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Special Purpose Acquisition Companies:

An Empirical Analysis on an Alternative Financing Vehicle for Italian SMEs

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A chi mi è sempre stato vicino

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INTRODUCTION

The Special Purpose Acquisition Companies (SPACs) are particular type of companies devoid of assets, formed as investment vehicles with the sole purpose of selecting and leading to the listing, through a business combination, an operating company (target) with high growth prospects.

Despite their diffusion in our country being relatively recent, the SPACs realised in the Italian market have reached, in our opinion, a sufficient numerousness and significance to justify an in-depth examination. Speaking of the Italian market, they represent a concrete case of approach to the capital market with new and innovative methods and instruments. Hence, they fit well into the growing trend that in recent years has characterised the corporate finance and the capital markets, also thanks to a more favourable general regulation towards non-traditional forms of financing (think for example of the now consolidated phenomenon of the so called minibond issues), with the purpose of progressively reducing, in this respect, the existing gap with other more advanced economic systems.

The purpose of this paper is therefore the identification of the initiatives classifiable in the category of the SPACs realised in the Italian market so far, the analysis of their outcomes and the recognition of the main reasons of success/failure, in the attempt to formulate a judgement about the attractiveness of this instrument for our firms (especially for small and medium sized ones) in terms of growth through the opening up of capitals and to new investors.

The structure of this paper is the following:

- In the first chapter, we propose an analysis of the Italian economic-productive structure with regards to the private firms, significantly characterised, as we said, by a high number of small-medium dimensions subjects, often family-run and traditionally dependent on the bank credit. As observed in many quarters, the numerous and large turbulence of the markets that have succeeded one another in the last years, starting from the economic and financial crisis, originating in the

USA in 2007, have induced – often necessarily – many of our firms to look for means of access to the financial resources different from the ones used until that moment. Contextually, this pushed the financial market participants to identify and propose, to the firms and the investors, more advanced instruments such as, indeed, the SPACs. We then describe the origins of the SPACs and provide an overview of the literature available. Finally, we list the differences with other more traditional instruments like Private Equity and Initial Public Offerings.

- The second chapter describes the characteristics and functioning of the SPACs, the role of the main players involved, the reference markets and finally the most relevant accounting aspects of the operation. We also point out the regulatory deficit that characterises our system, for the absence of a specific discipline relative to the SPACs.
- The third and last chapter is dedicated to the empirical analysis of the phenomenon: in the first part we describe the most significant features of the SPACs and target companies present in the Italian market as of today. Afterwards, we take as reference the paper by Jenkinson and Sousa: "*Why SPAC investors should listen to the market*" (2009), in which the authors analyse the signals offered by the share price in the period between the announcement date and the decision date to approve the business combination. From here, using the same criteria of the authors, we divide the SPACs under analysis in two clusters, "Good" and "Bad", depending on whether the share price is respectively higher or lower than their trust value per share at the shareholders' meeting date. To identify the presence or absence of analogies between the Italian SPACs and those investigated by the US authors, also in terms of trend, we then analyse the average daily returns of each SPAC from the day after the meeting date to the day prior to the business combination itself. In this way, we want to verify if the SPACs deemed "Good" present positive returns after the date for approving the deal and, vice versa, the "Bad" ones present negative returns. Lastly, we analyse the market reactions in the two critical moments of the life of a SPAC: the announcement date of the business

combination and its effective date, to identify the possible correlation between the market judgement and the particular technical form of the SPAC.

- In the final considerations we will propose our overall opinion on the possibilities of progressive diffusion of the instrument in our market and hence on its effective applicability to a growing number of firms. We will also address some of the most delicate aspects about this kind of analysis and what suggestions we do recommend to further research some peculiar and critical aspects of this instrument in our country.

CHAPTER 1. SPACs: A NEW FINANCING INSTRUMENT IN ITALY

1.1 The Italian economic environment

The Italian business landscape is by far composed of small and medium enterprises, also called SMEs. The European Union defines as such all the firms with less than 250 employees, whose annual turnover is lower than 50 million euros or whose total balance sheet for the year isn't above 43 million euros[1]. As it appears from the table shown below, whenever a firm doesn't fall within these parameters, it is defined as "large".

Figure 1: enterprise classification by European directives.

