and medium enterprises. Around 115 companies comprising 13 different sectors and with an aggregate market capitalization of €6.9 billion are listed on AIM Italia.

SPACs are also known as blank-check companies: special not regulated vehicles with the feature that at the time of the listing the target of the investment was unknown; those ones have begun to do business on the American financial market since 1980s. In 1992, American authorities introduced the “Rule 419” in the Securities Act (1939). The introduction of this rule can be considered as SPACs “birth certificate” since it specified important rules which have been kept unaffected in the modern regulation. The three main pillars of Rule 419 were: (i) funds raised through the IPO must be held in trust until the business combination, (ii) the “way out” right for investors which can reject the business combination, (iii) the horizon of time by which the company must complete the investment or dissolve the company and refund money to SPAC investors.

During the period from June 2003 to December 2006, there were 87 SPAC IPOs in the US. The number of SPACs having an IPO grew from “1” in 2003, to “16” in 2004, “32” SPACs in 2005 and “38” for 2006. Thus, their popularity has grown each year. As further evidence of the growing importance of SPACs, during the same period, the Gross Proceeds at Offering in 2003 was \$21 million, and it grew until \$3,112 million in 2006.¹⁵⁴ The first SPAC in Europe was Metal Enterprises Inc., listed on the AIM UK market in 2005. In the past decade, SPACs spread significantly also in Europe and in Italy, taking a primary role in the IPOs market. Since 2011, Italian SPACs have raised almost €4 billion, they have invested more than €3 billion listing new companies, and they still have almost €900 million to spend for business combinations.¹⁵⁵

1.2 The Italian experience

SPACs are financial vehicles operating in Equity Markets which allow companies to raise funds by providing them with access to a pool of private and institutional investors and they are also playing a leading role within the Italian financial market. The first SPAC listed in Italy (January 2011) was Italy 1 Investment SA, it was listed on the MIV market, raising €150 million through the IPO and completed the business combination acquiring IVS Group in May 2012.

More than 30 IPOs have been completed after Italy 1 in the last eight years. The three biggest Italian SPACs were: IDEaMI (€ 250 million) Space4 (€500 million) and Spaxs (€600 million). One of the main reasons of SPACs introduction in Italy is the large number of opportunities to invest in “real economy” with a focus on Small and Medium Enterprises (SMEs). An interesting evidence is the large number of SMEs (c. 200) with a low leverage, an Equity Value (EqV) between €80 and €150 million and EBITDA margin >15% which can represent interesting business opportunities. In 2018, 7 SPACs IPOs raised €1.157 billion on AIM (89% of total capital raised by all IPOs in this market). The Alternative Investment Market confirmed its attraction for companies less structured than ones listed on MTA and for SPACs since it represents a growth opportunity for

¹⁵⁴ C. Boye, G. Baigent, SPACs as Alternative Investments: An Examination of Performance and Factors that Drive Prices, *The Journal of Private Equity*, 2008

¹⁵⁵ F. Dagnino, A. Biglia, *Il Sole 24 Ore – Diritto 24*, Il fenomeno delle SPAC in Italia

Source: <http://www.diritto24.ilssole24ore.com/art/avvocatoAffari/mercatiImpresa/2019-03-19/il-fenomeno-spac-italia-163304.php>

SMEs. Moreover, SPACs represents an alternative way to the classic IPO or Private Equity investments to raise capital for a business.

1.3 The business combination

A business combination is essentially an event or transaction where an acquirer acquires control, or at least controlling interest, of either one or over one business and it can be aptly defined as amalgamation of the assets of two or more business entities for their consolidation as a single entity under single ownership. The business combination is a crucial point in the relationship between the management of a SPAC and its shareholders since it is the “real SPAC IPO” and investors must approve or reject the operation to become shareholders of a new listed operative company. The shareholders’ meeting is preceded by a roadshow and some meetings with investors presenting them the transaction.

SPACs must complete business combinations by 18 – 24 months from the IPO, sometimes it can happen they have a longer period if they have already found a target company, but they need more time for the execution. One of the main steps during the business combination process is the deal approval by the shareholders’ meeting: it must vote to approve or reject the operation. In the first scenario, SPAC achieves its goal and uses funds raised at the time of the IPO to combine with the target company. In the second one it must search a new company to acquire or must repay investors (depends on what the corporate bylaw imposes). In case shareholders’ meeting approves the business combination, shareholders dissenting with the operation must be repaid (the withdrawal rights issue) and a part of cash held in trust cannot be used to purchase the target company. SPACs can generally solve lack of cash to complete the business combination in different ways: (i) looking for new investors to replace who withdraw their investments; (ii) raising debt to finance the missing equity value quota; (iii) reducing deal dimension (i.e. acquiring less target shares).¹⁵⁶ Hence, SPACs can complete business combinations taking control of a company (majority acquisition) or acquiring a minority interest.

Business combination is the main goal and the core moment in SPACs life, and it requires to follow some physiological steps and further strides set forth by regulators. In Italy, rules to follow during the transaction are mainly set by the Civil Code, CONSOB and Borsa Italiana S.p.A. regulation; moreover, some additional dispositions are reporter by SPAC and/or target bylaw that establish specific provisions in case of business combinations, mergers or further extraordinary financial operations. One of the main pros of investments in SPACs is the withdrawal right: if investors are not in favor of the transaction, they have a period to exercise their right, an easy way to disinvest money from SPAC and do not take part to the business combination.

CHAPTER 2 – THE MECHANICS OF SPECIAL PURPOSE ACQUISITION COMPANIES

2.1 How do SPACs work?

SPACs are financial tools which born from the idea of their promoters, a group of professionals with a strong background in financial transactions and which decide to raise money to invest in a private company through a listed vehicle. Their aim is to purchase a controlling interest (or a minority stake) in the target company listing it as the consequence of the business combination.

¹⁵⁶ M. Fumagalli, *Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa*, 2014

To begin the SPAC planning process, founders usually approach an investment bank to manage the IPO. The chosen investment bank leads the SPAC process which includes structuring the capital raising terms, preparing and filing IPO documentation, and pre-marketing the investment offering for interested investors.¹⁵⁷ Investment banks work to IPOs through the Equity Capital Markets division (ECM). During IPOs, the Equity Capital Markets team assumes primary responsibility for executing the transaction. Banca IMI and Banca Akros were Joint Global Coordinators and Joint Bookrunners in IDEaMI IPO; moreover, the latter was also Nominated Advisor (Nomad) and Specialist. A Nomad is a central figure for companies trading on AIM; it must be approved by Borsa Italiana and included on the AIM Italia Register. A Nomad can be a bank, an intermediary or a company mainly operating in the corporate finance sector. It must assess the appropriateness of the company to the admission to the market, supporting it in maintaining an adequate profile of transparency and stimulate the attention by the company to comply with the rules deriving from being listed on AIM Italia, maximizing the benefits thereof.¹⁵⁸ The IPO process begins with the deposit of the IPO documentation of the SPAC (the “Prospetto informativo” on MTA and MIV or the “Documento di ammissione” on AIM) by underwriters, which operate on behalf of the management team, to the stock exchange regulator (i.e. CONSOB or SEC). The “Prospetto informativo” provides information about the IPO, it is an extensive document and it explains all details about: (i) company general information, (ii) risk factors, (iii) dilution, new outstanding shares and warrants' mechanics, (iii) conflict of interest between promoters and investors, (iv) SPAC activities with a focus on business combination and (v) the management team background. Moreover, it provides details about the way capital raised will be used (in case of target acquisition) but also how the repayment works if the SPAC is not able to complete the business combination. Underwriters and management team begin the work to the vehicle IPO once the regulator approves the IPO document.

