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Management

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The rise of Special Purpose Acquisition Vehicles: Why are blank check companies becoming an attractive alternative to IPO’s and to what extent is this trend related to the pandemic?

Bruno Riccardo
Supervisor

Torrisi Alfio
Co-supervisor

Youssef Kerkeni
Candidate

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1. INTRODUCTION

1.1. Background and overview

A special purpose acquisition company, also known as a "blank check company" is a shell corporation listed on a stock exchange with the purpose of acquiring a private company, thus making it public without going through the traditional initial public offering process. According to the U.S. Securities and Exchange Commission (SEC), "A SPAC is created specifically to pool funds in order to finance a merger or acquisition opportunity within a set timeframe. The opportunity usually has yet to be identified".

Such an alternative can offer companies a faster and more certain method to go public and avoid potential uncertainty through Initial public Offering and to avoid major disappointments such as the case for WeWork, Lyft and Uber IPO's. Most of all, at a time where the market is volatile during the ongoing covid pandemic.

Initial public offerings of Special purpose acquisition companies in the US have witnessed an unprecedented surge over the past year. As a matter of fact, they represented about half of all US IPOs during 2020 and it is not showing any sign of slowing down. During the first three months of 2021, SPACs made a total of 80% of all IPOs in the United States and overtook 2020 haul in less than 3 months (Franklin 1).

According to Special Purpose Acquisition Company Database, from 2004 through 2018, approximately $49.14 billion was raised across 332 SPAC IPOs in the United States. NASDAQ was the most common listing exchange for SPACs in 2018, with 34 SPACs raising $6.4bn. GS Acquisition Holdings Corp. and Churchill Capital Corp. raised the largest SPACs of 2018, with $690 million each in IPO proceeds. In 2019, 59 SPAC IPO's raised $13.6 billion. Nearly 250 SPACs raised more than $83 billion in 2020. In the first three months of 2021 there were 291 SPACs raising a total of $95 billion.

SPAC-mania, SPAC-tacular and SPAC explosion are all referring to this phenomena that drew a lot of attention over the last year. While this trend is synchronized with the current covid pandemic, Some academics attribute this success to other reasons such as a change

in regulations that allowed investors to vote in favor of a deal but at the same time redeem their shares and get their cash back, holding onto their warrants. This means they can always get their cash back, and the free warrants become valuable if the share price of the SPAC rises after a deal is consummated, a game changer according to Jean Pierre Verster, CEO of Protea Capital (Verster, 1).

SPACs have shown to be of a particular interest from innovative tech startup companies wanting to be listed and investors who are chasing exponential growth. Major deals, such as NIKOLA, Lucid, ETORO, DraftKings among others have led the way to other tech companies, Which are growing more and more attracted to this alternative due to their inherent risk profile and as well as the increasing demand from investors who are aspiring for Tesla like returns.

The latest trend have led to the emergence of SPAC leaders from prominent financial figures to political figures and even celebrities and athletes. Some of the most high-profile investors have sought to raise cash in blank cheque companies, believing they have the special eye to find under-appreciated businesses which they can bring to the public markets. By using SPACs, they can avoid the expensive and time-consuming IPO process. This is explained by the nature of SPACs that relies heavily on the operative experience of the sponsors as well as his track record which becomes crucial when you invest in a shell company before it even identifies a potential target. In this way, you are actual investing in the person and his ability to identify a target that promises high returns. From hedge fund billionaire Bill Ackman, social capital CEO Chamath Palihapitiya, to former speaker of United States house of representatives Pau Ryan, rapper Jay-Z and basketball legend Shaquille O'Neal, These are the face of SPACs and the list goes long.

Another reason behind this trend is the "new" reputation of SPACs, "One key driver of the boom in special-purpose acquisition companies is a reputational shift." (Ramkumar, 1). In fact, Blank-check companies have been associated with different frauds and

schemes for decades and had to undergo several regulatory reforms since they first appeared in the 1980's.

Nevertheless, The "new" SPAC reputation is still questioned and the skepticism did not vanish." The SPAC structure itself seems engineered to attract fraud," says Gabriel Grego, Quintessential Capital manager (Indap et al).

Whether being skeptic to this surge or "to stay on the right side of change" as says Kathie woods, the chief executive officer of ARK invest, whose innovation fund owns 10 SPACs, Special Purpose Acquisition Companies present today a new reality in financial markets.

1.2. Thesis Objectives

In this thesis, we will study the different aspects and reasons behind the rise of Special Purpose Acquisition Vehicles trying to answer the following questions: Why are blank check companies becoming an attractive alternative to IPO's and to what extent is this trend related to the pandemic? What explains the recent rise in SPACs? What makes SPACs an attractive IPO alternative to investors, companies wishing to go public and to sponsors? Is the current trend driven solely by the pandemic or are SPACs here to stay? Why are SPACs often related to Innovative Startups?

In addition, we will analyze the performance of SPACs highlighting pricing, withdrawals and overtime returns. In our empirical analysis, we will look into the difference in the performance of latest SPACs in comparisons to SPACs prior to 2016. We will compare SPAC listed companies performance against companies that are listed through a traditional IPO and analyze a potential correlation of the latest rend with the ongoing Covid pandemic.

In the qualitative study, we will look closer at major case studies such as NIKOLA, DraftKings, EToro, Lucid and Virgin Galactic.

The thesis will also present the history and development of SPACS as well as its legal and financial characteristics and compare it to traditional listing alternatives in the United States, Asian and Italian markets.

2. DIFFERENT ALTERNATIVES TO GO PUBLIC

2.2. Initial Public Offering

In order to access public capital markets, privately held companies choose to go public and to offer their shares to financial institutions as well as retail investors. This can be driven by the desire to grow and implement ambitious business expansion plans. In addition, it can be an opportunity for an exit strategy for founders and early investors, realizing full profit from their private investment. The public market opens up the possibility for all classes of investors to buy shares and contribute to the companies Shareholder's equity. This will allow the company to raise capital and reach it's full potential. On the other hand, the company will now have obligations and responsibilities towards all its investors as well as the security exchange as listing requires fulfilling various conditions and the company will be subject to scrutiny and ongoing reporting and disclosure obligations. It goes without saying that the control and ownership structure of the company will change.

There are different paths to being listed, the most frequent one, is Initial Public Offering (IPO) which is the process of offering shares of private corporation to the public in a new stock issuance. The shares can be listed on one or more stock exchanges. It is a lengthy, costly and complicated process that often needs the assistance of an investment bank acting in the capacity of an underwriter. The investment bank will be in charge of deriving an accurate assessment and valuation of the company's price and to establish a public market for the shares, conducting ongoing conversations and surveys with institutional investors, arrange and prepare roadshows in addition to book building and eventually stabilize the stock post listing.

Alternative pricing methods such as the Dutch Auction are also used for IPOs. A Dutch Auction allows shares of an initial public offering to be allocated based only on price aggressiveness, with all successful bidders paying the same price per share. One version of the Dutch auction is Open IPO, which is based on an auction system designed by Nobel Memorial Prize-winning economist William Vickrey. This auction method ranks bids from highest to lowest, then accepts the highest bids that allow all shares to be sold, with all winning bidders paying the same price (Demos).

Details of the proposed offering are to be disclosed to investors in a form of a lengthy document known as prospectus.

The underwriter commitment towards the company can take several forms depending on the agreement with the company. Common methods include: best effort contract, firm commitment contract, all or none contract and bought deal. The different contracts define the extent to which the investment bank is committed to the sale of shares. In the case of firm commitment contract, for instance, the bank guarantees the sale of the stocks at a pre-agreed price. The underwriter, then, takes all the risk and as a consequence the cost for this type of IPO is the highest. On the other hand, in the best effort contract, the underwriter is only entitled to sell as many shares as possible and the risk is then taken by the company. Under all or none type of contract, as the name indicates the company either agrees to the sale of the entire offering or the deal will be canceled (Williamson 1).

After the securities are distributed to the public, there are two important elements of IPOs that are price stabilization and lockup periods. When a company first comes into the public market, many investors know little about its prospects. To help mitigate volatility in the share price in the days after an IPO, underwriters often have what is known as an overallotment or greenshoe option. This provides the underwriter with the opportunity to buy back shares in an offering for the purpose of reducing the supply of stock on the market and stabilizing the price.

The second common IPO feature is a lockup period. In most IPOs, underwriters restrict employees of the company and other early investors from selling their securities for what

is typically a six-month period. Lockup periods are intended as an assurance to investors who purchase the issued shares that the remainder of the company's shares will not flood the market and lower the price. Accordingly, the company's existing shareholders are prevented from selling in the time period immediately following the offering (Nickerson 994).

Investment banks charge underwriting fees as they take a company public. Underwriting fees are the largest single direct cost associated with an IPO. Based on public filings of 829 companies, costs to companies range an average of 3.5% to 7.0% of gross IPO proceeds. When considering a deal range between $100m and $250m, the average cost directly attributed to the IPO is $9.5m-$13.1m (Jones 3).

In addition, the IPO is generally a very lengthy and complicated process that takes on average from 4 to 6 months, “It’s a very grueling process for the directors of the company,” said Tim Jenkinson, a finance professor at the Saïd Business School at the University of Oxford (Nova 2).

2.2. Direct Listing

Both direct listing and IPO involve a company making its securities available for purchase on an exchange. In each process, the issuer works with attorneys and investment banks to prepare and file a registration statement with the SEC. However, after filing, the processes diverge. In a direct listing, the road show can be abbreviated, and there is no book-building, price stabilization, or lockup period. Thus, direct listings allow a company to gain the benefits of being a public company without the major costs associated with the process.

A direct listing allows a company to achieve market creation and financing flexibility more efficiently than it could with an IPO. In fact, it provides liquidity without the dilution that comes with a new securities offering. There is no need to issue new shares to create a market and the existing shares simply become the market. In this case, existing shareholders are not diluted. In addition, the expenses are not as high. In fact,

underwriting fees are lower because there is no need to pay a spread to an investment bank for incurring the risk of holding the securities on their books. Nor does the company incur significant road show expenses because the company does not build a book of investors. The buyers are the public, which can include institutional investors. However, in this case, drawing institutional investors' attention is not as crucial as the case for the IPO. Existing shareholders are not subject to a lockup period. Rather, the issuer's existing shareholders can simply sell their shares on the exchange according to the exchange's rules.

The other major cost saving in a direct listing is the lack of underpricing. In a firm commitment IPO, underwriters purchase the securities from the issuer and resell them to the book of interested investors. In many IPOs, the share price surges on the first day, generating a return for the investors who purchased from the underwriter at the lower price. Between 2001 and 2016, over 96 percent of midsized IPOs featured a spread of exactly 7 percent (Nickerson 996).

Spotify, which was one of the major direct listing examples, could avoid this expense in its direct listing. Direct listings have historically been used in spin-offs of private subsidiaries of a public company, the emergence of a public company from bankruptcy, and the listing of a public foreign companies on a US exchange However, none of them had the scale of Spotify's.

2.3. Reverse Merger

2.3.1. The deal Structure

A reverse merger is a non-traditional method of going public. Instead of hiring an underwriter to market and sell the company's shares in an initial public offering, a private operating company works with a "shell promoter" to locate a suitable non-operating or shell public company. The private operating company then merges with the shell company (or a newly-formed subsidiary of the shell company). In the merger, the operating company shareholders are issued a majority stake in the shell company in

exchange for their operating company shares. Post-merger, the shell company contains the assets and liabilities of the operating company and is controlled by the former operating company shareholders. The shell company's name is changed to the name of the operating company, its directors and executives are replaced by the directors and executives of the operating company, and its shares continue to trade on whichever stock market they were trading on prior to the merger. Hence, the operating company's business is still controlled by the same group of shareholders and managed by the same directors and executives, but it is now contained within a public company. In effect, the operating company has succeeded to the shell company's public status and is therefore now public.

A public shell company is a company that has a class of securities registered under the Securities Exchange Act of 193410 (the "Exchange Act") but has only nominal operations and no or nominal assets other than cash and cash equivalents." A public shell company exists because either it was a former operating company that went public and then for some reason ceased operations and liquidated its assets or it never had any operations but was formed from scratch for the specific purpose of creating a public shell. In the former situation, shell promoters gain control of the failed operating company by buying up a majority of their shares. In the latter situation, shell promoters incubate the shells-they incorporate a company, voluntarily register its shares under the Exchange Act, and then timely file with the Securities and Exchange Commission ("SEC") the required quarterly, annual and other reports. Because the shell has no operations, it is fairly simple and inexpensive to make these filings. In exchange for letting an operating company merge into a shell, the promoter charges the operating company a fee and retains an ownership interest in the shell post-merger (Sjostrom et al. 744).