ENTERPRISE	EMPLOYEES		TURNOVER (€)		BALANCE SHEET (€)
Large	≥ 250	or	> 50 mln	and	> 43 mln
Medium	< 250	and	≤ 50 mln	or	≤ 43 mln
Small	< 50	and	≤ 10 mln	or	≤ 10 mln
Micro	< 10	and	≤ 2 mln	or	≤ 2 mln

Source: personal elaboration from Cerved SMEs Report 2020

On the basis of the last available data offered from Cerved annual Report[2], it comes out that 159,787 firms are part of the aforementioned category.
It is necessary to specify that, even though after 2007 some improvements have been recorded, both in terms of turnover and growth (it's estimated an annual growth rate of 2.9%), the recovery of SMEs after the financial crisis is still really weak. The experts' explanations about the matter are, first of all, lying on the intrinsic structural inefficiencies of our own Country, which cause several limitations in terms of dimensions, interest towards internationalization and capitalization[3] of the firms.

An investigation conducted by Cerved[4] on SMEs of Centre-North Italy, however, appears to contradict what has just been reported: it's recorded, especially in the North-East, a strong openness towards foreign markets. Such firms have thus recorded, in the

[1] Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises. Official Journal of the European Union.
[2] Cerved SMEs Report 2020.
[3] "*Lo sviluppo delle SPAC in Italia: Un nuovo modo di fare Private Equity e di quotare le imprese in Borsa*", M. Fumagalli, 2014.
[4] Cerved SMEs Centre-North Report 2020.

course of the last two years, better growth performances and financial metrics compared to the rest of the SMEs. This is just one of the signs proving that internationalization is a fundamental factor to make Italian firms grow fast enough.

Another point to observe is that the small dimensions of Italian firms can - as many scholars state - make them more sensitive to shocks, especially in the most adverse and critical situations, like the pandemic[5] crisis we are facing right now. In this context, small firms are expected to prove less resilient and flexible in dealing with the costs entailed by the economic shock, considering their fewer resources and more obstacles in accessing capital compared to larger firms[6]. However, it is true that in the specific case of Italian SMEs, even if they got hit hard in the first weeks of pandemic, they are proving to be able to face the crisis in the same way of larger firms, from an organizational point of view[7].

Our entrepreneurial system presents another peculiarity with regard to the dimensions of its firms: the high concentration of Industrial districts (IDs), geographically defined production systems characterized by a large number of small and medium firms, with a tendency of horizontal and vertical integration and productive expertise, that are involved at various phases in the production of a homogeneous product family. These socio-territorial entities are identified by the continuous presence of both a community of people and a population of firms in a naturally and historically bounded area, so that the two tend to merge. IDs are a symbol of excellence Made in Italy and have always been key players in our economy. Moreover, in the last years, as it is drafted in the annual report by the Research Department of Intesa San Paolo[8], it has been found that districts have kept beating non-district-based areas. Specifically, compared to the other areas, districts' turnover has increased by 7.7%, their growth by 5% and their labour productivity by 10%. Even in this case, a significant amount of these firms belongs to

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[5] For clearness, every time we mention "pandemic" in the paper, we refer to the Covid-19 pandemic crisis started at the beginning of 2020.

[6] *Italian regional SME policy responses*, OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), April 2020.

[7] *Resilienza e PMI, La rinascita post crisi del tessuto imprenditoriale italiano*, Deloitte Blog, Ernesto Lanzillo, July 2020.

[8] *11th annual report on the Economy and Finance of Industrial Districts*, Research Department, Intesa San Paolo, March 2019.

districts aiming to strategies of internationalization and innovation. Such findings shouldn't be surprising, if we consider the growing presence of foreign investments in these firms: about 43% of the firms targeted by foreign investors belonged to a district area (usually is often the leader of that area).

In the next paragraphs of this chapter, we will be describing - based on what discussed this far - the issues that Italian SMEs should face and get past in order to be competitive on the international landscape. Since in the current paragraph the attention was placed, in general, on the economic context surrounding Italian firms (and in particular on their demography), in the continuation of the discussion the focus will be on two important features of our own entrepreneurial system: dimension and capitalization.

Apart from the macroeconomic specificity just reported, in fact, many experts think they can identify a series of elements, typical of our firms, due to which there have been long-time obstacles to growth and innovation. These, have also made the need for firms to adopt alternative instruments, compared to the traditional bank-centric approach, to finance their expansion. Among these, *Special Purpose Acquisition Companies* are to be accounted for.

1.2 Opening up capital

One specificity of our economic system – the relatively low dimension of Italian firms, which we discussed earlier – is deemed to be from the most the greater obstacle to the development of a stable financial and credit market. Traditionally speaking, in fact, SMEs have a simple financial structure, with a relevant undercapitalization and an almost exclusive reliance on bank debt. This has always implied a strong dependency relation between SMEs and the banking system, partially fostered by the Italian fiscal system, which discourages the reinvestment of profits and, conversely, encourages the recourse to debt, through the deductibility of interest expenses.