During the IPO, units are offered to investors; they are composed of a common stock and one or more *market warrants* and their price is often c. \$10. Warrant is a derivative that gives the right, but not the obligation, to buy or sell a security – most commonly an equity – at a certain price before the expiration. The price at which the underlying security can be bought or sold is referred to as the exercise price or the strike price. In general, investors are attracted to warrants as a means of leveraging their positions in a security, hedging against downside or exploiting arbitrage opportunities. SPACs usually issue sponsor warrants and market warrants. At the beginning, units are publicly traded as a single entity and after some trading days, stocks and warrants begin to be traded with distinct prices and singularly.¹⁵⁹ Main features of warrants are : (i) they are in the money since the first trading day, (ii) the warrant option has the same characteristics of an American one that can be exercised at any time on or before the expiration date, (iii) SPAC may ask that warrants will be exercise with “cashless” conversion, (iv) if the share price overcome a certain price, SPAC may redeem warrants paying a symbolic value with the aim of forcing investors to ask for the conversion.¹⁶⁰ Cashless conversion is the direct conversion of ownership of an underlying asset without any initial cash outlay by the holder.

Generally, promoters participate in the SPAC capital through sponsors warrants, special shares and their equity stake which represents the capital at risk of the sponsors' team. They are directly involved in the investment and in case of success, their capital gain will be higher than a fixed pre-established compensation.

¹⁵⁷ D. P. Stowell, *Investment Bank, Hedge Funds and Private Equity*, 3rd edition, 2018

¹⁵⁸ Borsa Italiana – Mercati e quotazioni, AIM Italia, Nomad

Source: <https://www.borsaitaliana.it/azioni/mercati/aim-italia/gliadvisor.en.htm>

¹⁵⁹ M. Fumagalli, *Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa*, 2014

¹⁶⁰ *Ibidem*

At the time of the IPO, the *reverse earn-out* is one of the main features of the Special Purpose Acquisition Companies' offerings. Earnout is a contractual provision stating that the seller of a business is to obtain additional compensation in the future if the business achieves certain financial goals. A reverse earn-out is a way to improve investors' interest to purchase company shares: selling shareholders and/or the listing company decides to pay to investors a certain amount of cash if the company does not reach certain financial results.

After the IPO of the SPAC, the scouting period begins, and promoters must find and purchase a target company in order to complete the business combination.

2.2 Dilution mechanics in Equity Markets

Subsequently to the offering, warrants and ordinary shares of the SPAC begin to trade, and investors are exposed to market dynamics (including dilution.) At the same time, when the business combination is completed, the exercise and conversion of warrants and special shares held by SPAC investors and promoters may dilute the shareholding and the share price of the firm. Dilution occurs when a company issues new stock which results in a decrease of an existing stockholder's ownership percentage of that company. It can also occur when holders of stock options, such as company employees, or holders of other optionable securities exercise their options. When the number of shares outstanding increases, each existing stockholder owns a smaller, or diluted, percentage of the company, making each share less valuable.¹⁶¹

The exercise of market warrants is not an offering of new shares to the public or to existing shareholders, but the right warrant holders may use to increase their stake in the SPAC purchasing new issued shares paying the strike price. Market and sponsor warrants are respectively offered to investors and sponsors. While investors receive them within the units they buy at the time of the IPO (shares + warrant) sponsor warrants are usually assigned free and they are regulated by the "Regolamento sponsor warrant". In a typical conversion situation where warrant holders must pay to exercise their option, the exercise rate (how many shares for 1 warrant) is equal to one. Differently, the number of shares (N) provided by the cashless conversion is:

$$N = \frac{(\text{share price} - \text{strike price})}{\text{share price}}$$

If a threshold price is fixed by the SPAC,¹⁶² number of shares (Nt) is equal to:

$$N_t = \frac{(\text{threshold price} - \text{strike price})}{\text{threshold price}}$$

A different scenario is the case where SPACs ask to pay the "prezzo di sottoscrizione azioni" (called exercise price) to complete the conversion. In this case, the number of shares (Np) is equal to:

$$N_p = \frac{(\text{share price} - \text{strike price})}{(\text{share price} - \text{exercise price})}$$

Furthermore, special shares conversion (held by promoters) can also dilute the share price of the company. Special shares have the following features: (i) they are not transferrable until the effective date of the business combination, (ii) they do not have the chance to

¹⁶¹ Investopedia, Dilution

Source: <https://www.investopedia.com/terms/d/dilution.asp>

¹⁶² And the share price is higher than the threshold

vote during ordinary and extraordinary shareholders' meeting and then they cannot vote the approval or rejection of the business combination, (iii) they do not receive dividends at the same time of investors of the SPAC (but at a certain period after the business combination), (iv) in case of SPAC liquidation, holders of special shares have the right to be refunded before ordinary shareholders¹⁶³

2.3 Voting dynamics

Italian SPACs are constituted as Joint Stock Companies ("Società per Azioni") and are included into the public company category. Previously, I have treated about their constitution, IPOs and business combination. Nevertheless, the completion of the combination needs to be approved from the shareholders' meeting following the rules of the country where they operate. However, SPACs listed on AIM (the non-regulated market of Borsa Italiana) and on MTA or MIV are subjected to different regulation. Companies listed on AIM are not subject to CONSOB supervision since they are not included among "società che fanno ricorso al mercato del capitale di rischio".

As follows a list of the key issues to take into consideration in the context of a business combination: (i) Board of Directors structure and responsibilities, (ii) voting dynamics and rules of the shareholders' meeting, (iii) the withdrawal rights issue (the guarantee to SPACs investor to be refunded of their investments if they do not agree with the deal), (iv) the cashless exercise of warrants, (v) promoters' activities and guarantees, (vi) the applicability of the Takeover bid ("Offerta Pubblica di Acquisto – OPA") discipline¹⁶⁴

The approval of the combination from the shareholders' meeting is a milestone of the business combination. If the general meeting approves it and the financing and other conditions specified in the acquisition agreement are satisfied, the business combination will be consummated, and the SPAC and the private firm will combine into a new publicly traded operating company.¹⁶⁵ The ordinary and extraordinary sessions of the shareholders' meeting must be called to vote several issues which need the green light of both the assemblies.