The Reverse Merger is often coupled with a PIPE financing (Private Investing in Public Equity). The amount of PIPE financing that can be raised is usually lower than the amount that can be raised in an IPO. Additionally, PIPE financing is typically more expensive than other financing options and may include heavy terms. After the Reverse Merger, the operating company is technically public in terms of being listed on an exchange and its shares are registered with SEC. However, its shares will be thinly traded

and therefore will be relatively illiquid. This is because there will be no post-deal underwriter support to help develop an active secondary market because no underwriter was involved in the deal. An active trading market could potentially develop down the line if the company performs well and gets noticed, but getting noticed can take years. In the absence of an active trading market, it will be difficult for insiders to cash out (Sjostrom 749).

Concluding a $50 million IPO will roughly run a company 18% of the offering proceeds ($9 million), including underwriter discounts, underpricing, and legal, accounting, filing, listing, printing, and registrar fees. Conversely, a reverse merger generally costs between $100,000 and $400,000 to complete. This cost range does not, however, include the value of the equity stake retained by the shell promoter and its affiliates. As described above, when the Reverse Merger closes, The operating company's shareholders are issued the shell company's shares equal to 80% to 90% of shell company's post-merger outstanding shares and the remaining 10% to 20% of shares are retained by the promoter and its affiliates. Hence, in addition to the $100,000 to $400,000 in cash paid by the target company to complete the Reverse Merger, it also has "paid" a 10% to 20% stake in its company. If shell company's market capitalization is $50 million post-merger, this stake is worth $5 to $10 million. As for the timeline, a reverse Merger can be completed in as little as a few weeks but in any event should take no more than four months (Sjostrom 750).

2.3.2. PIPE Financing

As mentioned, the primary benefits a company enjoys from going public through an IPO is a large infusion of additional equity capital and share liquidity. This is different for a reverse merger. Instead, the merger enables PIPE financing as a funding option that is not available to private companies. PIPE stands for private investment in public equity which is a type of financing transaction undertaken by a public company, often with a small number of sophisticated investors. In a typical PIPE, the company relies on an exemption from SEC registration requirements to issue investors common stock or securities

convertible into common stock for cash. The company then registers the resale of the common stock issued in the private placement, or issued upon conversion of the convertible securities issued in the private placement, with the SEC. Generally, investors must hold securities issued in a private placement for at least one year. However, because the company registers the resale of the PIPE shares, investors are free to sell them into the market as soon as the SEC declares the resale registration statement effective, typically within a few months of the closing of the private placement.

PIPE financing has emerged as a vital financing source for small public companies because many of these companies have no other financing alternatives. Hence, if a private company has tapped out its financing options, it can go public through a reverse merger and thereby open the door to PIPE financing.

Considering that for many small companies PIPE financing represents the only realistic financing option, it can, of course, be very expensive. In a PIPE deal, the company usually issue common stock for the investors at a discount to market price. In addition, the PIPE deals often involve more cash flow rights such as dividends or interest, typically paid in kind not cash, and warrants. After taking into account these cash flow rights and protective features such as floating conversion prices, a recent study found that the "all-in net purchase discount for PIPE deals ranges from 14.3% to 34.7% (Sjostrom 387).

2.3. Special Purpose Acquisition Companies

During the 1980s, capital markets experienced tremendous growth. In the United States, 'Blank Check Companies (BCCs) were then developing, operating mainly on the 'penny stock market.' These empty shells were created specifically to raise funds in the markets in order to make future acquisitions. A Blank Check Company's corporate purpose specifies only that it intends to pursue a merger or acquisition of a company that is still to be found, without a sector of activity being identified, nor a business strategy being revealed. The proceeds of the IPO thus constitute a "blank check".(Heyman 531)

Unfortunately, these ad hoc vehicles suffered from fraudulent use between 80s and 90s in "epidemic proportions". Fraud often relied on price manipulation, known as 'pump-and-dump', exacerbated by the very structure of a Blank Check Company and by the euphoric market conditions. These abuses were facilitated by the fact that 'penny stocks' were mainly referenced on over-the-counter (OTC) markets, in particular on 'Pink sheets'.

In 1988 alone, the North American Securities Administrators Association estimated the losses suffered by investors because of these scams to around $2 billion (Goldstein et al. 773). To counter these abuses, the US Congress passed the 'Penny Stock Reform Act of 1990' (PSRA) and urged the SEC to adopt stricter transparency and management rules so that the shares of a 'Blank Check Company' are tradable on the markets. The SEC thus decreed new standards and in particular 'Rule 419'. From the ashes of the 'Blank Check Companies', were born, in the United States, the 'Special Purpose Acquisition Companies' (Heyman 536).

It was the reaction of the American regulator that allowed the first generation of SPACs to emerge. In fact, the regulator, recognized that apart from the 'penny stocks market', these vehicles could be useful to the economy and the market. Such an empty shell, when it is not constituted for fraudulent purposes, has various interests and essentially allows the target company to access a stock market listing without going through the traditional IPO route.

The SEC therefore excluded from the scope of 'Rule 419' companies formed for less than three years with net assets greater than $ 5 million. It is then sufficient to succeed in an IPO for an amount greater than this threshold in order not to place under the reach of 'Rule 419'. This derogation left the door open to development SPACs (Heyman 538).

The constraints imposed by the SEC brought the boom in BCCs to an abrupt end. Yet with the recovery of the US economy, many small businesses aspired to finance again in the markets without, however, having the possibility of choosing the traditional IPO path. David Nussbaum, then chairman of brokerage GKN Securities, saw the opportunity to exploit the exemption opened by the SEC. With the help of David Alan Miller, a New

York lawyer, he launched the first generation of SPACs in the United States. Nussbaum and Miller have structured their SPAC so that it does not fall within the scope of 'Rule 419' Nevertheless, they have voluntarily subjected the vehicle to certain requirements of the latter, in order to reassure the SEC and attract investors (Feldman).

This first generation of SPACs did not experience a real boom, not that it was used for fraudulent purposes or because of its structuring, but mainly because of the Internet bubble that began in the mid-1990s. Indeed, when market conditions are favorable, it is easier, more profitable and more noticeable for a company to go public by the "big door", by choosing the traditional way. Investors are also more greedy and it will be easier for a company to open its capital to the market. It then became complicated for a SPAC to acquire a value-creating company, which prefers go public on its own.

The second wave of SPACs appeared after the bursting of the Internet bubble, in the years 2003, still in the United States and again under the leadership of David Nussbaum, but this time at the head of the specialist investment bank EarlyBirdCapital. This time, the success is dazzling. Between 2003 and 2018, 300 SPACs saw the day in the United States, raising a total of more than $ 49 billion, or an average of 164 million dollars per SPAC (spacanalytics.com).

The third and actual wave of SPACs is believed to have started since 2018 as SPAC deals have since broken records and have become toe to toe with traditional IPO. In fact, according to the current trend, SPAC deals are expected to overcome traditional IPO’s both in number and in size. In January 2021 alone, SPACs raised more than 70% of all funding raised (Santilli et al).

3. More on SPACs

3.1. Definition

The idea behind a SPAC is similar to a private equity fund, in the sense that the goal is to generate profit by investing in a private business that has growth potential. However, while a private equity fund raises financing from a closed group of qualified investors, a

SPAC raises financing from the public, by offering its shares and other securities for sale on a regulated stock exchange or over-the-counter markets.

What sets a SPAC IPO apart from other companies is that at the moment of the IPO, the SPAC has no operations, no financial history, no assets apart from a nominal amount of capital, and no business plan other than to acquire a business that is yet to be identified within a certain period. Public investors who invest in SPACs therefore have little to rely on other than the reputation and experience of the SPAC founders or 'sponsors' as they may also be called.

Although investing in a SPAC may initially seem risky because of the vagueness of its prospects, shareholders are comforted by certain safeguards. As will be explained in further detail below, the most important tool protecting investors is the placement of at least 90% of the IPO proceeds in a trust account until an acquisition is made.

Public shareholders have the guarantee that once the target is announced, they can choose to walk out of the SPAC by receiving a pro rata share of the funds held in the trust account. Furthermore, if no suitable target is found within the given time period, which is usually 2 years, the SPAC must dissolve and the funds in the trust account returned to the public shareholders (SEC).

SPACs have various advantages to offer investors, target companies and sponsors. They enable public investors to benefit from the expertise of the SPAC management and to access mergers and acquisitions (M&A) markets where traditionally qualified private equity investors prevail. SPAC units are offered to public investors typically at a price of 10 USD per unit, which enables individual investors to invest in them. However, institutional investors also take an interest in SPACs. Compared with private equity investments, SPACs have the advantage that their shares and other securities (such as warrants) are publicly traded and therefore liquid. This feature especially appeals to hedge funds, which are the largest institutional investors of SPACs. The disclosure required for public companies also benefits investors.

SPACs offer target companies relatively easier access to the capital markets, usually achieved through a reverse merger, with less costs and procedural burdens compared to a traditional IPO. Also, since SPACs have large amounts of cash readily available, they offer financially distressed target companies a solution to simultaneously tackle their liquidity problems and to access capital markets, even when they might not be eligible for a traditional IPO.

As for sponsors/managers, SPAC's incentive model is based on rewarding them with 20% of the SPAC shares. This system aims at aligning the interests of investors and sponsors/managers, since both groups will benefit from the value of SPAC shares.

3.2. Characteristics of SPACs

SPACs are set up by so called 'sponsors' with a small amount of initial capital. They are then offered to the public and the offering is made in such a way that after the IPO, the share percentages of the sponsors and the public will be 20-80%, respectively.

Following the IPO, the management will endeavor to identify a suitable target and to make a 'business combination' with it, which can take the form of a merger capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination.

SPACs are set up for a limited amount of time, which is usually 2 years. If, within this period, a suitable target is not found or if the support of the shareholders cannot be obtained for the business combination, then the SPAC must be dissolved and the investment must be returned to the public investors pro rata their shareholdings. If the business combination can be completed, on the other hand, then the SPAC will continue its life as a regular public company.

Until the completion of the business combination, the SPAC is managed either directly by the sponsors themselves or by a management appointed by them. As the life span of a SPAC is very short, it is more likely that public investors will not be able to change the management and even when SPAC management is composed of persons other than the

sponsors themselves, the sponsors will have a great influence on the management team. The influence of sponsors on the management is a risk usually pointed out to the investors in the SPAC's registration statement.

3.3. Trust Account, Redemption and Liquidation Rights

The SPAC structures ensures a set of safeguards for investors. In fact, persons who invest in SPACs face the risk that a suitable target may never be found, or that a business combination may never take place due to different reasons, such as lack of shareholder support. It is also important that the cash raised at the IPO is used for the intended acquisition and not for other purposes. In order to minimize the risk of loss and to gain investor confidence, SPACs have adopted the method of placing at least 90% or more of the money raised through the IPO into a trust account. According to one study, the average amount placed in the trust account is 97% of the gross IPO proceeds and in more recent SPACs, it can reach 100% or even slightly more due to the money paid by sponsors for warrants issued by the SPAC. Furthermore, underwriters agree to defer a part of their fees until after the business combination is made, which enables a greater percentage of the IPO proceeds to be placed in the trust fund (Nilsson 256.)

The funds placed in the trust account are only released to the company for the completion of the business combination or the redemption of shares if necessary. Until the consummation of the business combination, the working capital needed for the company are met either by that portion of the IPO proceeds or payment by sponsors for warrants that has not been placed in the trust account or by interest accruing to the funds in the trust account. Furthermore, in order to make sure that the SPAC's funds are used in line with public investors' interests, listing conditions require that the target should have a fair market value corresponding to at least 80% of the trust fund. If, by the end of the SPAC term, no suitable target is found or if the proposed target does not receive sufficient support by the public shareholders, the SPAC must dissolve and the money in the trust account must be returned to the public shareholders pro rata their shareholdings.

Consequently, the failure of the SPAC in making the business combination does not pose a great threat to public investors, as they have the guarantee of receiving back, with interest, to the extent such interest is not used as working capital, more than 90% of their investment. Furthermore, once the business combination is announced, public shareholders can review the proposed business combination plan and, at their own discretion, choose to convert their shares into cash and receive a pro rata portion of the amount that is placed in the trust account ('redemption' or 'conversion' right). Therefore, until completion of the business combination, public investors have the guarantee that they can walk out of the SPAC without suffering a major loss. The possibility of opting out of the deal is an aspect investors appreciate, although the opportunity cost of the time the money is held in the trust account must be taken into consideration (Nilsson 257).

3.4. Warrants

A SPAC IPO is often structured to offer investors a unit of securities consisting of one shares of common stock and warrants. A warrant is a contract that gives the holder the right to purchase from the company a certain number of additional shares of common stock in the future at a certain price, often a premium to the current stock price at the time the warrant is issued.