As a matter of fact, the abovementioned situation becomes a direct cause of the limited propension of SMEs to take a look at alternative financing instruments, like public listing on the stock exchange or bond issuance (usually associated to large enterprises), with the consequent failure to grow in size through the disposal of new fresh capitals. A firm usually has two main ways to create value consisting of, alternatively, an internal growth strategy (organic), based on a more efficient way to manage the available resources, or an external growth strategy (inorganic), allowing to reach corporate goals in a shorter time, but requiring in addition the availability of massive capitals. Moreover, the latter strategy often implies more complexity in the implementation, entailing reorganization plans and the execution of extraordinary corporate transactions, in order to create synergies[9] and achieve greater efficiencies in the ordinary and extraordinary activities of the corporation.

The aforesaid complexities might have restrained Italian firms to "sacrifice" their capitalization. Actually, the choice of a bank-centric approach to manage the financial resources can, under an entrepreneurial view, provide some obvious upsides: a strong *relationship lending* (seen as a continuous long-term relationship between a bank and a firm) assumes a certain level of trust between debtor - who should cope with all payments in a timely manner, while strengthening its credibility - and creditor - who is therefore willing to grant credit without excessive restrictions - creating a beneficial give-and-take situation. Moreover, such a close relationship, if on one side allows the firm to obtain a greater bargaining power to discuss the contractual terms of the bank, on the other side gives the bank itself the chance to retain the firms, even for long periods - thanks to the asymmetric information that is created - and to influence their actions through its decisional power.

With the 2007 financial crisis, these strict relations have proven to be a double-edged sword: as it is known, the general crisis of confidence brought to a progressive rationing of bank credit - so called Credit Crunch - and to a progressive increase in the borrowing costs, in terms of interest rates. Not to mention the adoption of new risk measuring instruments from the banks, enforced by the supervisory regulation at

[9] In an M&A operation, the synergies are the value obtained from the business combination and the elimination of redundancies. Leaving out the issues related to their valuation methods - not covered herein – usually their value appears to be greater than the one attributable to the standalone value of the singular firms participating in the deal.

European level, that immediately caused problems all the firms considered more fragile: taken together, these phenomena have shown a strong pro-cyclicality, in presence of a certainly not favourable economic trend. Ultimately, the credit squeeze, the consequent rationing of credit availability and the ever more rigid capital requirements[10] demanded, made it difficult and onerous for the more fragile SMEs to access the traditional sources of bank financing.

These recent experiences have pushed a good amount of firms in our Country to explore different financial solutions that could allow them to start a recovery, even if not in a short time. This trend is also highlighted in the Cerved SMEs Report 2020[11], where it is stated that, although the spring block of productive activities due to the pandemic has led to an erosion of capitalization (with the consequent need for liquidity in 2020), in the past decade we observed a lower recourse to the bank channel for SMEs, with less than 60% of the firms in the sample relying on it (94,000 SMEs) and, conversely, a growing number of firms recurring to self-financing.

However, alternatively to self-financing, it has been noted a fast-growing approach towards operations that result in opening up capital[12]. This happens especially through the adoption of alternative instruments, attributable to the macro categories of Private Equity and Venture Capital. While the first refers to investments made into existing companies, the second regards collecting the resources needed to *start-up* a new project. In this sense, if we look at the data collected and analysed in the annual report by AIFI[13]: in 2020, we count 471 of such operations, with a dramatic increase of 27% compared to the previous year and a concurrent decrease in the disinvestments of 39%. The adverse conditions of the pandemic, in fact, led the funds to collect a huge pool of dry powder to spend in the

[10] We refer to the Basel III (2011) set of rules, composed with the objective of making the financial market more solid and stable. Hereafter, a brief summary of the main measures put in place to regulate the banking system:

- a minimum capital threshold to avoid default.
- stock of highly liquid assets to allow banks to be covered for a period of at least 30 days.
- a total capital of at least 8% of the risk-weighted assets.
- a leverage ratio of at least 3%.

[11] For clearness of presentation, the hereafter data refer to the already cited Cerved Report.

[12] We refer to *opening up capital* as the injection, in a firm, of financial resources by a specialized agent, in the form of equity share capital or bonds with convertible features.