Hence, the approval of the "progetto di fusione" (merger plan) drafted by the BoD of the SPAC and the target, pursuant the article 2501-ter of the Civil Code, must be approved by the extraordinary assembly since it always includes some modifies to the bylaw of the companies involved in the combination and other extraordinary items not included in the competences of the OGM. The aim of SPACs promoters is that the number of shareholders who take part in the meeting will be as higher as possible.

The main objective of reaching broad participation in the vote is to deny the rejection of the business combination. Business combination completion, indeed, may find two different kinds of hurdles: shareholders' meeting may not reach the right number of votes to approve the transaction or alternatively a too high number of investors could withdraw their funds from the investment.¹⁶⁶ For what concern necessary majorities for the approval of the business combination from the shareholders' meeting, legislation sets different rules for the ordinary and the extraordinary sessions. The constitutive quorum of the ordinary assembly is (at least) the presence of the 50% of the share capital and the one to pass solutions is the absolute majority of voting shareholders (the bylaw may impose a higher quorum). If the assembly is not regularly constituted at the time of the vote, it may

¹⁶³ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, 2014

¹⁶⁴ *Ibidem*

¹⁶⁵ Harvard Law School Forum of Corporate Governance and Financial Regulation, Special Purpose Acquisition Companies: An Introduction

Source: <https://corpgov.law.harvard.edu/2018/07/06/special-purpose-acquisition-companies-an-introduction/>

¹⁶⁶ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, 2014

be called again (“seconda convocazione”). In this case, the legislator does not impose a constitutive quorum, but the deliberative one is the 50% + 1 of voting shares.

For what concerns the extraordinary shareholders’ meeting, AIM-listed companies and the ones listed on a regulated stock exchanges must comply with different majorities. As regards the first group, the law does not provide for the constitutive quorum while the deliberative one is the share capital majority (and, as the consequence, the assembly is regularly constituted if the presence of the share capital majority is reached). Furthermore, the constitutive and deliberative quorum in second call shall be considered met with the favorable votes of more than 1/3 of the share capital.

For the second group, the constitutive quorum in the first call is the 50% or more of the share capital, and the deliberative one is 2/3 of the share capital voting. For the second call, the assembly is validly constituted if the number of members participating is higher than 1/3 of the share capital and the resolution is valid with the favorable vote of at least the 2/3 of them (shareholders that participate to the assembly).

Voting dynamics and majorities are decisive for the business combination approval or rejection as it is happened for IDeAMI/Agrati business combination that was rejected because the EGM (in second call) did not reach the deliberative quorum (1/3 of the share capital voting in favor with the merger plan).

2.4 Withdrawal rights issue

A withdrawal involves removing funds from a bank account, savings plan, pension or trust. In some cases, conditions must be met to withdraw funds without penalization, and penalization for early withdrawal usually arises when a clause in an investment contract is broken.¹⁶⁷ Concerning SPACs, those shareholders voted against the approval and those who abstained from the vote of the business combination, can exercise the “withdrawal right”. It allows them to withdraw from their investment and to get back their funds.¹⁶⁸ Investors dissenting on the proposed business combination can withdraw their investment even if the transaction is approved by the majority of shareholders and it goes through. Similarly, in case the SPAC is unable to approve a transaction by the time limit, the company is liquidated, and investors receive their share of proceeds.¹⁶⁹

The right of withdraw could be also a mandatory condition for the completion of the deal. Indeed, a cash outflow as the consequence of withdrawals accounting for less than a certain percentage of the amount raised at the time of the IPO is usually one of the minimum requirements for the approval of the business combination. As regards the regulation of the right of withdraw in Italy, we must consider the article 2437 (and the following ones) of the Civil Code.

The value of the right of withdraw is also set following the dispositions of the article 2437. For what concern companies listed on a regulated stock exchange, the value is computed doing the average of the share prices (at the end of each trading day) of the six months before the publication of the call for the shareholders’ meeting taking a decision concerning the business combination. In case the value of the right diverges from the value of funds raised with the offering and held in segregated escrow, SPACs must face a problem of lack of funds and may include within their bylaw different terms which regulate the refund value. SPACs listed on AIM have different rules from the latter case. For those SPACs, regulators imposed the value shall be determined by company directors

¹⁶⁷ Investopedia, Withdrawal

Source: <https://www.investopedia.com/terms/w/withdrawal.asp>

¹⁶⁸ Space Holding, What is a SPAC?

Source: <https://www.spaceholding.it/en/spac.html>

¹⁶⁹ Investor presentation SPACTIV, SPAC overview - Pros for SPAC investors

Source: <https://bebeez.it/files/2017/09/Spactiv-Presentazione.pdf>

taking account of corporate survival and asset, revenues perspective and, eventually, the market value of the company (looking at the share price and the market capitalization).

CHAPTER 3 – CASE STUDY: THE SUCCESSFUL TRANSACTIONS OF SPACE HOLDING AND THE REJECTION OF THE DEA CAPITAL/AGRATI BUSINESS COMBINATION

3.1 Space3/Aquafil business combination

Space Holding is an investment firm founded in 2013 by experienced professionals¹⁷⁰ in investment banking, private equity and corporate law industries, with the goal of supporting the development of Italian high-growth potential companies willing to open their capital through a listing in the short/medium term.¹⁷¹ It promoted four different SPACs listed on the MIV and successfully completed their relevant combination with Avio, Fila, Aquafil and Guala Closures. Since the successful experience of Space Holding, the aim of this chapter is to analyze the Space3 and Space4 IPOs/Demerger and business combination with a focus on the items previously discussed: constitution, units and warrants, dilution, voting dynamics of the shareholders' meeting and withdrawal right. Space3 is the third SPAC promoted by Space Holding, a five senior advisors' team with significant and complementary professional backgrounds. Space3 demerged from Space2 in 2017, it was listed on the regulated market for investment vehicles, the MIV and with c. €153 million of cash it was the largest Italian SPAC (in April 2017).

Its aim was to find a company that is an example of Italian industrial excellence and interested in opening its capital to institutional investors through the listing of its shares on the stock exchange.¹⁷² At the time of the demerger, Space3 received €152,797,144 of cash from Space2 (in addition to €50,000 of share capital: 5,000 ordinary shares with €10 per share book value, already paid by Space2 at the time of Space3 constitution). As the consequence of the capital increase of €15,372,500 (functional to the merger with Aquafil) through the issue of 14,995,000 ordinary shares and 400,000 special shares (meant to SPAC promoters) the total amount of shares was 15,400,000 (15 million of ordinary ones and 400,000 of special ones).¹⁷³ Space3 shareholders equity at the first semester of 2017 was 151,748,332 (€15,422,500 share capital, €137,421,644 capital reserve and capital loss for 1,095,812).¹⁷⁴

The pre-business combination Space3 shareholding was¹⁷⁵: (i) Multilabel Sicav: 7.07%; (ii) Del Vecchio Leonardo: 6.00%; (iii) Pioneer Investment Management Sgr: 5.00%¹⁷⁶ and 81.93% was held by the market. The shareholding composition reported above was the same of the Space2 one since the operation of demerger did not affect the shareholding of the SPAC. Subsequently to the demerger plan ("Progetto di Scissione") approval by the shareholders' meeting of Space3, the vehicle presented the request for admission to

¹⁷⁰ With a proven track record in enhancing the shareholder value of public and privately-owned companies

¹⁷¹ Space Holding, Company Team Contacts

Source: <https://www.spaceholding.it/en/index.html>

¹⁷² Space3, Space3 S.p.A.