The SPAC unit will trade for some time after the IPO. Sometime after the IPO, the SPAC common stock and warrants may begin trading on an exchange separately with their own unique trading symbols. Often, the SPAC will issue a press release letting investors know when separate trading may commence. Investors who purchase SPAC securities after the IPO on the open market should be aware of whether they are purchasing units, common stock or warrants.

The terms of warrants may vary greatly across different SPACs, and it is important to understand the terms when investing. Terms of the warrants can include how many shares the investor has the right to purchase, the price at which and period during which shares may be purchased, the circumstances under which the SPAC may be able to redeem the warrants, and when the warrants will expire. The details for the warrants are indicated in the IPO prospectus of the SPAC ("Investor Alerts and Bulletins", SEC).

3.5. Trading price

In the IPO, SPACs are typically priced at a nominal $10 per unit. Unlike a traditional IPO of an operating company, the SPAC IPO price is not based on a valuation of an existing business. When the units, common stock and warrants begin trading, their market prices may fluctuate, and these fluctuations may bear little relationship to the ultimate economic success of the SPAC rather to rumors on potential merger or the announcement of the identification of a target.

3.6. SPACs and PIPE

As previously mentioned, Private investment in public equity (PIPE) is the buying of shares of publicly traded stock at a price below the current market value per share.
A SPAC can seek a PIPE deal if it needs to raise additional capital to close a merger transaction with a target company. A PIPE arrangement may become necessary where the cost of acquiring a target company exceeds the funds that a SPAC has in its trust account. This is often the case and such combination provides a great deal of flexibility when targeting potential target to acquire. As the SPAC trend is on the rise, the targets are getting larger and PIPE financing, thus, becomes essential.

4. WHAT DO SPACS OFFER TO INVESTORS

4.1. Shareholder Control

The SPAC structure offer the investor a great deal of control and flexibility which can be overshadowed by the term “Blank Check”. As a matter of fact, The SPAC enables the investors to have Redemption and liquidation rights that can be exercised in connection with a shareholder vote or a tender offer.

This control can be exercised in two ways: The business combination may be put to a shareholder vote. This may be done voluntarily, or because it is required by company law or listing conditions. In this case, the business combination can be carried out only if the proposal is approved by a majority of the shareholders. Furthermore, dissenting shareholders will have the right to convert their shares to a pro-rata share of the funds held in the trust account, which creates a second level of shareholder control, depending on the total percentage of shares that are allowed to be converted. If the business combination is not put to a shareholder vote, then all shareholders are given the right to redeem their shares through a voluntary tender offer. In this case, however, if a great number of SPAC shareholders wish to tender their shares, the SPAC may not have the sufficient financial means to carry out the business combination. This would force the SPAC either to raise more capital or withdraw the target and seek a new one if there is any time left. Thus, the tender offer gives the shareholders the opportunity to vote with their feet by walking out of the SPAC.

In both mechanisms, shareholders who do not believe in the success of the proposed business combination have a chance to redeem their shares and leave the SPAC together with their share of the funds in the trust account (Nilsson 258).

4.2. Further Incentives, Warrants and Rights

In order to make themselves more attractive for public investors, SPACs usually issue a security which would allow the holders to acquire additional shares of common stock, which, according to some SPAC founders, has become a standard practice that the investors have come to expect from a SPAC. This security typically consists of warrants giving the holder the right to purchase one (or a fraction of one) share at a given price. More recent SPACs are experimenting with other securities, such as a bonus right to receive one tenth of a share upon the closing of the business combination.

At the IPO, SPACs issue ‘units’ usually including one common stock and one warrant, which are sold at a fixed unit price. Warrants are designed to be exercised after the completion of the business combination. However, they can be traded separately a

short period following the IPO. Furthermore, even those shareholders who choose to convert their shares into a pro rata portion of the trust account and walk out of the SPAC can keep their warrants and still make a profit on the warrants if the share prices go up. However, warrants expire worthless if the SPAC liquidates.

The separate trading of SPAC shares and warrants provides a mechanism which allows investors to create different risk profiles. SPAC shares usually trade at an amount relative to the trust fund and share prices are not volatile, since until the business combination is made, a SPAC is not much more than a cash account. Therefore, shareholders can actually choose to sell or redeem the SPAC share at a price close to or even equal to the initial investment and hold on to the warrant that could provide an upside, thereby eliminating any risk. Thanks to the trust account, redemption rights and warrants, investing in a SPAC until the completion of the business combination is seen as a risk-free investment with an option.

As mentioned above, recent SPACs seem to be experimenting with issuing certain 'rights' in order to attract more investors and perhaps to differentiate themselves from other SPACs. A 'right' is defined as the 'right to receive one tenth of a SPAC share upon consummation of the business combination'. Unlike in the case of warrants, shareholders are not required to pay for receiving these shares. 'Rights' can also trade separately and even the shareholders who convert their shares can keep them. If the business combination cannot be completed, rights expire worthless (Nilsson 232).

5. The Sponsors

5.1. Who are the sponsors

The creation of a SPAC begins with a sponsor forming a corporation and working with an underwriter to have the SPAC go public in an IPO. Sponsors range from large private equity funds to former S&P 500 CEOs to celebrities and athletes. Prior to the IPO, the sponsor acquires a block of shares at a nominal price that will amount to 25% of IPO

proceeds (or, equivalently, 20% of post-IPO equity). This block of shares, known as the sponsor's "promote," is the sponsor's compensation for work it does for the SPAC. In addition, simultaneously with the IPO, the sponsor purchases SPAC warrants, shares or both at prices estimated to represent fair market values. The proceeds of the sponsor's investment cover the cost of the IPO and operating costs while the SPAC is searching for a merger target.

The sponsor's main mission is to identify the promising company to take public and his most looked after competence is to have "an eye" for such opportunities. For this reason, in addition to the nature of SPACs where investors don't know initially even the sector in which the potential candidate operates, the sponsor is usually a high profile investor, a proven entrepreneur with previous achievements or a CEO with deep business knowledge. The sponsor team can include these profiles all together.

To name a few, The hedge fund billionaire Bill Ackman has raised a record breaking $4bn for his SPAC Pershing Square Tontine Holdings. Former CitiGroup investment banker Michael Klein has raised $1.68bn for his 8th SPAC Churchil Capital Corp VII. Chamath Palihapitiya, Crowned the SPAC king, has raised $2.1bn through 3 new SPACs to reach a total of 14 SPACs launched to date (Verster). Such structure has made the sponsors celebrities and lately turned celebrities into sponsors as well. In fact, Singers and pop-culture figures such as Jay-z and Ciara launched their own SPACs in addition to athletes such as Shaquille O'Neal and Serena Williams and even politicians such as Paul Ran, the House of Representatives speaker (Ramkumar).

5.2. Management Incentives

SPAC managers are not paid management or finder's fees, but rather expect to get compensated through SPAC equity. The sponsors purchase shares in a private placement before the IPO. Then the SPAC is offered to the public so that at the end of the IPO, SPAC management will usually own 20% of the SPAC shares and the public investors will own 80%. The money that is contributed by the sponsors to the company's capital in return for the shares is a nominal sum, while the money contributed by the public

investors amounts to millions of dollars. In other words, the sponsors are rewarded 20% of the SPAC equity as compensation for their efforts in finding a target and completing a business combination. This compensation creates a strong motivation for the management to find a target and close a deal, thus also serving the interests of public investors.

5.3. Sponsor Warrants, Waivers and Lock-up

The SPAC sponsors invest in SPAC warrants with a value of around 3-5% of the IPO proceeds, which amount is also placed into the trust account. If the business combination is successful and the share prices go up post-acquisition, SPAC management will have another means of generating profit by acquiring shares from the company at less than market price. However, if the business combination is not completed, the warrants will expire without value and represent a loss for the management. This aims to keep the management's skin in the game and to align their interests with those of the public investors.

Sponsors also waive their redemption rights and liquidation rights for the shares that they acquire through private placement. This will make sure that management cannot walk out of a SPAC by converting their shares into a pro rata share of the trust account or receive any compensation through liquidation proceeds in case of failure of the project. As the trust account is only reserved for public shareholders, unless the business combination is completed, the sponsors will not only fail to receive any compensation, but they will also lose the money they contributed to the trust account by way of purchasing warrants.

Another safeguard against value decreasing management conduct is to make sure that sponsors keep their SPAC shares until sometime after the business combination is completed. Sponsors' shares are usually placed in escrow and are released to them only after a year following the business combination. Warrants also have a lockup period, which may be shorter. However, SPAC sponsors are not expected to stay with the SPAC post acquisition, even though this may be beneficial for performance (Nilsson 264).

6. WHAT MAKES SPACS ATTRACTIVE TO COMPANIES SEEKING TO GO PUBLIC

6.1. Faster execution than an IPO

According to a PWC study, SPAC merger usually occurs in 3-6 months on average (Jones). As compared to traditional IPOs, SPAC IPOs can be significantly quicker. Due to its lack of fundamental operation, both financial statements and prospectus filed during a SPAC IPO are significantly shorter and can be prepared in a matter of weeks (compared to months for a traditional IPO). There are no historical financial results to be disclosed or assets to be described, and business risk factors are minimal. As a result, the SEC comments are usually few and normally do not require burdensome changes. The entire SPAC IPO process can be accomplished in as soon as fifteen weeks from its starting point.

6.2. Upfront price discovery

The IPO price depends on market conditions at the time of listing, whereas the pricing with a SPAC is negotiated in advance before the transaction closes which is much more advantageous in a volatile market. With one party

With US stocks more volatile, finding the right window to debut on Wall Street can be tricky and costly. If a company is too conservative and prices its offering too low, the company risks leaving money on the table. In addition, the price of the stock may suffer simply because the market was down the day the company goes public.

With SPAC mergers, there's less uncertainty. Unlike traditional IPOs, target companies can negotiate the price of their stock with the SPAC sponsor as part of their merger agreement. In other words, targets can lock in a price; therefore, helping shield its value from market uncertainty.

This is a particularity that showed to be crucial at a time where financial markets are volatile and the world is going through a pandemic that had a major impact on the world economy.

6.3. Possibility of raising additional capital

SPAC sponsors will raise debt or PIPE (private investment in public equity) funding in addition to their original capital to not only fund the transaction but also to fuel growth for the combined company. This backstop debt and equity are intended to ensure a completed transaction even if some SPAC investors redeem their shares.

Small and mid-sized companies may want to continue to fund development, invest in brand awareness or make acquisitions to continue growing, but they may not be ideal candidates for traditional IPOs. By merging with a SPAC sponsor, existing companies can retain a stake in their business and gain access to liquidity that otherwise would not be available to them. In addition, lately the pool of capital available from SPACs has grown significantly which enabled companies intending to be listed more options and funding opportunities.

6.4. Lower cost

Although the fees can appear higher when you compare a typical 20% "promote" of a SPAC with a 7% bank fee of a traditional IPO. The fee is an amount of the funds raised by the SPAC that will result in a percentage ownership of the company the SPAC merges with and then becomes. The promote shares are under a lock-up, for up to one year, which makes the SPAC sponsor a partner of management in the company. This feature aligns the interest of sponsors and investors. The SPAC sponsor can off-set the promote shares through ensuring a better valuation for the company. This is not the case in a traditional IPO, where the price pop represents a cost to the company's existing shareholders which is considered an issue that happens quite frequently with traditional IPOs.

The post-IPO price pop can be a costly aspect of going public, a disappointing moment for many founders who can leave money on the table due to the pricing of the traditional process where the founder has little leverage. As mentioned, the upfront negotiation can ensure a better valuation, hence lower cost, and though there will always be a margin of unpredictability, such deal structure can reduce the price pop. The company and SPAC, of course, want the share price to trade well and increase eventually.

In addition, marketing cost in a traditional IPO represent a significant portion of the overall fees. In fact, in a traditional process, the management and the underwriter will be in continuous campaign to pitch the company to institutional investors in different cities in the case of the US and even in different countries in the case of European companies. The roadshow and book-building objectives are to generate institutional investors interest which is crucial to the valuation of the company. This particularity is not necessarily required in a SPAC merger where the price is agreed upon in advance, although raising PIPE to accompany the SPAC involves targeted roadshows that are usually less extensive.

6.5. Access to operational expertise

SPAC sponsors are often experienced financial and industrial professionals. They can tap into their network of contacts to offer management expertise or take on the role themselves.

In recent years, one of the bigger developments to have emerged are the management teams and sponsors involved in SPACs. Major private equity groups and experienced management teams are behind a new generation of these investment vehicles, which in turn could generate higher standards when it comes to fundraising, returns on investments and therefore further build investors' confidence.