[13] The Italian *Private Equity* and *Venture Capital* market, AIFI, 2020.

second semester: specifically, the capitals collected through the fundraising activity by these investment vehicles in 2020 amounted to € 2,612 million, against the € 1,591 million of the previous year.

On the basis of what just reported, it appears that Italian firms - regardless of their dimensions - have started to look for alternatives to the bank channel. Here, it is necessary to make a point about the current pandemic situation we are facing. 2019 was a record-breaking year in terms of IPOs performed in the Italian market, recording 35 of them[14]. However, in 2020, the number fell to 23, with many announced listings that had to be suspended. The reasons here are not only to be found in the small dimension of our firms and their relatively scarce response capacity to economic shocks, but also in our productive system itself in such a pandemic crisis. In fact, Italian firms have a greater presence in sectors like retail, consumer products, fashion & luxury and manufacturing. This feature made our companies more exposed to the crisis derived from the restrictions to contain the pandemic, making it impossible for many firms to proceed with their plans of listing.

Nevertheless, we should keep in mind the results coming from a study of Banca d'Italia[15] in which they simulate the balance sheets of a vast sample of firms potentially suitable for listing and, taking due account of the impact of the pandemic, they come up with a reduction of this sample of around 20%, so the number of firms that could get listed in 2021 remains high and the general trend towards an opening up of capital should resume once the pandemic will be over.

1.3 Family firms

A peculiar aspect that characterizes the Italian economic system, is the ownership and organizational model of the SMEs defined as *family firms*. In Italy, in fact, the majority of firms (about 75%, looking at the most recent available data) appears to be

[14] This and the following data refer to Borsa Italiana, Press Room, Markets Review.

[15] *The impact of the COVID-19 pandemic crisis on Italian SMEs' access to capital markets*, Banca d'Italia, January 2021

controlled and managed by a member of the owner family[16] and, specifically, the smaller the dimensions of the firm, the greater the component of family control.

Figure 2: Composition of Italian enterprises.

		Active enterprises controlled by a person or family			
Employees	**Total Enterprises**	Number	As %	Management outside the family *(% firms)*	Successions between 2013 and 2018 *(% firms)*
3-9	821,341	642,069	78.2	-	8.0
10-49	187,734	123,239	65.6	2.6	12.1
50-249	21,101	10,772	51.0	9.2	14.7
250 +	3,561	1,318	37.0	21.2	14.6
Total	1,033,737	777,398	75.2	3.3	8.8

Source: ISTAT 2020

Despite the scholars have provided several definitions of family firms, they are unanimous in believing that the ultimate purpose of the founding entrepreneur is to transmit to the future generations all the needed instruments in order to, one day, retain full control of the firm and carry on the business activity with success.

Family firms play a crucial role in the Italian economic scene, however, in the last years, they had to face - like for the larger firms - the consequences of the economic crisis. As it will be specified later, some believe that the majority of them felt the necessity to make a structural change within the ownership and governance model, to keep the pace with the main global trends. Nevertheless, it has been proven that family firms today present some evident critical issues. Here, we report the main factors contributing to put a strain on their resilience[17]:

- There may be conflicts between the leader and the other family members with regard to decisions and future goals: on average, only one out of three agrees on what is decided for the future of the firm.

[16] Permanent census of enterprises 2019: the first results, ISTAT, February 2020.
NB: In 2020, in light of the Covid-19 emergency, ISTAT suspended the data collection activity on-site.
[17] Most of the information below are retrieved from the "*Global family business survey 2019: long-term goals, meet short-term drive*", Deloitte Insights Publication.

- Transmitting the expertise and skills to the family is not something straightforward: often, in fact, the leader tends to ignore the idea that the heirs might not have the required skills (by nature or personal will) to manage the family business in an optimal way.
- Often, the entrepreneur tends to equate - or in the worst case to confuse - business objectives and personal sentiments. Hence, some of his/her decision might not be supported by the so-called economic rationality, but by love and empathy. Clearly, this has an impact on the overall efficiency of the firm, because of potential sub-optimal decisions (think of an entrepreneur not willing to extract potential value from a profitable sale of the business).
- Some of the family members may not share the values on which the firm is based and disagree with the rules and the governance model adopted.
- Almost 30% of the family firms in Italy is led by an over 70 years old person. This is of great importance because it can represent an obstacle to innovation. Reluctancy towards change, in fact, entails negative implications in terms of growth and performance.
- The bigger the number of the family members and interests involved, the more complicated it is to prepare and implement a strategic plan. The lack of an optimal organization, in this sense, creates wastes of resources and energies.
- Despite the long-term orientation, less of 30% of the Italian firms are estimated to get past the third generational transition. This is because only in few cases the leader decides to set up a succession plan *ex ante*, which is essential to reduce the risks and increase the firm value.