Source: <https://www.space3spa.com/space3-s-p-a.html>

¹⁷³ Space3 – Demerger, Progetto di scissione

Source: <https://www.space3spa.com/en/investor-relations/demerger.html>

¹⁷⁴ Space3 – Financial reports, Relazione finanziaria semestrale al 30 giugno 2017, p. 4

Source: <https://www.space3spa.com/static/upload/spa/space-3-bilancio-sem-300617.pdf>

¹⁷⁵ Shareholders with more than the 5% of the share capital;

¹⁷⁶ Space3 – Demerger, Relazione del consiglio di amministrazione di Space3 S.p.A. sul progetto di scissione parziale e proporzionale di Space2 S.p.A. in favore di Space3 S.p.A.

Source: <https://www.space3spa.com/static/upload/10/10.-aggiornamento-relazione-cda-space3---scissione.pdf>

listing on the MIV stock exchange for their shares and warrants to the Italian authorities. The admission to listing approval, in fact, is a mandatory condition for the completion of the demerger and for being listed on a regulated market. Space3 also issued 3,750,000 market warrants (assigned to shareholders with a ratio of 1 warrant every 4 ordinary shares) which traded separately from ordinary shares on the MIV. Moreover, shareholders had the right to receive 3,750,000 warrants more at the time of the business combination (1 warrant every 4 ordinary shares). In addition, the extraordinary shareholders' meeting of the vehicle approved a capital increase (with no rights issue) of 2,034,885 shares (Azioni di Compendio, €0.10 each: €203,488.50) to serve market warrants.¹⁷⁷ As reported in the second chapter, the formula used by the SPAC to calculate the number of shares to assign for each warrant was Np. Since Space3 set a threshold price for the exercise of market warrants (Prezzo di Accelerazione) the formula used to calculate the number of shares assigned for each warrant in case the share price would be higher than €13.0 was Nt.

Space3 issued 800,000 sponsor warrants assigned to its promoters (€13.0 strike price)¹⁷⁸ and the extraordinary assembly approved a capital increase of €10,400,000 issuing at most 800,000 ordinary shares (Azioni di Compendio) to enable the exercise of them.¹⁷⁹ Differently from market warrants, they gave the right to underwrite one (1) Azione di Compendio paying the strike price and diluting the ownership of company shareholders. Sponsor warrants and special shares are tools to remunerate SPAC promoters and are strictly linked to the performance of the company (post-business combination).

The SPAC assigned also 400,000 special shares to its promoters giving them the right to get 4.5 ordinary shares from each special one. They can be exercised after the completion of the business combination and contingent on certain conditions to be met. Once Aquafil was chosen as target company by promoters and the deal was approved by the Board of Directors of Space3, the ordinary and extraordinary shareholders' meeting was called by the BoD to approve the business combination and the merger plan. The business combination can be divided into two steps occurring simultaneously upon merger completion. The acquisition: Space3 acquired 24% interest in Aquafil from Aquafin Capital S.p.A. (for a total cash consideration of €108 million and €450 million EqV) and the reverse merger of Aquafil into the SPAC.¹⁸⁰ At the time of the business combination Aquafin Capital shareholding was: Aquafin Holding: 85.4%; TH IV: 9.0%; TH Fides: 4.5%; La Finanziaria trentina 1.2%.¹⁸¹

Shareholders' meeting of Space3 (Joint Stock Company listed on a regulated stock exchange) approved each issue in the first call with more than 60% of the total share capital (15,000,000 shares) voting in favor.¹⁸² Space3 shareholders who do not agree with the merger were entitled to exercise the right to withdraw in accordance with the law. Since any shareholder exercised its right to withdraw until the time limit, the business combination was completed with success and any share was refunded. Given the complexity of the business combination, Space3 and Aquafil prepared an investor presentation aiming to educate about the target and the transaction. Aquafil is engaged in nylon fibers and polymers production, offering flooring solutions as well as fashion and

¹⁷⁷ Terms and conditions are reported by the third point of it

¹⁷⁸ They are regulated by the "Regolamento dei sponsor warrant Aquafil S.p.A."

¹⁷⁹ In the context of this offering any right issue can be exercised by company shareholders

¹⁸⁰ Space3 – Investor relations, Business Combination, Comunicato stampa: 15 giugno 2017

Source: <https://www.space3spa.com/static/upload/spa/space3--comunicato-14-giugno-2017n.pdf>

¹⁸¹ Space3 – Investor relations, Business Combination, Investor presentation

Source: <https://www.space3spa.com/static/upload/201/201706-project-water---investor-presentation-v197.pdf>

¹⁸² Space3 – General meetings, Rendiconto sintetico delle votazioni ai sensi dell'art. 125-quater, comma 2 del D. Lgs. 58/1998

Source: https://www.space3spa.com/static/upload/201/2017-07-28_rendiconto-sintetico.pdf

sportswear textile applications.¹⁸³ Bonazzi family (Aquafin Holding) is the majority shareholder of the company and Giulio Bonazzi is its Chairman and CEO.

2016 Aquafil Revenues were €483 million, 2017 expected (2017E) Revenues were c. €525 million and 13.6% EBITDA margin (€71.5 million). 2017E Net Financial Position Pro-Forma at the Business Combination was 1.7x EBITDA (c. €121.6 million of debt). Aquafil estimated Enterprise Value (EV) was €615 million. Implied multiples on 2017 financials were: (i) EV/EBITDA multiple: c. 8.6x, (ii) EV/EBIT multiple: c. 13.8x, (iii) P/E multiple: c. 17.6x. From the EV formula, we can compute the EqV of the company. EV = Equity Value + Net Financial Position + Minority Interests – Associates.