SPACs behave much like Private Equity firms in that a group of investors raise funds to strategically buy companies, the main difference being that the SPAC executes a public versus private offering.

Being managed by a sponsor that is either an ex executive, founder of major tech companies or a financial figure who has proven to have a vision and who has had a track record with such deals will send a positive message to the market and will be a safety sign for investors who as we mentioned rely on the sponsor's judgement. As the case for Elon Musk, we have seen that even associating a certain name to the company can boost the company's image and constitutes by itself a marketing strategy. Furthermore, choosing the right SPAC sponsor will be key since most companies seeking to go public through SPACs are not profitable companies, rather a company that has a disruptive technology that is working on scaling its product through the assistance of investors who believe in the long term value growth of the company, the sponsors need to have a certain technological expertise and a vision to foresee the emerging trends in the market.

6.6. Attractive for smaller companies

A SPAC may be more convenient to the target business and its owners. It can significantly help avoid the problem that small companies potentially face in taking their business to the public market.

From the target business and its owners' perspective, a SPAC may be an advantageous way for a small company to raise capital without having to conduct an IPO of its own. There is little interest in the market for small companies IPOs, which effectively leaves smaller companies with few options to raise cash.

These companies have benefited from alternative listing paths which enabled them to reach and have access to broader funding opportunities.

7. SPACS IN DIFFERENT MARKETS

7.1. The European Market

“Overall, we will see a record number (of SPAC issuance in Europe), even if the actual volume will be well below that in the U.S.”(Mukherjee) says Berthold Fuerst, co-head of investment banking in Europe at Deutsche Bank addressing the current European SPAC market that is, following the American trend, in pace to set new records this year as it is an opportunity investors, sponsors and companies do not want to miss.

In Europe SPACs appeared relatively late with the first listing in 2005 with International Metal Enterprises Inc. listed on the Alternative Investment Market in London. European SPACs tend to conduct IPOs with capital greater than those of the US and that they prefer multiple acquisitions of a smaller size than a single major transaction, as for the U.S. SPACs. The EU SPACs are also more flexible and able to achieve the objective of finalizing an M&A (merger & acquisition) operation in a short time thanks to lighter regulation compared to the stringent standards imposed by the United States securities markets. The European SPACs do not have significant obligations regarding the minimum value of the target company to be acquired, the amount of funds to be allocated and bound in the escrow account, the number and value of the transactions carried out or the shareholders’ vote of approval.

For example, according to the United States stock exchanges requirements, specifically the NASDAQ and New York Stock Exchange, the target company must have a "minimal fair value accounting for 80% of the trust amount in order to constitute a qualified business combination and to finish the SPAC's investment lifecycle." To the contrary, many European stock exchanges do not subject the management to these requirements, giving the European SPACs the "opportunity to complete multiple smaller acquisitions instead of a single, extremely capital-intensive acquisition (Schumacher 404). This is advantageous to the SPAC managers as it provides them with greater flexibility in the type of targeting companies they pursue.

It is also advantageous to the targeted company, as previously discussed, that there are many small companies seeking to go public. The absence of this regulation allows for an increased number of private companies to have the opportunity to become a public company, particularly in regard to smaller companies.

Furthermore it is noted that, while the SPACs under US law prefer the search for target companies belonging to the national market; in Europe the listing of the vehicle on a specific market belonging to the Union does not directly imply that the SPAC is established according to the law of the country in which the market operates nor that the search for the business combination target will have a listing status. Usually, the managers of European SPACs prefer to choose the listing market with reference to regulation and tax legislation. The Alternative Investment Market in London is often chosen because it is the one with the lowest entry requirements. The practice of setting up SPACs in low-tax countries (tax heavens) is also widespread (Riva 67).

Another difference is, unlike the SPACs in the United States, SPACs in Europe are allowed to have a specific targeting company in mind during the SPAC's IPO stage. This provides SPAC management with the opportunity to incentivize investors to invest in the SPAC as SPAC managers have the option to discuss with potential investors the companies they are considering targeting. This benefits the investor, who has a clearer picture of the exact direction the SPAC is pursuing and, therefore, the risks they are assuming in making their investment (Huff).

Finally, it may benefit the investor, as data supports that "bigger and perhaps more high-profile acquisitions are not always more successful in terms of either operational or stock performance" (Schumacher 405).

7.2. SPACs in Italian Market

In Italy Investment SA was the first SPAC under Luxembourg law, listed in 2011 on the Investment Vehicle Market (MIV) segment of Piazza Affari while the first Italian SPAC was MadeInItaly 1 with a capital of € 50 million which then integrated SeSa SpA in 2013. Until 2019 , the data reported some numerical indicators the Italian SPACs collected about € 3.7 billion, realized € 980 million of investments in companies currently listed, still have € 2.7 billion to invest (Riva 70).

The SPACs have become part of the Italian market rather late compared to the US experience. In Italy the listing of SPACs was initially only permitted on the multilateral trading system AIM but starting from 2010 trading was also allowed on the Investment Vehicle Market (MIV). This market, organized and managed by Borsa Italiana was created with the aim of offering capital liquidity and visibility to investment vehicles with a clear strategic vision. The Italian market is divided into four categories: closed-end funds, investment companies, real estate investment companies (for real estate investment and/or leasing activities) and Special Investment Vehicles SIV (Riva 69).

The CONSOB with resolution No. 17302 dated 04/05/2010 approved the changes to the Market Regulations prepared by Borsa Italiana on 13/04/2010, which entered into force on 24 May 2010 and which consist of the creation of new admission requirements and disclosure obligations in the MIV market. The new Regulation introduced on the MIV market, a new professional segment not accessible to retail investors aimed at investment vehicles characterized by the absence of diversification. So SPAC obtained the opportunity to enter the market as Special Investment Vehicles (SIV). Access to the SIV segment is subject to a series of conditions that the SPACs are called to satisfy. The main ones are: duration of the company with statutory provisions not exceeding 36 months; compliance with specific disclosure requirements regarding the investment policy which must be clear and detailed regularly disclosed and updated; establishment of a restricted fund in which to deposit the capital raised during the IPO and on subsequent capital increases; adoption application and maintenance of every reasonable measure to

identify conflicts of interest that may arise from investment activity; preparation of adequate information on the professional reputation and experience of the management team (Riva 70).

Although the Investment Vehicles market offers new opportunities for the listing of the SPACs the favorite market is still the unregulated market AIM Italia. The reasons why AIM Italia is preferred are: regulatory flexibility for SMEs able to guarantee a simplified listing process (admission to the market in 10 days with shorter times compared to other markets); the centrality of the Nomad (Nominated Advisory) a consultant who accompanies the company during the admission phase and throughout its stay on the market supports it in compliance with the listing status ensuring high disclosure transparency for investors and strong credibility; simplified access requirements: no minimum or maximum size of the company in terms of capitalization or specific economic-financial indicators is envisaged; the speed and costs contained. The presentation of an Admission Document is not required, it is not necessary to present an Information Prospectus as in regulated markets, due diligence is not required either by Borsa Italiana or by CONSOB. (Riva 71)

7.2. SPACs in Asia

Despite the robust private equity market throughout Asia, the use of SPACs has not yet taken off in all Asian markets. It is important to note that this does not mean that SPAC investments targeting Asian private companies have not occurred throughout Asia in recent years. However, only two Asian markets currently regulate SPACs: Malaysia and South Korea. It is somewhat surprising that, despite the strong private equity market throughout Asia, only two Asian countries currently regulate SPACs. Pertaining to China, the use of SPAC investments by foreign investors to complete mergers and acquisitions with Chinese companies has increased in recent years. The surge of China-targeted SPACs is driven predominantly by Chinese target companies themselves. Chinese target companies are "typically interested in merging with a U.S.

SPAC to increase visibility, obtain enhanced prestige of becoming a U.S. listed public company, and enable them to obtain liquidity out of China." The size of the China targeted market "provides large scale opportunities for continued growth." While China has recently loosened regulations in hopes of stimulating further economic growth, they have not yet addressed the SPAC market. Strong reasons exist for China to do so. Besides the obvious economic advantages, political factors are also advantageous for China to retain its companies on domestic exchanges: more Chinese companies would effectively be regulated in China and less in America . And China regulating SPACs would indirectly hurt the United States economy, which would provide a tool in the widespread "political sparring between China and the United States.". It will be particularly interesting to follow future SPAC developments in China (Xiu).

In late 2009, South Korea became the first Asian country to implement regulations and allow SPACs to list on its stock exchange (Kim et al. 4). In 2011, Malaysia followed suit and became the first Southeast Asian country to follow suit. The regulations both countries passed, for the most part, mirror the regulations of SPACs in the United States. In South Korea, the regulations relating to SPACs require that: a minimum of ninety percent of the proceeds of the IPO be held in trust pending merger with the target company; the SPAC dissolves if it fails to consummate a merger within three years of its IPO; and the SPAC does not select its target prior to its IPO formation. Similarly, in Malaysia, the regulations relating to SPACs require that: a minimum of ninety percent of the proceeds of the IPO be held in trust pending merger with the target company; at least eighty percent of the amount held in trust be used for qualifying acquisitions; the qualifying acquisition take place within thirty-six months from the close of IPO formation or the SPAC is forced to dissolve; and SPACs abort proposed qualifying acquisitions if more than twenty percent of their public shareholders vote against such an acquisition (Cheang).

Even though SPACs currently play a minimal role in the Asian markets,'s this presents an advantageous growth opportunity for both investors and SPAC management. The Asian SPAC markets utilize more flexible and less stringent regulations than American markets. Specifically, Asian markets allow SPAC management an additional year to acquire a target company before the SPAC is forced to dissolve. This helps ease concerns that SPAC management may not have enough time to select and acquire the right target company. Accordingly, it is likely that SPAC investment will increase in the coming years as these markets continue to develop and evolve.

8. PERFORMANCE ANALYSIS

8.1. Empirical Study

8.1.1. Objective

The objective of this empirical analysis is to study the following points regarding special purpose acquisition companies: how does the stock initial first day return compares between SPACs and traditional IPOs knowing that this is considered a cost for the company that is going public, money left on the table? How does SPAC performance compare to traditional IPO in terms of annualized stock returns? To which extent is the latest SPAC surge phenomenon associated to the ongoing COVID pandemic crisis? What is the percentage of withdrawals for SPACs and how is it evolving?

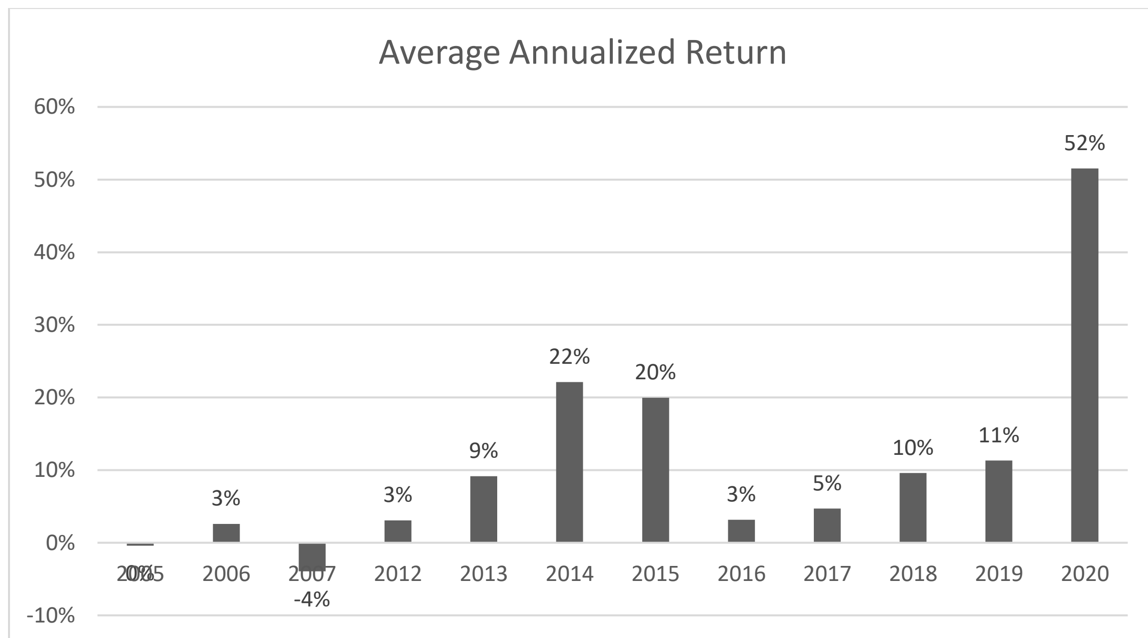
8.1.2. Data Collection

The main source of the used data is sourced from Bloomberg database where I exported relevant metrics on Initial Public Offerings that were announced in the period between January 2005 and April 9th 2021 in addition to metrics regarding special purpose acquisition company listing happening in the same period. Another solicited source is the spactrack.net website. I personally cross checked the data with