In our view, it is possible to add to the issues above the fact that, usually, in family businesses the owners cover the highest managerial roles, centralizing the power and control on themselves: this can represent one of the main curbs to dimensional growth and the chance to create more value. The fair of losing control of the firm often leads the owners to refuse external aids, considered interference: according to Deloitte's survey, in fact, only one out of three declares to be willing to cede the ownership in order to achieve better financial and economic results.

Another distinctive feature of family business is the governance[18], namely the composition of the Board of Directors: a large amount of these is entirely composed by family members. Many studies, by contrast, have proved that the presence of external advisors makes the firms less adverse to risk and change and, usually, more profitable. This is to be ascribed to the introduction in the governance body of individuals with more specialized managerial skills and characterized by independency and objectivity of judgement.

Furthermore, the by now distant crisis begun in 2007 - and the most recent pandemic crisis we are living - has questioned many “self-referential beliefs” of family business, including the need to adopt alternative financing instruments, to the extent that they can be thought useful to strengthen the firms facing the challenges of an ever more competitive market. This has also affected the strategies adopted in the transfer of family business[19]. Unlike in a more or less recent past, in fact, strategies involving the opening up of capital have now more relevance, through transfer of shares or access to capital markets, which we will discuss later.

1.4 Introduction to SPACs

In light of the considerations in the previous paragraphs about the shared need, for many SMEs of our Country, to find alternative financing solutions to the traditional bank lending, useful to support the development and growth of the business, we analyse hereafter the phenomenon of the *Special Purpose Acquisition Companies* (or SPACs) that, starting from the lasts years, began to spread also in our Country. Broadly speaking, SPACs are investment vehicles born to collect financial resources through an *Initial*

[18] For the rest of the paragraph, cues from “*Ownership, Governance and Management in Italian Family Firms*”, by Corbetta G., Gambardella A., Minichilli A., Panico C., Taricco P., Policy Brief 5, Bocconi University and IGIER.
[19] “Family businesses and Private Equity: a story of reciprocated affection”, PWC Blog, N. Govers and R. van Dal, January 2019

Public Offering (IPO), with the purpose of putting in place the acquisition of a company, called *target*, and to list this one on the public market[20].

1.4.1 Origins

To fully comprehend the potential of this instrument - certainly new in the Italian context, but already consolidated in other countries - it is firstly necessary to investigate its origins.

At the beginning of the '80s, in the United States, the so called "*Blank Check Companies*" began to be born: companies that were listed on the stock exchange without being endowed with a specific business plan, with the purpose of performing M&A operations with other companies/entities not yet identified. By virtue of their characteristics, it proved extremely difficult to identify the actual intentions of such companies, whose activities included the issue of the so-called *penny stocks*, securities that, given their small value (the price was inferior to 5 dollars per share and the Net Intangible Assets below 5 million dollars)[21] were traded on the OTC[22], outside regulated markets and without any specific regulation. Another issue with penny stocks was that they were characterized by a very low liquidity and a high speculative risk, since they were mainly offered to inexperienced investors, whose expectations were easily manipulated, also thanks to the total lack of disclosure of the issuers. The brokers, thus, had the chance to inflate the prices of shares through the famous *Pump and Dump*[23] scheme, earning large margins of profit thanks to the fees applied on sales.

Given the lack of a specific regulation, Blank Check Companies were initially marked by a high number of illicit episodes. The *modus operandi* typically consisted in

[20] Cues from "*What is a SPAC?*", CB Insights report, 2020.

[21] Code of Federal Regulation, Title 17, 240.3a51-1, Definition of "Penny Stock".

[22] *Over-the-counter* is the trading activity between two parties, without being regulated or supervised by an organized exchange market.