Given Aquafil Minority Interests and Associates were nil, the Equity Value was equal to EV – Net Financial Position. 2017E Net Financial Position was equal to €165 million and Aquafil 2017E EqV was: 615 – 165 = €450 million¹⁸⁴ (cash consideration paid from Space3 to Aquafin Capital S.p.A. for the 24% interest acquisition was €108 million).¹⁸⁵ Due to the closing of the acquisition, Space3 shareholders' meeting approved the merger plan between Space and Aquafil. Total shares of Aquafil at the time of the acquisition were 26,542,000; Space3 acquired 6,370,080 of them (€16.9543 each). Post-acquisition shareholding was: (i) Aquafin Holding: 17,518,409 (66.00%), (ii) Space3: 6,370,080 (24.00%), (iii) TH IV: 1,738,568 (6.55%), (iv) Managers: 590,542 (2.22%), (v) Quaestio: 324,401 (1.22%)¹⁸⁶

At the time of the merger, Aquafil shareholders (excluding Space3) received new issued shares of Space3. The exchange ratio ("Tasso di Concambio") was: 1.69543 new Space3 ordinary shares for each old Aquafil share. Moreover, 140,000 special shares of Space3 were converted into 630,000 new issued ordinary shares.¹⁸⁷ Hence, once the merger was completed, the market capitalization of the new company (which assumed the name of Aquafil) was €408.9 million and shares issued were 50,090,078 (41,514,058 listed shares: Class A, 8,316,020 unlisted shares: Class B and 260,000 special shares: Class C). Furthermore, once the merger was completed, shareholding dilution was the consequence of the exercise of the 35% special shares (140,000 special shares were converted into 630,000 ordinary shares; 4.5-to-1) and Space3 shareholding increased from 31.05% (in case of special shares not exercised) to 31.72%.¹⁸⁸ Moreover, pro-forma shareholding was also computed in case the share price would have reached €13.00 per share (Prezzo di Accelerazione and threshold price for the exercise of the 100% of special shares). All special shares would be exercised and market warrants too (but pre-exercise of sponsor warrants). Market warrants issued by Space3 were 7,500,000 and the number of shares to assign for each of them is:

$$Nt = \frac{13 - 9.5}{13 - 0.10} = 0.27131783 \text{ shares}$$

Total number of shares assigned to warrants holders would be: 7,500,000 * Nt = 2,034,884. In addition, number of shares issued at the time of the conversion of the special ones would be: 400,000 * 4.5 = 1,800,000. Issued shares by Aquafil in this scenario would be 53,034,962 (Space3: 35.51%). In addition, Space3 assigned 800,000 warrants to its promoters which would be converted once the share price of the new firm will exceed

¹⁸³ Space3 – Investor relations, Business Combination, Investor presentation

Source: <https://www.space3spa.com/en/investor-relations/business-combination.html>

¹⁸⁴ *Ibidem*

¹⁸⁵ *Ibidem*

¹⁸⁶ Space3 – Investor Relations, General Meetings, Progetto di Fusione

Source: <https://www.space3spa.com/static/upload/wat/water---progetto-di-fusione.pdf>

¹⁸⁷ Resulting from the merger

¹⁸⁸ Space3 – Investor Relations, Business combination, Investor Presentation

Source: <https://www.space3spa.com/static/upload/201706-project-water---investor-presentation-v197.pdf>

€13.00. In this scenario, shareholders bear a dilution of their ownership into the company since the new issuance does not affect the share price, but the percentage of ownership held by each of them. The conversion of special shares affects the share price since the new issuance dilutes the capital value held by each shareholder. The market capitalization does not vary while the number of shares issued increases. On the other hand, the exercise of warrants (which traded on the stock exchange at a certain price), does not affect the share price of the company since the chance they would be exercised is just considered by the market and it is implicit into the price.¹⁸⁹

Table 1: Post-dilution shareholding – share price €13.00



Shareholders	%	Ordinary shares		Diluted Market cap.	Market cap.
		No. of Shares	No. of Shares listed		
Aquafil Holding	55.17	29,701,236	21,385,216	267,014,274	278,007,808
TH IV	5.48	2,947,620	2,947,620	36,803,772	38,319,060
Multilabel SICAV	2.24	1,204,366	1,204,366	15,037,628	15,656,758
<i>of which from market warrants</i>	0.27	143,866	143,866	1,796,304	1,870,262
Aquafil Managers	1.86	1,001,223	1,001,223	12,501,199	13,015,899
Del Vecchio Leonardo	1.90	1,022,093	1,022,093	12,761,780	13,287,209
<i>of which from market warrants</i>	0.23	122,093	122,093	1,524,445	1,587,209
Space Holding	4.83	2,600,000	2,600,000	32,463,414	10,400,000
<i>of which from special shares</i>	0.52	1,800,000	1,800,000	22,474,671	-
<i>of which from sponsor warrants</i>	0.01	800,000	800,000	9,988,743	10,400,000
Quaestio	1.02	549,999	549,999	6,867,248	7,149,987
Pioneer Inv. Mgmt Sgr	1.58	851,744	851,744	10,634,815	11,072,672
<i>of which from market warrants</i>	0.19	101,744	101,744	1,270,371	1,322,674
Market	25.92	13,956,680	13,956,680	174,262,106	181,436,840
<i>of which from market warrants</i>	3.10	1,667,180	1,667,180	20,816,293	21,673,343
Total	100.00	53,834,962	45,518,942	568,346,233	568,346,233

Source: personal elaboration

Table 2: Share price post-dilution with full exercise of warrants and special shares

Share price dilution		
Share price pre-dilution (€)	10.00	13.00
No. Of ordinary shares pre-dilution	41,262,846	43,718,942
Market cap.	412,628,462	568,346,246
Special shares converted	140,000	400,000
Ordinary shares from the conversion	630,000	1,800,000
No. Of ordinary shares post-dilution	41,892,846	45,518,942
Share price post-dilution (€)	9.85	12.49
Dilution (€)	0.15	0.51
Dilution (%)	1.50	3.95

Source: personal elaboration

As the consequence of the exercise, warrants holders received new shares and Aquafil shareholding is diluted.

¹⁸⁹ M. Fumagalli, Lo sviluppo delle SPAC (Special Purpose Acquisition Company) in Italia, un nuovo modo di fare private equity e di quotare le imprese in Borsa, p. 88, 2014

3.2 Space4/Guala Closures: main differences with Space3/Aquafil

Space3 and Space4 represents respectively the third and the fourth SPACs promoted by Space Holding S.p.A. and they were established in two different ways. Space3 is the result of a €150 million demerger from Space2 in the context of the business combination with Avio. On the other hand, Space4 was created through a standard IPO process. It was constituted as a SIV (Special Investment Vehicle) on September 2017 to complete the business combination with a 24 months term from the IPO. Its initial share capital was €100,000 (10,000 ordinary shares, €10 each).

Space4 raised €512,400,000 of which €500,000,000 through the issuance of 50,000,000 ordinary shares via public offering and €12,400,000 issuing 1,240,000 special shares reserved to sponsors. As the consequence of the IPO, sponsors held 1,250,000 special shares and €12,500,000 share capital since 10,000 initial shares were converted into special ones as well. Special shares are not entitled to ordinary dividends, do not have voting rights and convert in ordinary share with a 4.5-1 ratio at certain triggers.¹⁹⁰ Special shares conversion will dilute the share capital percentage and value held by company shareholders.¹⁹¹ Furthermore, Space4 issued 2,500,000 sponsor warrants and 20,000,000 market warrants (4 warrants every 10 shares; 2 at the time of the IPO and 2 at the time of the business combination).