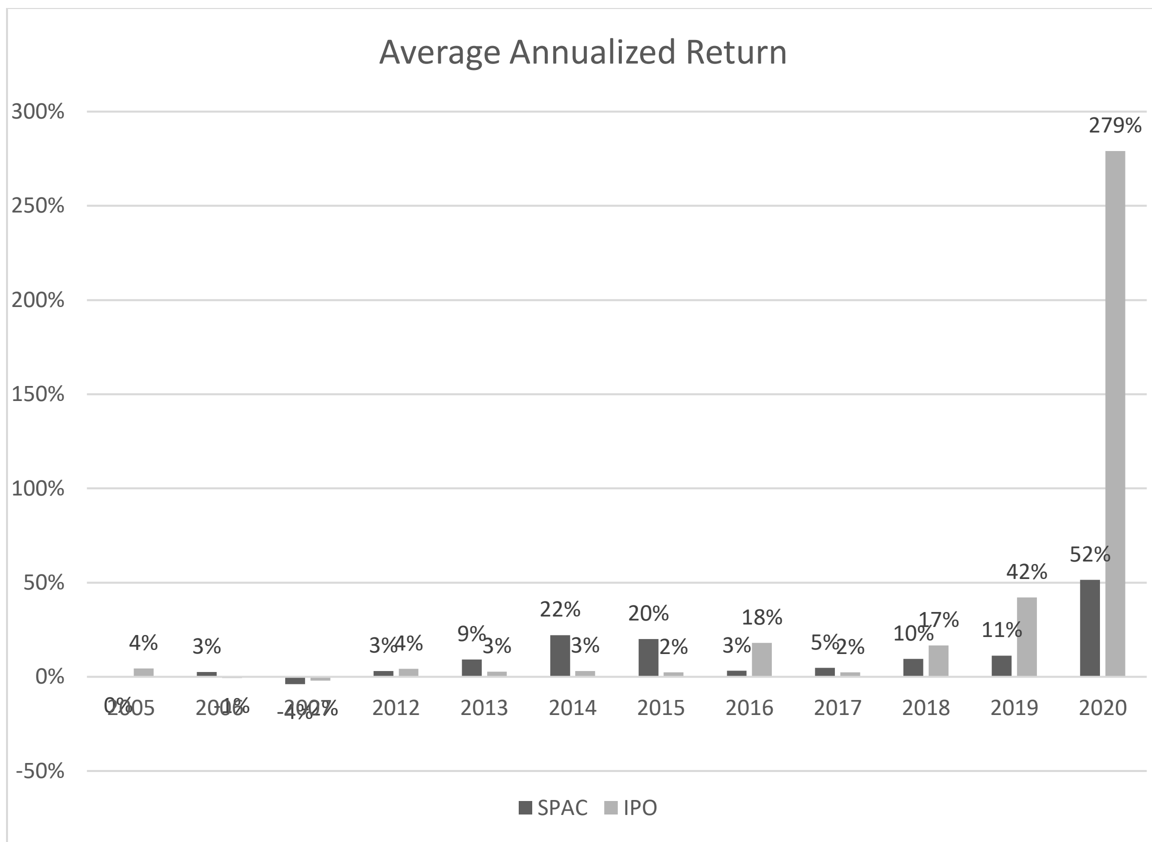
the data exported from Bloomberg, in addition, this same source was mentioned in several research papers. The last source is Warrington College of Business IPO database.

8.1.3. SPACs annualized returns

Studying the annualized returns on SPAC stocks from January 2005 to April 9th 2021, we can notice that the overall performance of SPAC stocks have reached a record high of 52% in 2020 with a visible increasing pattern since 2016.

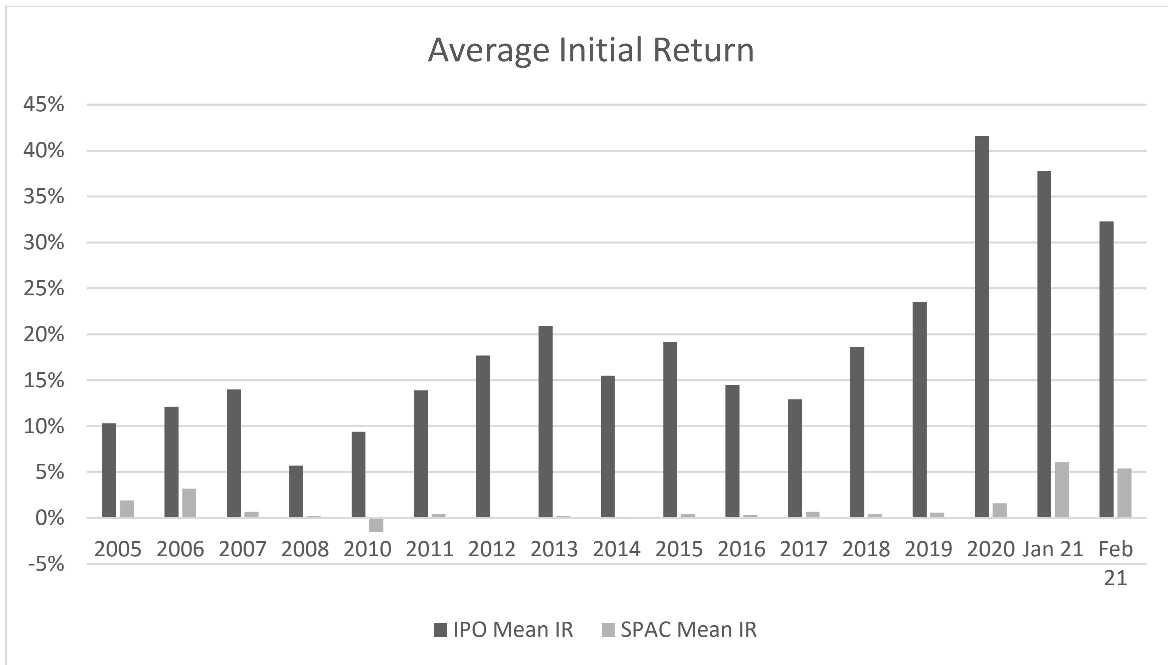


However, we can look at it within the context of total IPO stocks annualized returns, we can conclude that overall, SPACs still underperform traditional IPOs even with the recent performance improvement.



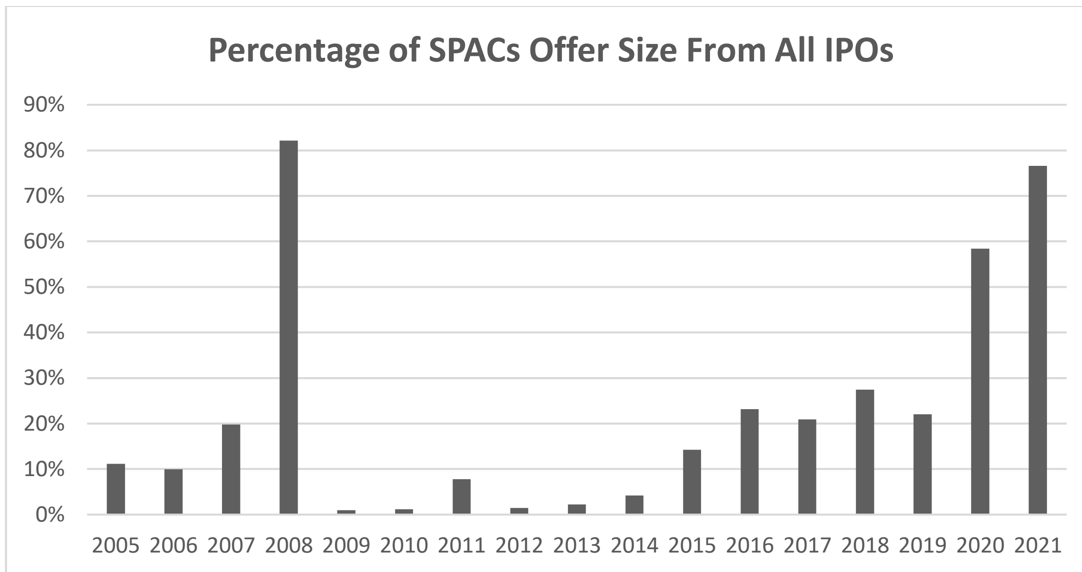
8.1.4. First day return and price pop

In this part, we can take a closer look at the first day initial return of traditional IPOs and compare it the initial return of SPACs in the period between 2005 and 2021. The yearly average initial return for IPOs, ranging between 6% and 48%, was higher than the yearly average initial return for SPACs, ranging between -2% and 6%, in every year and while overall the average first day return for IPOs from 2205 to 2021 was 19%, the average first day return for SPACs was 1%. The result confirms the price pop phenomenon for traditional IPOs which represent money left on the table and a cost for companies that are being listed.



8.1.5. SPACs and COVID

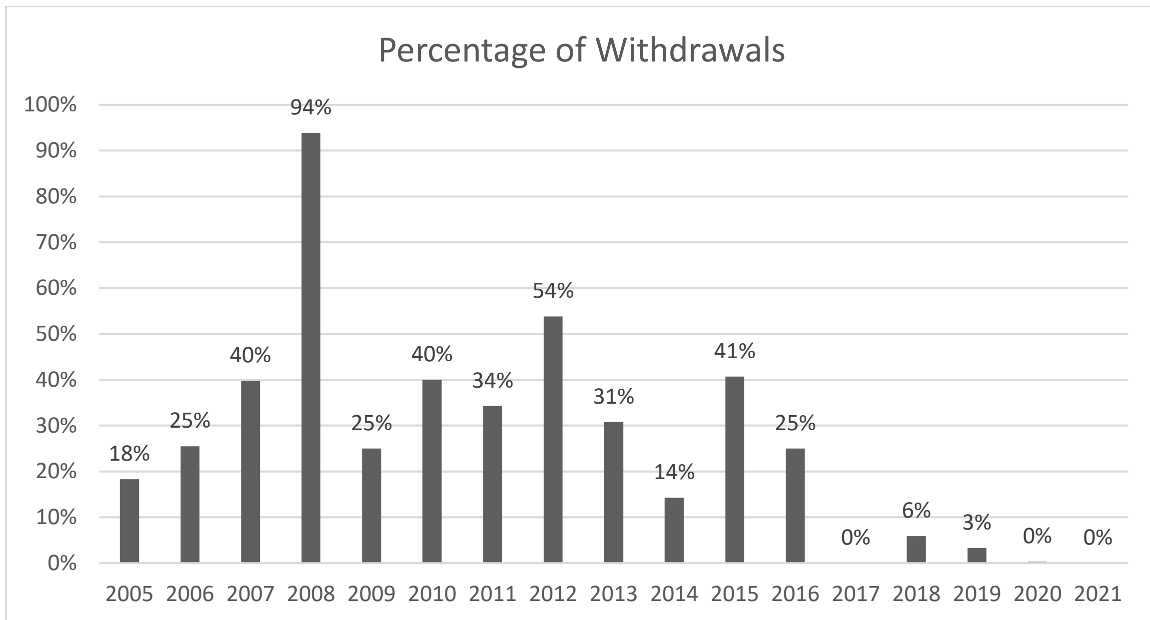
In this section we will focus on the recent surge of SPAC IPOs and it's possible relationship with the ongoing pandemic. Initially, looking at the evolution of the number of SPACs throughout the year, or the total amount of offer size, the correlation is not very obvious. However, when we study the percentage of total offers of SPACs from the total offers, we can see an almost perfect synchronization between the unusual surge of SPACs with both 2008 and 2020 crisis. The result confirms assumption behind the recent surge in SPACs and we can say that it is, to a large extent, explained by the uncertainty in the market that is caused by the pandemic.



8.1.6. SPAC withdrawals.

As mentioned previously, the structure of SPACs allows possible withdrawals after listing the blank check company. The main reason is the failure to find a target within the predefined timeframe, usually two years, or other reason set by the SPAC shareholders and their initial agreement with the sponsors. Below, we studied the yearly percentage of withdrawals of SPACs from January 2005 to April 9th 2021.

We can notice a clear drop down in the percentage of withdrawals which means that recent SPACs are more likely to successfully find a target. In addition, if we compare SPACs from 2005 to 2015 to SPACs from 2016 to 2021 we notice that the overall withdrawal percentage drops from 40% to 2%.