[23] In a *pump and dump* scheme, fraudsters typically spread false or misleading information to create a buying frenzy that will "pump" up the price of a stock and then "dump" shares of the stock by selling their own shares at the inflated price. Once the fraudsters dump their shares and stop hyping the stock, the stock price typically falls and investors lose money, Glossary, SEC.

the initial registration at SEC[24], with the intention to distribute its shares to any underwriter interested and, subsequently, to sell the securities to oblivious investors, promising them returns that were not reflecting the value of what they were buying at all. Alternatively, the operators agreed to carry out rapid exchanges of stocks, to pretend they were highly liquid, when there actually were very few players in the market available to buy those. In the attempt to restrict the number of such frauds and abusive behaviours, the SEC had to intervene in 1992 with a new set of rules: it was firstly enacted the *Penny Stock Reform Act*, with the purpose of imposing a stricter discipline to brokers and dealers in terms of IPO information to disclose to potential investors and regulation on the issue of securities, introducing the withdrawal right as well. Later, the Rule 419 was enacted: this was intended on one side to curb the speculative objectives typical of Blank Check Companies and on the other side to protect small investors. Several features were in fact introduced[25]:

- Deposit of at least 80% of the IPO proceeds in an escrow account unavailable to the funders before the completion of the business combination.
- Withdrawal right with consequent refund pro-quota to the shareholders.
- The acquisition consideration should account for at least 80% of the funds held in escrow.
- A prohibition, until the completion date, on trading securities issued by the Blank Check Company during the underwriting phase.
- The compilation of an amendment to the registration statement of the company at the time of the acquisition.
- Approval by the majority of shareholders on the proposed combination and opportunity for the single investors to be refunded if they disagree.
- A time limit of 18 months to complete the combination, after which funds would be returned to the investors.

[24] The *Securities and Exchange Commission* is the United States federal agency responsible to the supervision of the stock exchange.
[25] "*Special Purpose Acquisition Companies: SPAC and SPAN, or Blank Check Redux?*", Daniel S. Riemer, Washington University School of Law, 2007.

- Contingent liquidation of the company with refund to investors should any of the above conditions not be respected.

The application of such regulations caused a great void in the financial market and, therefore, resulted in a rescaling of many Blank Check Companies (including, of course, those born without fraudulent purposes). This because the strict requirements imposed by the Rule 419 made it pretty much impossible, for these companies, to conclude any kind of operation. In addition, it became very difficult for the management to know the total underwriting proceeds available, since the funders had the right to withdraw after the business combination announcement. This caused obvious difficulties during the negotiation phase with the target company.

Meanwhile, with the economic recovery of the first '90s, small firms, although lacking in the characteristics required to perform a standard IPO, started to feel the need to get listed on the stock exchange to increase their dimensions. Inside this regulatory and economic framework, thanks to the contribution of David Nussbaum - CEO of the investment bank EarlyBirdCapital Inc. - and the law firm Graubard Miller, the first "modern" SPACs started to show up. The idea was substantially to create a new investment vehicle that, in quantitative terms, overcame the limits imposed by the Rule 419, so that this couldn't be applied, but at the same time respected some regulations adopted by the SEC (especially in terms of protection), with the purpose of receiving regulatory approval while renovating trust among investors. It is an example the obligation - as required by Rule 419 - to deposit a large part of the funds raised during the IPO phase into an escrow or trust account.

Nussbaum's SPAC, anyway, presented several features that differentiated it from the Blank Check Companies described by Rule 419, among which we list the followings[26]:

[26] "*Innovation, Imitation and Regulation in Finance: The Evolution of Special Purpose Acquisition Corporations*", J. Murray, Review of Integrative Business & Economics Research, April 2017.

- Warrants[27] offered to investors during the IPO could only be exercised after the business combination.
- Promoters were given the chance to choose, on a discretional base, the time horizon by which to complete the business combination, with extension options.
- They started using a two-stage process for the business combination approval, where those against the operation had the right to vote in a separate election to redeem their stocks.
- Many stock exchanges (AMEX, NASDAQ, NYSE) began accepting SPACs in their listings. This allowed to differentiate them even more from Blank Check Companies, whose main problem was the negotiation on OTC markets. Not only that: to be listed, they had to undergo other quantitative listing rules in terms of profitability, operating history and market value standards, increasing their reputation and credibility.

In any case, with the introduction of the first SPAC in 2003, the US market has seen this financing instrument spreading more and more over time.

[27] A security entitling the holder to buy a proportionate amount of stock at some specified future date at a specified price, usually one higher than current market price. Warrants are traded as securities whose price reflects the value of the underlying stock. Warrants are like call options, but with much longer time spans. And, warrants are offered by corporations, while exchange-traded call options are not issued by firms, Glossary, Nasdaq.

Figure 3: US SPACs by year.