Founded in Italy in 1954 Guala Closures Group is today a leading global producer of non-refillable and aluminum closures for spirits, wine, oil and vinegar, water and beverages, food and pharmaceuticals. It operates in 5 continents through 29 production plants and a sales network covering over 100 countries.¹⁹² Prior to combination, Guala was controlled by Private Equity Investors (85.2% stake) and participated by managers (14.8%). Mr. Marco Giovannini (founder) was Guala Closures Chairman and CEO. In 2017 the company reported Revenues of €535 million.¹⁹³

Business combination process can be divided into three steps occurring simultaneously upon merger completion. The first one was the Acquisiton: Space4 jointly with Peninsula (PII) and Quaestio acquired 81.2% interest in Guala Closures for a total cash consideration of €409 million from Private Equity investors and Management (through GCL Holding S.p.A.) and they remained invested with a 4.0% and 14.8% stake respectively. The second step was the €25 million capital increased reserved and fully underwritten by Guala Closures Management. Shares were also linked to market warrants (1 million) giving the rights to the holders to subscribe for a new share for every warrant post business combination at a price of €13 per share. The total Guala Closures management team investment was a €100 million. The last one was the merger by incorporation of Guala Closures into Space4. Guala Closures shareholders (i.e. Peninsula, Quaestio, Management and residual Private Equity Investors) received 0.675381 new shares of Space4 in exchange for each old share (implying a share price equal to €6.75381, corresponding to an equity value of €504m on the basis Space4 price per share of €10.00).¹⁹⁴ Upon merger completion, Guala Closures asked to be admitted to trading on MTA (STAR segment) leaving the MIV stock exchange.

Guala Closures was valued using Discounted Cash Flow and Multiples methods. GCL Enterprise Value (EV) was €1,079 million and the Equity Value (EqV) was €503.7

¹⁹⁰ Space4 – Investor relations, Business combination, Investor presentation

Source: https://www.space4spa.com/static/upload/pro/project-giove_investor-presentation_020518-vfinal.pdf

¹⁹¹ As reported by the Space4 “Documento di Ammissione”

¹⁹² Guala Closures, The company

Source: <https://www.gualaclosures.com/category/thecompany/>

¹⁹³ Space4 – Investor relations, Business combination, Investor presentation

Source: https://www.space4spa.com/static/upload/pro/project-giove_investor-presentation_020518-vfinal.pdf

¹⁹⁴ Space4 – Investor relations, Business combination, Investor presentation

Source: https://www.space4spa.com/static/upload/pro/project-giove_investor-presentation_020518-vfinal.pdf

million [EqV = 1,079.0 – 552.5 (Net Financial Position) – 6.4 (TFR = employee benefit) – 16.4 (Minority Interest) = 503.7]. Implied multiples on 2017 financials were: (i) EV/EBITDA multiple: c. 9.1x, (ii) P/E multiple pre-money: c. 23.7x, (iii) P/E multiple post-money: c. 19.7x. Since the Space4 Equity Value was €503.7 million, the value of the majority stake (81.2%) acquired was €409 million.¹⁹⁵

Differently from the business combination approval by Space3 shareholders' meeting, Space4 ordinary and extraordinary meeting approved the transaction with a lower percentage of votes favorable. Nevertheless, each item proposed was approved but some investors who did not participate in the shareholders' meeting or which abstained or voted against the transaction exercised the withdrawal right in accordance with the Civil Code dispositions. 6,378,568 ordinary shares (12.76%) were withdrawn by June 13th, 2018. Nevertheless, the business combination was successfully completed since the percentage of right of withdraw was lower than the 33% of the share capital of the SPAC (the maximum threshold set by Space4 as a mandatory condition for the efficacy of the combination). The value of liquidation for each share was set to €9.903 in accordance with the article 7 of the bylaw of the SPAC and the article 2437-ter of the Civil Code. Withdrawn shares were offered to Space4 shareholders: 3,162,992 (6.33%) of them were purchased and 1,514,692 (3.03%) in addition were bought by PII and Quaestio. Nevertheless, 1,700,884 (3.40%) shares remained unsold implying a decrease of the stake into Guala Closures.¹⁹⁶

Guala shareholding post combination resulting as follows: (i) Guala Closures: 9,566,616 (14.24%), (ii) Peninsula II Capital: 6,613,614 (9.84%), (iii) GCL Holdings LP S.à.r.l.: 4,226,805 (6.29%), (iv) Space Holding: 3,159,887 (4.70%), (v) Quaestio: 2,504,897 (3.73%), (vi) Private Equity Opportunities Fund II SCS-SIF: 573,195 (0.85%), (vii) Space4 investors: 40,539,860 (60.34%)

3.3 The recent rejection of DeA Capital/Agrati

IDeaMI is the first SPAC promoted by Banca IMI and DeA Capital; targeting medium-sized, non-listed, Italian companies with high value-creation potential. IDEaMI focused on aligning the interests of investors and promoters, supported by an innovative structure and by the significant financial commitment of its promoters who have invested in ordinary shares of the SPAC totaling 16.5% of the capital raised. It was constituted as a Joint Stock Company (S.p.A.) at the beginning of November 2017 with €100,000 share capital (10,000 shares issued, €10 each) and the aim to be listed on the AIM stock exchange (target fund raising was set at €200 million - or at most 250) and with a 24 months term to complete the business combination.¹⁹⁷ IDEaMI issued 25,000,000 ordinary shares and 865,000 special shares at €10 each raising €250,865,000 in total. 10,000 shares issued at the time of its constitution were converted into special ones. Units were composed of 5 warrants each 10 shares; 2 at the beginning of the trading period and 3 at the time of the completion of the business combination.

Promoters subscribed 4,125,000 ordinary shares (16.5% of the total offering) and 875,000 special shares, which are not listed and not entitled to ordinary dividends, do not have voting rights, and convert into ordinary shares with a 6-to-1 ratio. IDEaMI must complete the deal by the earliest date among the 31st of December 2020 and the end of the 24th month from the IPO. However, the SPAC would have six additional months in case an

¹⁹⁵ *Ibidem*

¹⁹⁶ Space4 – News, Press Releases, Risultati definitivi in merito all'esercizio del diritto di recesso
Source: <https://www.space4spa.com/en/press/press-releases/risultati-definitivi-in-merito-all-esercizio-del-diritto-di-recesso.html>

¹⁹⁷ IDEaMI – Corporate Governance, Documenti societari, Statuto
Source: <http://www.ideamispac.com/Allegati/Statuto.pdf>

agreement between IDEaMI and the target firm (aiming to complete the business combination) would be subscribed and communicated to the market.¹⁹⁸