8.1.7. Conclusion

From the empirical study we can conclude that even though SPACs performance in terms of annualized stock return have been improving, in particular since 2016, the overall performance when compared with traditional IPOs still underperforms by a comfortable margin. When we compared the first day stock return, the price pop, which is considered a cost for the target company we can confirm that that first day price increase has been higher for IPOs than SPACs (19% vs 1%) in the period from 2005 to 2021. As for the possible correlation with the covid pandemic, when we studied the evolution of the percentage of total SPAC IPO offer size from total IPOs offer size, we could conclude a significant relationship between the surge of SPACs and the 2008 crisis in addition to the current covid crisis. Finally, analyzing the evolution of withdrawal percentage for SPACs we could notice an overall drop in the trend and a drop from 40% between 2005 and 2015 to 2% from 2016 to 2021 which means that the recent SPACs are more likely to find a target.

8.2. Case Studies

8.2.1. Lucid Listing

On February 22nd 2021, Lucid Motors has announced a definitive agreement to go public through a SPAC acquisition deal with the acquisition vehicle Churchil Capital IV Corp in a transaction that will bring to Lucid up to $4.6 billion. The deal will allow the California EV maker to aim at mass production of its 500 mile model, the Lucid Air. The very same company, less than 2 years ago, has come to the brink of bankruptcy and was saved by a $1.3 billion investment from Saudi Arabia sovereign wealth fund for a 67% stake.

Lucid Motors

Lucid Motors is an EV company headquartered in Newark, California. Former Tesla director Bernard Tse co-founded the company in 2007 as Atieva. Its initial focus was battery packs for Chinese vehicles, but it shifted to manufacturing cars in 2014.

In September 2020, Lucid Motors revealed the Lucid Air, the company's first car which is currently in preproduction in Casa Grande, Arizona.

Lucid Motors employs about 2,000 people and hopes to grow that number to 3,000 by the end of 2022.

Lucid Motors has a facility called AMP-1, the first greenfield EV manufacturing facility in North America. CEO Peter Rawlinson explained (Hussey). The AMP-1 facility is able to produce 34,000 vehicles annually. Lucid Motors has three stages planned to expand the facility until it can produce 365,000 vehicles annually.

In addition, Lucid Motors manufactures battery packs, integrated drive units and its Wunderbox two-way chargers. An innovative battery that can be used as a home power supply when the car is parked.

The company has one product in the spotlight: the Lucid Air. It's the company's sedan to rival Tesla's Model S. In fact, it wasn't until Lucid Motors offered the Air for a starting price of $69,000 in October that Tesla cut the Model S price to $69,420.

Churchil Capital IV Corp

Churchil Capital IV Corp follows a series of SPACs launched by the ex CITI banker Micheal Klein leverages on the previous successes by the latter. As a matter of fact, Micheal Klein and his 5 SPACs have so far raised more than $16 billion. Such reputation for the sponsor, as we mentioned before, has brought a lot of attention from investors to the acquired company.

Churchil capital Corp IV announced the pricing of its initial public offering of 1.8 Billion 180,000,000 units at $10.00 per unit. The units will be listed on the New York Stock Exchange under the symbol "CCIV.U". Each unit consists of one share of the Company's Class A common stock and one-fifth of one warrant, each whole warrant entitling the holder thereof to purchase one share of the Company's Class A common stock at an exercise price of $11.50 per share. The securities constituting the units began trading on September 18th 2020.

The Transaction

CCIV and Lucid are combining at a transaction equity value of $11.75 billion. The transaction includes an approximately $2.1 billion cash contribution by CCIV and a $2.5 billion, fully committed PIPE with an investor lock-up provision that binds holders well beyond closing. The PIPE is priced at $15.00 per share (a 50% premium to CCIV's net asset value) with an implied pro forma equity value of $24 billion

PIPE investment anchored by the Public Investment Fund (PIF) as well as funds and accounts managed by BlackRock, Fidelity Management & Research LLC, Franklin Templeton, Neuberger Berman, Wellington Management and Winslow Capital Management, LLC

This transaction includes the largest SPAC-related common stock PIPE to the date of the deal, And Peter Rawlinson will continue to lead Lucid as CEO and CTO.

More on the deal

Michael Klein, Chairman and CEO of Churchill Capital, commented about the deal (Deter)

"Churchill Capital Corp IV believes that Lucid's superior and proven technology backed by clear demand for a sustainable EV makes Lucid a highly attractive investment for Churchill Capital Corp IV shareholders, many of whom have an increased focus on sustainability. We are pleased to partner with Peter and the rest of Lucid's leadership team as it delivers the highly anticipated Lucid Air to market later this year, promising significant disruption to the EV market and creating thousands of jobs across the U.S"(Deter)

Rawlinson, CEO of Lucid Motors commented on the rationale behind going public and raising capital:

"Lucid is proud to be leading a new era of high-technology, high efficiency zero-emission transportation. Lucid is going public to accelerate into the next phase of our growth as we work toward the launch of our new pure-electric luxury sedan, Lucid Air, in 2021 followed by our Gravity performance luxury SUV in 2023"(Deter).

Regarding the upcoming steps, Rawlinson added:

"Financing from the transaction will also be used to support expansion of our manufacturing facility in Arizona, Scheduled to expand over three phases in the coming years, our Arizona facility is designed to be capable of producing approximately 365,000 units per year at scale. Lastly, this transaction further enables the realization of our vision to supply Lucid's advanced EV technologies to third parties such as other automotive manufacturers as well as offer energy storage solutions in the residential, commercial and utility segments"(Hussey).

According to the announcement, investors can expect the Lucid Motors IPO date to be sometime in second quarter 2021.

Stock Performance

From February 11th 2021 to February 18th 2021, when the news about the merger came around, the stock price went from $31 to 59 to make an increase of around 100%, and even when we look at the overall performance since the stock began trading on September 18th 2021, the stock went up from $9.86 to $20 as of May 2021 for an increase of 100%.

Conclusion

Overall we can conclude that to date the stock performance has been solid and the acquisition has received positive feedback from the market and investors. The stock price has doubled since it went public in less than a year. In addition, the deal has also been a success for for the acquired company. Investors believe now that Lucid financial struggle and tough days are behind them, and they can now achieve their full potential scaling the production of the 500 mile Lucid Air.

8.2.2. Virgin Galactic

"For the first time, anyone will have the opportunity to invest in a human spaceflight company that is transforming the market," (Sheetz) was one of the first comments from George Whitesides, CEO of Virgin Galactic Holdings, after announcing that his company is going public through a SPAC deal, during a time when multiple private efforts, including Elon Musk's SpaceX and Jeff Bezos' Blue Origin, are competing in the burgeoning space tourism sector.

Virgin Galactic

Virgin Galactic is an American spaceflight company within the Virgin Group. It is developing commercial spacecraft and aims to provide suborbital spaceflights to space tourists and suborbital launches for space science missions. SpaceShipTwo, Virgin Galactic's suborbital spacecraft, is air launched from beneath a carrier airplane known as White Knight Two.

Branson has said that Virgin Galactic was, separately from suborbital flights, "in the best position in the world" to provide rocket-powered, point-to-point 3,000 mph (4,800 km/h) air travel. On 13 December 2018, VSS Unity achieved the project's first suborbital space flight, VSS Unity VP-03, with two pilots, reaching an altitude of 82.7 kilometres (51.4 mi), and officially entering outer space by US standards (Turula).

Social Capital Hedosophia Holding Corp

SCH is a blank cheque acquisition company founded by Chamath Philapitiya, a venture capitalist and a ex executive at Facebook where he was credited orchestrate the social media's massive growth, that has as an objective creating an alternative path for going public to the traditional IPO for agile tech companies according to its founder who has a proven track record and expertise in disruptive tech innovation. As a sponsor, investors rely on him to have the eye for the next big tech thing. "Since our founding, SCH set out to unite technologists, entrepreneurs and technology-oriented investors around a shared vision," Palihapitiya said (Cao). SCH priced 60 million shares at $10 each.

The Transaction

As a result of the transaction, Virgin Galactic received a sum of $450 million of primary proceeds and as of October 25th 2019, Virgin Galactic reached a market capitalization of $2.3 billion. Virgin Galactic Holdings, Inc. is trading common stock, units and warrants on the NYSE under the ticker symbols "SPCE," "SPCE.U" and "SPCE WS." respectively. Existing Virgin Galactic Shareholders will maintain ownership of nearly 59% of the merged company and Chamath will be the chairman.

More on The Deal

The capital injection is crucial for the company that is expecting to burn $31 million of cash during this year. The company has attracted 600 customers who have pledged

to pay up to $250,000 to be sent into space, including Justin Bieber and Leonardo DiCaprio.

Virgin Galactic has not yet launched a commercial flight for paying customers. The company projected it would lose money on $31m of revenues next year but reach positive earnings in 2021, assuming the launch of 115 flights generating revenues of $210m.

Brawson said and explained. “Virgin Galactic has been working tirelessly to turn the concept of human spaceflight into reality, and our IP and engineering skills, alongside the talent we have in our business, makes us confident and excited about our future.”(Sheetz)

Stock Performance

From October 28th 2019 to February 10th 2020, in the period following the acquisition of Virgin Galactic, the SCH stock price went from $9.8 to $33 in a 200% increase run. A trend that reflected market reaction to the mentioned acquisition. When looking at the overall performance of the stock, the price went from $10.13 on September 25th 2017 to $42 to this date of February 25th 2021 which makes a total increase of 300%.

Conclusion

We can conclude that the stock has provided substantial return to it’s initial investors who trusted Chamath reputation and vision before knowing the target company. The acquisition itself had a positive feedback from the market translated in a better performance of the stock. From the target company’s perspective. The deal provided much needed support for a capital intensive business that is projecting losses in the near future. In addition, such a transformative idea that has never been done before would have a hard time going through a traditional IPO that is a longer, thorough process that does not guarantee necessarily such valuation.

8.2.3. DraftKings

Online-gambling and fantasy-sports company DraftKings Inc., received a market value of more than $6 billion after going public through a blank-check company merger, a nontraditional route to becoming a public company for a very nontraditional company.

DraftKings

DraftKings launched in 2012 with a single, daily fantasy-sports product, which allowed enthusiasts to make bets on players' performance in a range of sports. Something of a virtual gold rush followed for DraftKings and rival FanDuel. DraftKings raised millions in investments and spent on marketing partnerships with National Football League and others.

Today, DraftKings has three main lines of business: daily fantasy sports, sports betting and online casino gambling. The three segments are legal in different areas, and have differing regulatory burdens as well as margin profiles.

Though the company's lines of business expanded, DraftKings Chief Financial Officer Jason Park assured that the company's core focus has remained.

"The DNA of the company, that we're super user-focused, super data-oriented, that core DNA hasn't changed very much," he said. "I think if you said: 'What really has changed?' It's our future growth profile with all the legalization." (Cherney).

Like many innovative companies, DraftKings has developed several new measures of its performance such as Monthly Unique Players: the number of unique users that pay for the company's products each month. That includes participating in a daily fantasy sports contest, making a sports bet or placing a bet with one of its online-casino gambling services. It doesn't include users that have deposited money into their online wallet but not used the cash. The company says that its monthly unique player data tells executives about the size of its user base and awareness of the brand.

DraftKings reported a 13% increase in monthly unique players to 684,000 in 2019 compared with the year earlier. DraftKings also determines the average revenue per monthly unique player, and says in its prospectus each of those users is worth $39 a month in 2019, versus $31 in the year prior.

Diamond Eagle Acquisition Corp

Diamond Eagle Acquisition Corp is the fifth public acquisition vehicle led by media executive Jeff Sagansky and founding investor Harry Sloan, former chief of MGM Studios and executive of CBS. The acquisition vehicle was priced at $400 million in its initial public offering announced on May 10th 2019. Each unit issued in the initial public offering consists of one share of Class A common stock and one-third of one warrant to purchase one share of Class A common stock at an exercise price of $11.50 per whole share. The units will be listed on The Nasdaq Capital Market. The shares of Class A common stock and warrants are expected to be listed on The Nasdaq Capital Market under the symbols “DEAC” and “DEACW,” respectively.

The transaction

DraftKings’ deal to Become Public Company was announced on December 23rd 2019, Creating the Only Vertically-Integrated U.S.-based Sports Betting and Online Gaming Company. The combined company will have a market capitalization of approximately $3.3 billion and have over $500 million of unrestricted cash on the balance sheet.

Institutional investors (including funds managed by Capital Research and Management Company, Wellington Management Company and Franklin Templeton) have committed to a private investment of $304 million in Class A common stock of the combined company in addition to $400 million currently held in Diamond Eagle’s trust account.

More on the deal

“The SPAC was a really elegant way to complete those three things,” said Jason Park, the chief financial officer of Draftkings (Chernley).