Summary of Funds Raised

Year	# of SPAC IPOs	Average IPO Size (mn)	Gross Proceeds (mn)
2021	289	$322.4	$93,187
2020	248	$336.1	$83,341
2019	59	$230.5	$13,600
2018	46	$233.7	$10,750
2017	34	$295.5	$10,048
2016	13	$269.2	$3,499
2015	20	$195.1	$3,902
2014	12	$145.8	$1,750
2013	10	$144.7	$1,447
2012	9	$54.5	$490
2011	16	$69.4	$1,110
2010	7	$71.8	$503
2009	1	$36.0	$36
2008	17	$226.0	$3,842
2007	66	$183.2	$12,094
2006	37	$91.5	$3,384
2005	28	$75.5	$2,113
2004	12	$40.4	$485
2003	1	$24.2	$24
Total	925	$183	$245,607

Source: www.spacdata.com. Data as of March 23, 2021[28]

The *figure 3* above is a perfect picture of how incredible the surge in SPACs has been. There's been an evident stop in 2008-2010, most likely due to the financial crisis which, however, was immediately overcome starting in 2011 with a steady recovery of growth. The most impressive thing is not only that 2020 was a record-breaking year, with more than 4 times the number of IPOs of the previous year, but that 2021 has already passed that result in just a quarter of time. With such velocity, we can expect at least another 4 times increase in numbers for this year.

[28] www.spacdata.com

1.4.2 Literature overview

The introduction of SPACs has been investigated by many international scholars, in order to provide an empirical analysis about US SPACs' performance since 2003. However, not everyone adopted the same investigation modality: firstly, we need to bear in mind that the research has been conducted over different time horizons and, thus, reflect the structure that SPACs presented in that specific period; besides, given the recent diffusion of this vehicle and the resulting difficulty in obtaining all the needed information, we observe a limited sample size. This paragraph has the purpose of briefly reporting, in a non-exhaustive manner, the main academic contributions on this topic by publication year. Please note that we do not mean to analyse analytically the results that were obtained, because the ones of greater interest for the purpose of this paper will be resumed and discussed in the third chapter.

Jog and Sun (2007)[29] assessed the returns obtained by SPAC's managers and investors, from the issue date until the post-acquisition date. On the basis of the results obtained, they confirmed that the returns of the management are way higher than the ones of the investors.

Boyer and Baygent (2008)[30], after having identified some elements characterizing SPACs (transparency, low risk level for investors and possibility for the public to access the Private Equity world), affirm that there exists an inverse correlation between the market and SPACs: the "healthier" the market is, the more firms will turn to traditional IPOs. It is later analysed a sample of SPACs born between June 2003 and December 2006, in order to identify the main characteristics of the operations, including yield, volumes, offering size, potential IPO under-pricing and P/E ratio. One of the most significant results obtained that the two obtain is concerning under-pricing: in fact, they observe as in the sample it results way inferior to the average of all traditional IPOs.

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[29] "*Blank Check IPOs: A Home Run for Management*", V. Jog & C. Sun, 2007.

[30] "*SPACs as Alternative Investments: An Examination of Performance and Factors that Drive Prices*", C. Boyer & G. Baigent, 2008.

Lewellen (2009)[31] analyses a sample of 158 SPACs that got listed between 2003 and 2008, to understand if these can be considered a valid alternative of asset class and produce greater returns compared to more traditional financing instruments.

Jenkinson and Sousa (2009)[32] identify within a sample of 43 companies 20 "good" SPACs and 23 "bad" ones. The paper has the purpose of analysis what behaviour the share price assumes after the announcement of the business combination and at the decision date to determine the fate of the operation. For the good SPACs, the price appears higher (at decision date) than the pro-rata funds in the trust. For the bad SPACs, on the contrary, the price resulted inferior (around 98% of the trust value per share). The authors argue that a rational investor, if able to bear in mind this division, could obtain significant returns.

Tran (2009)[33] had the objective to investigate whether SPACs are able to acquire the target company at the best possible contractual conditions. To answer this question, on the basis of a sample of 3130 companies, sharing specific requirements, he analyses the cumulative returns in the 3 days of the announcement date and the long-term returns, for a period of time from the 2 days after the announcement until the completion of the business combination. In both scenarios, he obtains better results than the ones obtained through other investment vehicles. The author also focuses on the premium paid by the SPACs to the target and compares it to the one of other transactions between listed companies: he concludes that the first are able to obtain better conditions than the latter.

Floros and Sapp (2011)[34] were the first authors to recognise not just the financial, but also the strategic role of SPACs. In fact, they maintain that such instrument can foster the development of the target company through the quotation process. In their paper, after analysing the average performance of 111 SPACs, they conclude that the return after the operation is significantly negative for investors.