The shareholders' meeting of the SPAC approved a capital increase for a maximum amount of €405,875 (issuing 4,058,750 Azioni di compendio at €0.10 euro each) to serve the exercise of market warrants. Number of shares assigned for each warrant is Np. In addition, IDEaMI fixed a threshold price not to dilute more than a certain amount the company shareholding and to put a limit to capital gains provided by warrants. In the latter case, if the share price will exceed the Prezzo di Accelerazione (€15.5), the number of shares assigned for each warrant will be:

$$\frac{(15.5 - 10.5)}{(15.5 - 0.10)} = 0.3247$$

Given the highest number of market warrants issued would be 12,500,000 and Nt equal to 0.3247, Azioni di Compendio issued for this purpose will be 4,058,750 (12,500,000 * 0.3247). Ordinary shares are currently trading on the AIM stock exchange while special ones are not listed and can be converted in the following way: (i) 20% are converted at the time of the business combination (ii) 20% in addition is converted if - by 48 months from the business combination – the share price would exceed €11 for a period of 15 days out of 30 consecutive trading days, (iii) 20% in addition is converted if the share price would exceed €12, (iv) 20% in addition is converted if the share price would exceed €13, (v) 20% in addition is converted if the share price would exceed €14. Alternatively, each special share will be automatically converted into one ordinary share after 48 months from the completion of the business combination without any modification of the share capital of the company.¹⁹⁹ Once Agrati was chosen as target company IDEaMI, Agrati and Agrati Holding S.p.A. (the owner of 100% of Agrati's share capital) signed an agreement governing, among other issues, the merger (the "Framework Agreement"). In addition, they approved the plan for the business combination and the merger (the "Merger Plan"), and IDEaMI called the shareholders' meeting to vote on the transaction with first and second calls on 30th November 2018 and 3rd December 2018 respectively.²⁰⁰ In addition, IDEaMI organized an Investor presentation meeting²⁰¹ analyzing key items about Agrati: Investments highlights, Company overview, Positioning and perspectives, Key financials and the Transaction overview. Founded in 1939 in Veduggio, north of Milan, Agrati engages in the development, production, and distribution of fastening systems and advanced solutions mainly in the automotive market. Its main products are Bolts, Nuts, Special Screws and AFP. Cesare Agrati is the President and CEO of the company while Paolo Pozzi is the group CEO. Its share capital at the time of the business combination was €20,000,000 (20,000,000 shares issued).²⁰² After Investor Presentation, shareholders were called in ordinary and extraordinary meeting to approve the business combination. Notice of call for shareholders' meeting was published on 30 October 2017 on Milano Finanza. The plan for the reverse merger of Agrati into IDEaMI envisaged the acquisition of 2,964,427 Agrati shares from the SPAC in the first place (or at least 2,371,542 shares in case 30 % of IDEaMI shareholders will exercise their right of

¹⁹⁸ Going also beyond the 24th month from the IPO

¹⁹⁹ IDEaMI – Investor Relations, IPO, Documento di ammissione

Source: http://www.ideamispac.com/Allegati/Documento_di_ammissione.pdf

²⁰⁰ IDraMI – Investor Relations, Comunicati stampa, Comunicato Stampa Business Combination IDEaMI-Agrati




Source: <http://www.ideamispac.com/upload/news/eng/Comunicato%20Stampa%20Business%20Combination%20IDEaMI-Agrati.pdf>

²⁰¹ To provide investors necessary information to consciously vote the approval or the rejection of the business combination

²⁰² *Ibidem*

withdraw). Then, a capital increase of IDEaMI will be aimed to cancel Agrati ordinary shares giving its shareholders 2.53 new issued shares for each of the old one.²⁰³ Company 2017 Revenues were c. €658 million, 15.5% EBITDA margin (€102.0 million) and Net Financial Position was €234.6 million (2.3x EBITDA). Agrati Enterprise Value (EV) was computed based on financial results about 1H2018, and it amounts to €713 million; hence, the Equity Value (EqV) was €506 million [EqV = 713 – 215 (Net Financial Position) + 8 (surplus asset related to minority shareholding in ABF) = 506]. Implied multiples on 1H2018 financials were: (i) EV/EBITDA adj. multiple: c. 7.0x, (ii) EV/EBIT adj.: c. 11.0x.²⁰⁴ Given the Equity Value of Agrati was €506 million, the value of the minority stake (14.82%) acquired from the SPAC amounted to €75 million.²⁰⁵ Agrati Holding will hold 17,035,573 ordinary shares which will be converted into 2.53 IDEaMI new shares each (43,100,000 in total) for the purpose of the merger.

Table 3: Agrati pre and post-merger shareholding

			 		
Ordinary shares			Ordinary shares		
Shareholders	%	No. of Shares	Shareholders	%	No. of Shares
Agrati Holding	85.18	17,035,573	Agrati Holding	63.29	43,100,000
IDEaMI	14.82	2,964,427	<i>of which from the exchange</i>		43,100,000
			Banca IMI	3.03	2,062,500
			DeA Capital	3.03	2,062,500
			Market	30.65	20,875,000
<i>Total</i>	100.00	20,000,000	<i>Total</i>	100.00	68,100,000

Source: personal elaboration on IDEaMI – Operazione rilevante, Progetto di fusione

The effects of dilution would have occurred at the time of the business combination (special shares conversion) and of the warrants exercise. At the time of the merger, number of shares issued from the new company is 68,100,000 (€10 each).

The transaction includes also to provide 5,046,359 “Diritti di assegnazione” to Agrati that will be converted into ordinary shares until the earliest of the following deadlines: five years after the business combination efficacy or 60 days from the beginning of the “Condizione di accelerazione”. “Diritti di assegnazione” are financial tools very similar to warrants; they have a strike price (€10.5), a barrier price (prezzo barriera: €13.0) and a threshold price (prezzo soglia: €15.5). Their exercise is linked to the share price of the company and they can be converted into ordinary shares in case it will exceed the barrier price. The highest number of shares assigned for each “Diritto di assegnazione” is:

$$\frac{(15.5 - 10.5)}{15.5} = 0.3226$$

Hence, the maximum number of ordinary shares issued for this purpose is: $0.3226 * 5,046,359 = 1,627,955$.²⁰⁶ Moreover, the merger plan entails that Agrati purchases 240,624 special shares from Banca IMI and DeA Capital (in equal parts) that will be converted as it is laid down by the bylaw of the SPAC. Hence, given the conversion of

²⁰³ IDEaMI – Operazione rilevante, Progetto di fusione con allegati

Source: <http://www.ideamispac.com/upload/news/ita/Progetto%20di%20fusione%20con%20allegati.PDF>

²⁰⁴ IDEaMI – Operazione rilevante, Investor presentation

Source: <http://www.ideamispac.com/upload/news/ita/IDEaMI-Agrati%20Investor%20Presentation.pdf>

²⁰⁵ *Ibidem*

²⁰⁶ IDEaMI – Operazione rilevante, Progetto di fusione con allegati

Source: <http://www.ideamispac.com/upload/news/ita/Progetto%20di%20fusione%20con%20allegati.PDF>

the 20% of them at the time of the business combination, 1,050,000 (175,000*6) new ordinary shares will be issued and assigned to Agrati: 288,749 and SPAC promoters: 761,251.²⁰⁷