Because the company listed through a blank check company, which it announced in December, it effectively avoided the market turmoil that has come with the coronavirus outbreak that has stifled so many other businesses globally. Furthermore, The company says in its prospectus that the COVID-19 pandemic is impacting its operations primarily because most major sports seasons and events have either been postponed or cancelled.

DraftKings reported losses of $146.6 million on sales of $323.4 million in 2019. In 2018, it recorded a loss of $76.8 million and sales of $226.3 million which showed reduction in loss from operation and indicates to a roadmap towards profitability.

Stock Performance

After announcing in December that it would merge with DraftKings, shares moved as high as $18.69 from $10 for an increase of 86% as investors waited for the combination to be approved; on its first trading day. DraftKings stock closed up 10.1% at $19.35, a record high that gave the company a value of roughly $6.3 billion which reflects positive reaction from the market. The overall performance, however, is more impressive. As a matter of fact, the stock had increased from $9.8 on July 25th 2019 to $61.33 on March 31st 2021 for a stunning increase of nearly 500% in less than two years.

Conclusion

Even though DraftKings business model presents several challenges, most of which, is the regulations burden that presents a risk to the entire business in addition to a market condition characterized by a pandemic that directly affected the sport industry, the company could ensure necessary capital and it’s performance so far has not disappointed. As for Diamond Eagle Acquisition Corp investors, the stunning stock performance makes them as well as the sponsors the biggest winners from the listing.

8.2.4. Nikola

As investors are rushing to greener fuel alternative names, Nikola IPO came in just in time. The company's $12 billion NASDAQ debut represented a strong argument that the elemental hydrogen fuel can finally conquer the transportation market.

Nikola

Nikola Corporation was founded in 2015. The company designs and manufactures battery electric and hydrogen-electric vehicles. It operates in two business units, Truck and Energy. The Truck business unit develops battery electric vehicles, hydrogen fuel cell electric vehicles and class 8 trucks that provide solutions to the short-haul, medium-haul, and long-haul trucking sector. The Energy business unit is focuses on developing a network of hydrogen fueling stations.

Currently, Nikola has around 14,000 preorders for its electric trucks. That represents about $10 billion of potential revenue and three years of production. In 2021, Nikola hopes to have short-range, batter-only trucks built by European partner IVECO. Those will be followed by long-range semis that will run on hydrogen.

Vector IQ Acquisition Corp

Vector IQ Acquisition Corp has completed its initial public offering In May 2018. A total of 23 million units were sold for an offer price of $10 per unit. The listing generated aggregate gross proceeds of $230 million. The sponsor team is led by the former executives of General Motors, Steve Girsky and Mary Chan which indicates the target preferences of the blank check company.

The Transaction

The business combination took place in June 2020. The merger with VectorIQ Holdings provided Nikola with more than $709 million in new cash.

Existing VectoIQ shareholders will hold around 7% of the merged company. Nikola equity holders will have close to 80%. Fidelity, ValueAct Spring Fund and P. Schoenfeld Asset Management will hold the remaining 13%. They will invest $525 million for common stock at $10 per share.

In addition to the $525 million, VectoIQ holds $237 million in funds and Nikola has $67 million. Combined, that's a total of $829 million. However, there will be $50 million in transaction expenses and a $70 million payout to Milton. That leaves Nikola with $709 million. Nikola's debuted on NASDAQ with $12 billion market capitalization.

More on the deal

"My number one goal right now is to execute this vision," he said. "It's hard. It's going to take a good five years." Said Trevor Milton and added "The additional capital from blue chip investors is a sign investors believe in the future of our business. I founded the company to completely disrupt the energy and transportation market," (Deter).

With the help of proceeds from the merger, Nikola aims to accelerate its range of innovative hydrogen fuel-cell electric and battery-electric vehicles, intending to push towards global zero-emissions.

Explaining the Acquisition target choice, Steve Girsky, VectoIQ CEO said:

"In our two-year quest to find a partner that was a proven technology leader and focused on making a global difference, Nikola was the clear winner," (Deter)

By going public via VectoIQ, Nikola can speed up the IPO process. It's estimated Nikola saved at least six months compared with a traditional IPO. That means the company will be able to raise money sooner rather than later (Deter).

Furthermore, the market is unstable for IPOs. Although 2020 has seen some successful IPOs, investors are still wary after the fall of 2019 unicorns. And now, with the coronavirus and recent market drop, it would be difficult for underwriters to find investors. By merging with VectoIQ, Nikola doesn't need to worry about finding demand for an initial pricing.

Stock Performance

Since the news came out on March 30th 2020 the stock went up from $10.8 to $65.9 on June 15th 2020 in an impressive run. However, the hype did not last long and the stock price, from that point onwards has been decreasing. In fact, the stock price is currently $11 which is only 10% higher that its listing price of $10.

Conclusion

Nikola listing had a lot of hype and the transaction made sense considering the background of the sponsor and the current favorable trend towards zero emission transportation solutions. However, the stock performance took a wrong turn since a short seller 67 page report came out on September 10th by Nathan Anderson alleging improprieties at Nikola centering on founder Trevor Milton. U.S. securities regulators and the Justice Department launched an investigation into whether Nikola misled investors, and as a result Mr. Milton said he resigned as executive chairman. The stock has been falling ever since. The Nikola case is perfect example on the kind of risks that may arise from the SPAC process resulting from faster procedures and a less thorough due diligence compared to the traditional IPO.

8.2.5. ETORO

On March 16th 2021, Fintech Acquisition Corp V has announced a definitive agreement with eToro, the social trading platform, to take the latter public through the

SPAC merger. EToro is expected to start trading on Nasdaq in the third quarter of 2021.

eToro

eToro is an online stockbroker that enables its users to trade shares, ETFs and cryptocurrencies. It was founded in 2007 in Israel, later launching its European offering in 2013, and US offering in 2019. It now operates in over 140 countries.

eToro’s business model is based on attracting individual traders who don’t have enough capital to meet other brokers’ requirements. The minimum amount set for trading on the platform is only $50.

These traders can then use the social investment network products OpenBook and WebTrader to follow other investors and copy their trades using their strategies. This method of trading is often known as ‘social trading’ it’s more common among less experience traders who represent a target for the platform. On the other hand, the better traders can earn a monthly salary, commission and cheaper transaction costs for their own trades.

eToro’s most direct competitor is Robinhood, another trading and investment platform focused on the very same target of beginner traders. Robinhood, as well, is expected to go public in 2021.

Fintech Acquisition Corp V

Fintech Acquisition Corp. V announces pricing of $218 million initial public offering with a pricing of 21,800,000 units at $10 per unit. Fintech Acquisition's Class A Common Shares And Warrants Commenced Trading Separately On January 25th 2021. The blank check company, led by famous banking entrepreneur Betsy Cohen, has mentioned in its filing that the team will target technological companies that operates in the financial services sector.

The Transaction

eToro will receive $250 million raised in FinTech V's IPO, with the rest of the capital coming from external investors. The eToro deal has already received backing from ION Investment Group, Softbank, Fidelity Management and Research Co, and Wellington Management. The companies are predicted to raise $650 million in equity to support the deal. The combined company is expected to have a combined value of $10.4 billion.

More on the deal

The deal was an opportunity for eToro to scale up its trending business and to take advantage of the favorable market conditions for tech companies in general and fintech in particular. However, the $10 billion valuation came short when compared to eToro's main competitor Robinhood. In fact, the latter is expected to have a valuation of $40 billion in its projected listing this year. According to eToro's press release in March 2021, it has 20 million users compared to Robinhood's 13 million.

Nevertheless, the $10 billion valuation is a huge step for a company that was valued at $2.5 billion by the end of 2020, following an undisclosed sale of shares to a US-based firm, and an even bigger step from the company's last funding round in 2018, which valued eToro at £800 million.

While many businesses struggled with the pandemic, this was not the case for eToro. In fact, due to increased volatility in financial markets, online trading platforms have seen increasing profits. eToro's investment service is currently estimated to have $800 million in cash, and a revenue of $605 million in 2020.

On the other side, Fintech Acquisition V's team vision an opportunity for an exponential growth, hence a perfect target for the SPAC. Betsey Cohen, Chairman of the Board of Directors of FinTech V, said:

"As a pioneer in the evolution of SPACs, Fintech Masala, our sponsor platform, seeks out companies with outsized growth, effective controls and excellent management

teams. eToro meets all three of these criteria. In the last few years, eToro has solidified its position as the leading online social trading platform outside the U.S., outlined its plans for the U.S. market, and diversified its income streams. It is now at an inflection point of growth, and we believe eToro is exceptionally positioned to capitalize on this opportunity (Deter).

Stock Performance,

On the day of the announcement of the deal on March 16th 2021, the stock price jumped by almost 50%, from $11.24 to $16.87. However, almost to months after the announcement the share price dropped to pre announcement level of $11.97 as of May 5th 2021 which makes an overall increase since the SPAC IPO of 20% in less than 6 months. The deal as mentioned is very recent and to better understand the trend, it is better to wait until the official trading date for the combined entity.

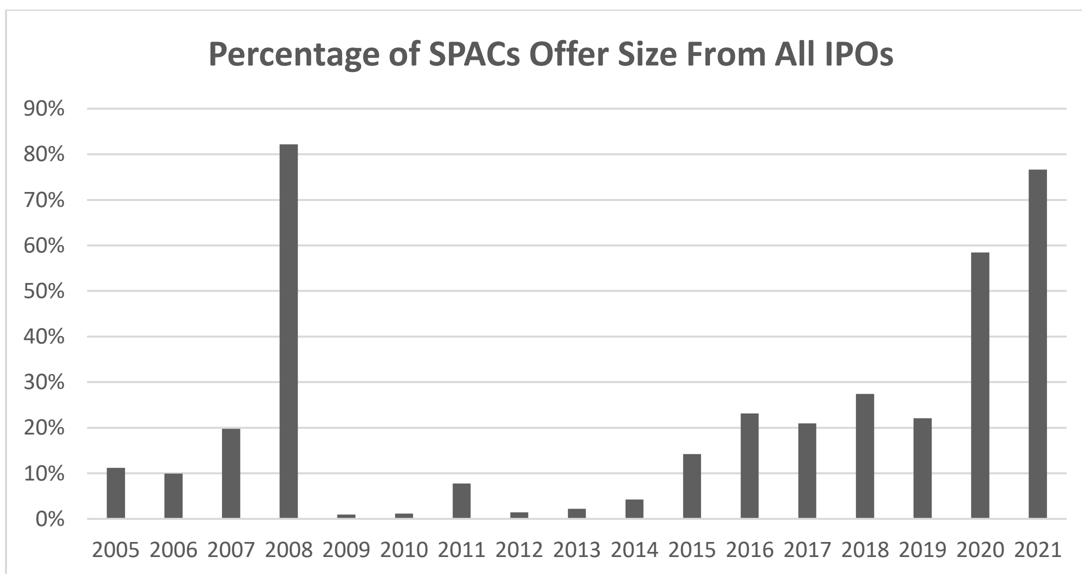
Conclusion

Etoro has taken advantage of favorable market conditions to ensure a $10 billion valuation that is 4 times it's previous valuation at $2.5 billion by the end of 2020. The valuation is still less than it's US based competitor, Robinhood. The deal received a positive feedback from investors reflected in a one day 50% increase on announcement day and this can be explained by the innovative nature of eToro that is best described with Assia's words who is the CEO as " the intersection of social media and investment platforms" all together to form what Assia labeled as "a perfect storm." (Pirus)

9. TO WHAT EXTENT IS THE CURRENT TREND DRIVEN BY THE PANDEMIC?

SPACs can provide a path to going public that offers pricing certainty in an uncertain market. From a private company stand point, those looking to explore exit opportunities through an IPO are faced with market conditions that are unpredictable at best. SPACs offer companies upfront price discovery and certainty regarding the proceeds raised. Public market valuations are at record levels which has widened the public-private valuation gap. At the same time, public market valuations have reached all-time highs, incentivizing private companies to act quickly and capitalize on the opportunity and many of them are choosing SPACs as the route to getting listed.

As concluded from the empirical study, the last time SPACs represented such a large percentage of total IPO offer size was during the other most volatile period in the markets. This relationship might explain the record level of SPAC issuance in 2020.



Volatility made it more complicated for companies to list through traditional IPO and some of them preferred a quicker, more reliable route in SPACs. “Getting an IPO done began to look uncertain as markets tumbled”, recalled Nikola Chief Financial Officer Kim Brady(Osipovich) whos company chose to go public through a SPAC. With a traditional IPO, a company knows how much capital it is raising only after

several months of negotiation with underwriters and investors. It is also possible that the deal fails at last minute, especially if markets conditions are not favorable. In a SPAC deal, however, the negotiations are simpler, involving the company and the SPAC, and the terms are determined in advance.