At this time, IDEaMI and DeA Capital will own 3.5% each of voting shares (2,062,500 ordinary shares purchased at the time of the IPO and 380,626 shares provided by the conversion of the special ones) and Agrati and SPAC investors shareholding will be diluted. The market capitalization of the new company will be €681(33.2% free float: market shares + Banca IMI's without look up)²⁰⁸ and ordinary shares at the time of the business combination assuming the no withdrawal hypothesis are 69,150,000 million (share price: €9.85; €0.15 dilution). Banca IMI and DeA Capital stake value is €24.04 million each (a significant capital gain considering it valued €20.63 million before the business combination). Finally, Agrati shareholding will be the following: (i) Agrati Holding: 43,388,749 (62.75%), (ii) Banca IMI: 2,443,126 (3.53%), (iii) DeA Capital: 2,443,126 (3.53%), (iv) Market: 20,875,000 (30.19%).²⁰⁹ Moreover, once the business combination is completed, in case the share price will exceed €14.0 per share, “Diritti di assegnazione”, 100% of special shares and market warrants will be converted/exercised.²¹⁰ Tables below shows the dilution and shareholding as the consequence of a €15.5 share price and the full conversion of financial tools previously discussed. In this case, 5,250,000 ordinary shares are provided from the conversion of special ones (free); 4,058,750 shares (paying the exercise price, €0.10 for each warrant, €405,875 in total) are issued as the consequence of market warrants exercise and 1,627,955 from “Diritti di assegnazione”.²¹¹

Market warrants exercise should not affect the share price of the company since the dilution they cause should be implicit into the price of the units. The dilution faced by Agrati Holding must be considered in terms of the ownership of the firm: issuing new shares assigned to warrant holders, their percentage of shareholding decrease.

Table 4: Share price post-dilution with full exercise of warrants, “Diritti di assegnazione” and special shares conversion

Share price dilution		
Share price pre-dilution (€)	10.00	15.50
No. Of ordinary shares pre-dilution	68,100,000	73,786,705
Market cap.	681,000,000	1,143,693,928
Special shares converted	175,000	875,000
Ordinary shares from the conversion	1,050,000	5,250,000
No. Of ordinary shares post-dilution	69,150,000	79,036,705
Share price post-dilution (€)	9.85	14.47
Dilution (€)	0.15	1.03
Dilution (%)	1.52	6.64

Source: personal elaboration on IDEaMI – Operazione rilevante, Progetto di fusione

On the other hand, special shares would dilute the share price of the firm since new shares are issued free and assigned to promoters in a 6-to-1 conversion ratio.

²⁰⁷ *Ibidem*

²⁰⁸ IDEaMI – Operazione rilevante, Investor presentation

Source: <http://www.ideamispac.com/upload/news/ita/IDEaMI-Agrati%20Investor%20Presentation.pdf>

²⁰⁹ *Ibidem*

²¹⁰ *Ibidem*

²¹¹ IDEaMI – Operazione rilevante, Progetto di fusione con allegati

Source: <http://www.ideamispac.com/upload/news/ita/Progetto%20di%20fusione%20con%20allegati.PDF>

Table 5: Post-business combination shareholding - share price €15.50

Shareholders	%	No. of Shares	Diluted market cap.	Market cap.
Agrati Holding	58.42	46,171,699	668,123,649	693,283,303
<i>of which from "Diritti di assegnazione"</i>		1,627,955	23,557,185	25,233,303
<i>of which from the exchange</i>		43,100,000	623,674,890	668,050,000
<i>of which from the special shares conversion</i>		1,443,744	20,891,575	-
Banca IMI	5.44	4,300,475	62,229,656	37,158,877
<i>of which from exercise of market warrant</i>		334,847	4,845,373	5,190,127
<i>of which from the special shares conversion</i>		1,903,128	27,539,052	-
DeA Capital	5.44	4,300,475	62,229,656	37,158,877
<i>of which from exercise of market warrant</i>		334,847	4,845,373	5,190,127
<i>of which from the special shares conversion</i>		1,903,128	27,539,052	-
Market	30.70	24,264,056	351,110,965	376,092,872
<i>of which from exercise of market warrant</i>		3,389,056	49,041,051	52,530,372
Total	100.00	79,036,705	1,143,693,928	1,143,693,928

Source: personal elaboration on IDEaMI – Operazione rilevante, Progetto di fusione

Promoters' shareholding increases from 3.53% to 5.44%. In this scenario, share price falls from €15.5 to €14.47 since new shares are issued free. Capital gains obtained by promoters dilutes company shareholding.

Shareholders' meeting was summoned in the first and second call to approve the business combination. Constitutive quorum was not reached in the first call.²¹² Hence, it came back to vote in second call and the deliberative quorum in the EGM was not reached. As the consequence, as it can be read from the extract of the minute of IDEaMI shareholders' meeting, the notary of the assembly acknowledged the rejection of the merger plan and the assemblies were interrupted.²¹³ Business combination rejection was mainly linked to three causes: financial market instability (uncertainty about the Italian political environment), the low performance of mid-cap Italian market and the loss of appeal of Special Purpose Acquisition Companies. The failure of the deal was not linked, in fact, with corporate performance but with the strong volatility of the Italian stock market. FTSE MIB particularly, from May to December, struggling with a macroeconomic slowdown and with the skyrocketing spread (c. 270 basis points) for the Government economic maneuver, has lost almost 24%. In addition, FTSE AIM Italia fell 11% in the same period.

CONCLUSION

In my research I mainly analyzed how the business combination works and its timeline and costs. Moreover, I focused on the SPAC mechanics, the Initial Public Offering and the milestone of the business combination vote: dilution mechanics, voting dynamics and the withdrawal rights issue.

Once the SPAC is listed and the target firm is scouted, the purpose of the vehicle is to complete the business combination. The approval of the combination and the merger plan from the shareholders' meeting is a main step for the completion of the operation. Shareholders' meeting is usually called in a first and second call to approve all the necessary items for the completion of the combination. In this context the withdrawal rights issue is a unique guarantee offered to investors who disagree with the business

²¹² IDEaMI – Operazione rilevante, Verbale Assemblea ordinaria e straordinaria

Source: <http://www.ideamispac.com/upload/news/ita/Verbale%20assemblea%20IDEaMI.pdf>

²¹³ The approval of this issue was propaedeutic to the follow one

combination. Basically, once the shareholders' meeting of the SPAC is called to decide whether to approve or not the transaction those shareholders who voted against the approval and those who abstained from the vote can withdraw from their investment and to get back the capital invested. At the same time, when the business combination is completed, the exercise and conversion of warrants and special shares held by SPAC investors and promoters may dilute the shareholding and the share price of the firm.

The case studies on the successful transactions of Space Holding and the rejection of DeA Capital/Agrati are the focus of the last chapter. As it emerges from the analysis, going public and invest in a SPAC have some pros and cons compared to the standard IPOs. The timing to going public through a SPAC is shorter than the Initial Public Offering, SPACs are low time consuming for the management team and the costs of going public mainly consist in promoters' incentives and they are diluted in time. I compared them with the ones usually bear in the context of an IPO.

Even if the main causes of the recent rejection of IDeaMI/Agrati business combination can be brought back to the financial market instability, the uncertainty about the Italian political environment and the low performance of mid-cap Italian market; the high cost to face with (also compared with a standard IPO) could be one of the reason for the lack of appeal of the SPAC.