The second most important advantage is the time needed to go public through SPACs and it is best described through Mr Brady's own words:

"We chose the SPAC route because there was simply too much uncertainty in the market with the coronavirus," Nikola CFO said in an interview with the wall street Journal (Osipovich). "If we had pursued the IPO path, we would not be a public company at this point."

At the same time, the pandemic has led many businesses into financial struggles and a cash burning cycle for small innovative companies in particular, and such distressed situation has made some of them desperate to raise capital and a target for SPAC sponsors to acquire. In fact, disclosure from SPACs confirms that they believe COVID-19 has placed private companies in a sort of bargain. Vistas Media Acquisition, for example, which is in the market for a media company, put it like this: "We also believe that the COVID-19 global pandemic will impact the M&A industry different within various segments. Our management expects that there will be some strong businesses that may end up in special situations" (Peters).

Another SPAC leader, Bill Ackman, believes the pandemic has left its target base of so-called "mature unicorns" in need of financing. "The short-term impact of COVID-19," the prospectus says, "reduced their revenues and cash flows, thereby increasing their need for additional capital" (Peters).

We can also look at it from a risk assessment standpoint. Companies want to go public, but they are worried about the risk of the market collapsing. In this way, the SPAC is the holder of the risk, it will take a company public on a fixed price deal and predetermined size and terms so the company will not worry about the market

condition. That is what the SPAC offers and naturally the SPAC investors expect a higher return for the risk taken. As a matter of fact, the only reassuring factor for the investors, aside from the deal rejection option and the possibility to redeem their money, is the trust in the sponsor team and their reputation and expertise.

All these factors have made SPACs attractive to investors and private companies at the same time during the ongoing crisis. The data confirms the pattern as it is not the first time SPACs surged in tandem with market volatility and a global crisis, as the case in 2008 financial crisis. The pandemic is definitely a major factor behind the recent surge. However, it is too simplistic to assume it is the only factor.

10. SPACS AND INNOVATION, Tech and Unicorns

10.1. A new pattern

A third of top US blank check IPO's in 2020 and 2021 up to March target tech, media and telecom sectors, gross amount offered equal or greater than $500m (spacktrack.net).

Until recently, taking a unicorn public usually involved a typical initial public offering or direct listing. However, a once-obscure option, a merger with a special purpose acquisition company has become an increasingly mainstream alternative. In the first quarter of 2021, a series of strong debuts from companies in the electric vehicle and autonomous driving spaces offer fresh support for the notion of SPAC mergers as a viable path to public markets.

Investigating some of recent deals, autonomous driving technology provider Luminar, completed its offering in December 2020. Shares closed up 30 percent, delivering the Florida-based company a reported initial market capitalization of around $7.8 billion.

In prior weeks, at least four other transport deals have hit valuations in the multiple billions: QuantumScape, a Silicon Valley-based developer of battery technology,

completed its merger. The company soared in initial trading, with a first-day enterprise value around $16.56 billion. Fisker, the Los Angeles-based maker of high-end electric vehicles, completed a SPAC merger in October 2020 and reported a market cap around $4.8 billion. Similarly to Lucid Motors, Fisker has previously filed for bankruptcy. Lordstown Motors, a maker of light-duty trucks for the electric fleet market, completed its merger in October 2020 and was valued at $3.6 billion. Velodyne LiDAR, a maker of LiDAR sensors for autonomous vehicles, went public in November 2020 and had a market cap around $2.7 billion and the list goes on and on. Those are far from the only SPAC tech deals getting done. Over the last six months, we've seen new announcements of tech SPACs almost every day.

Having a closer look at companies going public via the SPAC route, we can notice a tendency for these companies to be more speculative or earlier on the path to profitability than those going the IPO route. A characteristic often common among tech companies.

"Investors have an insatiable appetite for growth stocks and they're finding that in the tech sector, as well as electric vehicles and in the health care sector," Wedbush analyst Dan Ives told Investor's Business Daily (Deagon et al.)

The SPAC stocks boom has reshaped the way startup companies are raising funds and coming public. And some of the biggest investors in the technology field are getting more involved.

"The future success of the capital markets for technology companies is dependent on new company formation. and an increased willingness of private technology companies to become publicly traded and therefore become available to a broader universe of investors who can benefit from their disruption and growth. Our mission is to create an alternative path to a traditional IPO for disruptive and agile technology companies," SPAC sponsor Social Capital Hedosophia Holdings Corp. says in its mission statement (Williams et al.).

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On the other hand, in sectors such as space travel, electric vehicles or online gambling, there are no clear valuation constructs in the public market. Therefore, SPACs have become the preferred method of going public because of the ability to disclose forward looking projections. As a result, private companies in emerging growth sectors are drawn to the SPAC vehicle because it allows them to intimately walk investors through strategic growth plans and how new capital will be allocated,

10.2. The WeWork Case

What happened to WeWork is a perfect example why tech unicorns are trying to avoid traditional IPOs and considering alternative options to going public.

WeWork went through a turmoil since it filed its public-offering paperwork. The co-working company cut its valuation down to as low as $10 billion from $47 billion, removed Adam Neumann as CEO, and delayed its initial public offering indefinitely. WeWork faced intense scrutiny of its finances and leadership from investors and the media. There were concerns about WeWork's path to profitability and its leader, CEO and cofounder Adam Neumann. Ultimately, WeWork delayed its IPO and eventually cancelled it.

After the failed IPO, WeWork came around to SPAC route. The money-losing office space firm plans to merge with a blank-check company BowX.

“There have been doubts raised about its business model, and those doubts may be difficult to address in an I.P.O. roadshow,” said Michael Klausner, a Stanford business professor (Klausner et al.), referring to the presentations that companies give to mutual funds, pension managers and other institutional investors before a public offering (Eavis et al.).

WeWork said the deal with BowX gave it an equity value of $7.9 billion. WeWork will receive $1.3 billion in cash from the deal, including $800 million in PIPE financing. The new valuation is obviously a discount and the SPAC team took advantage of the unpleasant situation of WeWork and their need for capital.

10.3. The Slack and Spotify case

"Direct listings are only going to become easier and more commonplace now that the bread has been broken" (Crabb) says Greg Rodgers, partner at Latham & Watkins who represented both Spotify and the financial advisers to Slack addressing the recent trend of unicorns and tech companies considering alternative listing routes to traditional IPO.

Indeed, Slack Technologies Inc. has decides to go public through a direct listing, potentially making it the second big technology company after Spotify Technology to avoid a traditional IPO. Slack, which operates a popular workplace instant-messaging and collaboration app, started trading in April 2019. The app used for group communication and as of last year had more than 8 million daily active users and 3 million paid users. For companies that can forgo the cash, the benefits include sidestepping hefty underwriting fees and avoiding lockups that prevent insiders from selling shares for a set period. Spotify's listing was widely viewed as a success and that likely encouraged Slack to try one too.

Wall Street bankers are concerned about the possibility that more sizable companies will pass on IPOs and pursue direct listings, but only a small number of issuers have the luxury of taking that route (Farrel).

According to John Tuttle, vice chairman and chief commercial officer at the New York Stock Exchange (NYSE), where Slack has chosen to list, the overall success of Spotify's direct listing last year has opened the floodgates to companies with similar profiles to list on its exchange using this technique.

"A direct listing isn't for every company. It really depends on the profile of the company and what they are hoping to achieve by coming to the market," he told IFLR. "There have been companies that fit that overall profile of Spotify or Slack who have expressed interest in learning about the direct listing process, and we have fielded a lot of queries from both private and public companies and advisors and investors who are just interested in learning about the process."(Crab)

Spotify's entrance to the market last year ended up being among the top five largest opening trades in history. Although it took around a year, the transaction has clearly spurred Slack to follow the same path. "It was a smooth and orderly opening, the stock traded nice and smoothly throughout the day on an ongoing basis, and the company's performance has been fairly strong since then," said Tuttle. "From an execution standpoint, the direct listing was very successful.".(Crab)

As previously mentioned, this is different from a traditional IPO because companies are not allocating shares, conducting roadshows, stabilizing stock, nor exercising over-allotment or greenshoe options. But otherwise it offers all of the benefits that come with being a public company.

In addition, the structure of a Reverse Merger or SPAC and the absence of an underwriter who, as we mentioned, will leverage on its network of institutional and retail investors to develop a secondary market, an active trading market could potentially develop down the line if the company performs well and gets noticed. While this can be an issue for most companies, it is not the case for tech unicorns who are lately getting all the attention and are taking advantage of peer success stories to consolidate their narrative.

10. Conclusion

From the empirical study we could conclude a clear relationship between the surge in SPACs and the uncertainty in the market caused by the current pandemic. A similar pattern occurred with the 2008 financial crisis. This can be explained by the nature of

SPACs where the target company negotiates the valuation with one side and can ensure a certain valuation from the beginning unlike with traditional IPO where the final pricing happens at the end of the process and is open to unexpected surprises driven by market conditions and investor demand. In addition, we can also notice a less significant trend starting in 2016 in the performance of annualized stock return as well as the drop of percentage of withdrawals that can be attributed to a change in regulations that allowed investors to vote in favour of a deal but at the same time redeem their shares and get their cash back, holding on to their warrants. This means they can always get their cash back, and the free warrants become valuable if the share price of the SPAC rises after a deal is consummated, a game changer according to investors.

From the empirical study we could see a stunning increase in SPAC deal number and size that exceeded traditional IPOs in 2021 and the performance of SPACs in terms of annualized returns have been improving in the last years with a record 52% in 2020. However, this positive trend does not change the fact that SPACs still fall behind in terms of performance and long term return when compared to traditional IPOs. In fact, traditional IPOs annualized stock return for every year since 2005. On the other hand, SPACs overall cost appeared to be lower than traditional IPO cost considering the first day price pop that is considered an extra price and money left on the table for the companies being listed. In fact, the overall average first day stock price increase from 2005 has been 39% for traditional IPOs to 1% for SPACs. This can be explained by the nature of IPOs and SPACs. As a matter of fact, the structure of SPACs aligns the interests sponsors, investors and the companies shareholders where an underperformance of the stock will affect sponsors as well as they own a part of the combined entity and they are usually under share sale locks.

We could also notice a decreasing trend in the SPAC withdrawal percentage from 2005 to 2021 with 2% from 2016 to 2021 vs 40% from 2005 to 2021. This reflects a higher success rate for sponsors in finding target companies and the result is in line with the recent improvement in SPAC performance.

Looking at the total SPAC cost as a percentage of post-merger entity, the cost can be divided into three main categories: Net promote price with 8% median cost, Underwriting fee with 2% median cost and Warrant and right cost with accounts for 4%. All together make up a cost of 14% as percentage of post-merger entity.

From the case studies we could notice a special interest from SPACs into tech innovative companies, and the vice versa. In fact, tech companies represent an opportunity for an exponential growth for SPAC sponsors and investors, and for the targeted companies, the SPAC is a faster, less costly and safer alternative to traditional IPOs to ensure their targeted valuation and to avoid the valuation uncertainty that comes with IPO process, especially in such volatile market. This, however can go both ways, as we could see in the case of DraftKings and Lucid Motors in particular where the stock performed well and the market feedback to the combination was positive and reflected in a stunning stock price increase, both post-merger and overall. In these cases, the targeted companies ensured their desired valuation and raised enough capital to scale their businesses up and reach their full potential and the SPAC investors and sponsors benefited from a strong long term stock performance and ensured a high return on their investment. However, this is not always the case, and such fast process comes with its own risks and the Nikola case study was a perfect example for this. As a matter of fact, Nikola seemed to be a perfect target for the SPAC and the stock price surged by 50% the day of the deal announcement, but everything went south when a 67 page short seller report was published revealing alleged improprieties centered on founder Trevor Milton followed by investors misleading investigation and later on the resignation of Milton as executive chairman. The stock price, naturally have been on a free fall ever since.

Comparing SPACs in different markets, we could conclude that European SPAC regulations offer more flexibility in terms of size of the target companies and favors smaller deals. The choice of the exchange is often based on tax incentives. As for the SPAC market in Asia, it is still underdeveloped as the only countries that currently regulate SPACs are South Korea and Malaysia. However, the near future could see a

potential development that heavily depends on the Chinese regulator and the political decisions. A Chinese SPAC market could radically change the landscape of Asian SPAC market. The most notable difference in SPAC regulation in the Asian market is the extended three year duration allowed for the sponsor to find a target. That being said, the American SPAC market is currently the largest and most prosperous in the world and American regulations in place have shown to be quite effective.

Finally, I would like to mention that the recent surge in SPACs is still not fully covered and there still will be more literature to be published to further evaluate this phenomena. The blank cheque companies have been reinventing themselves since they first came to exist and we definitely need more time to better evaluate the long term performance of the latest SPAC deals.

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