[31] "*SPACs as an Asset Class*", S. Lewellen, 2009.
[32] "*Why SPAC investors should listen to the market*", T. Jenkinson & M. Sousa, 2009.
[33] "*Blank Check Acquisitions*", A. Tran, 2009.
[34] "*Shell Games: On the Value of Shell Companies*", I. Floros & T. Sapp, 2011.

Rodrigues and Stegemoller (2011)[35], with the purpose of analysing the organizational evolution of SPACs from 2003 to 2004, they bring the attention on financial contracting. The paper has mainly the purpose to prove that, differently from what happens in a Private Equity operation, a SPAC offers investors - even not qualified ones - the right to speak and withdraw, as well as access to any kind of funds. In addition: the authors divide the SPACs in first, second and third generation, emphasising how the most recent ones have adopted an approach that allows them to reduce the opportunistic actions of the owners. The organisation of these SPACs, in fact, does not include the vote of investors in the meeting, but only the withdrawal right through a tender offer.

Cumming (2012)[36], in his analysis, focuses on the possible factors that can influence the approval of a business combination. In particular, he identifies the shareholding composition and the presence of experienced Investment Banks/brokers as the main elements of success for the approval of the combination. For what concerns the first element, he claims that the probability of approval is higher the greater the participation of the promoters in the capital.

Datar (2012)[37] identifies the main features that differentiate SPACs from IPOs. In particular, SPACs tend to acquire *worse* targets, in terms of profitability, dimensions, growth perspectives, investments and solvency, compared to IPOs. The operating performance, instead, is in line with that of Initial Public Offers. On the front of the stock returns, in the end, his studies record negative returns for the SPACs that got to the business combination.

Lakicevic and Vulanovic (2013)[38], like some of the authors above, focus on the analysis of the performance of US SPACs, dividing them in two samples according to the year of birth. An interesting aspect on which their paper focuses on regards the possible structural changes of the companies analysed: in fact, they sustain that the securities

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[35] "*Exit, voice and reputation: the evolution of SPACs*", U. Rodrigues & M. Stegemoller, 2014.
[36] "*The Fast-Track IPO - Success Factors for Taking Firms Public with SPACs*", D. Cumming, 2012.
[37] "*Going public through the back door: A comparative analysis of SPACs and IPOs*", V. Datar, 2012.
[38] "*A story on SPACs*", M. Lakicevic & M. Vulanovic, 2013.

issued by SPACs have different reactions in case they announce the intention to change corporate status.

Kolb and Tykvova (2014)[39] analyse data from 114 SPACs whose acquisition process concluded by 2013, in order to compare the results with those obtained from the study of 1555 IPOs belonging to the same timeframe. What emerges is that the potential of SPACs, although evident, must be developed in the best way to ensure the operation results profitable for each actor involved. It is also stated that this instrument is beneficial especially for small dimensions firms, characterised by high levels of leverage ratio and, thus, riskier. For that specific reason, the authors argue that it is unlikely for typical SPAC targets to attract traditional IPO investors.

Dimitrova (2017)[40] highlights how, among the analysed US SPACs, those with the worst performance had announced the conclusion of the operation close to the deadline for the completion of a business combination. This suggests that the promoters, close to the due date, are motivated to perform any kind of acquisition, even low-quality ones, to avoid the SPAC liquidation. It is also recorded that performance worsen whenever the operation provides the deferred payment of fees upon completion of the acquisition. Conversely, the involvement of a sponsor in the governance of the newly formed company, appears to contribute to the long-term performance improvement.

1.5 Pros & Cons of SPACs

In lights of what reported so far, it is clear that SPACs can represent a valid instrument for all those firms that want to get listed on the stock exchange, but do not possess the ideal characteristics to do it autonomously. Once we acknowledged their undoubted usefulness, thus, we note that SPACs present a series of advantages, but also of disadvantages, which will be listed hereunder.

[39] "*Special Purpose Acquisition Company - Are They an Alternative to IPOs?*", J. Kolb & T. Tykvova, 2014.
[40] *"Perverse incentives of special purpose acquisition companies, the "poor's man private equity funds*"", L. Dimitrova, 2017.

1.5.1 Advantages

Most experts believe the diffusion of this instrument is attributable to its multiple positive aspects. It is deemed that one of the factors that led to SPACs appreciation is the balanced accommodation of all the interests at stake: if often, in fact, one of the main issues of an M&A operation is the slowdown of the project due to the continuous disagreement between the parties involved, in SPACs: promoters, investors and entrepreneurs act in a cohesive manner to get to a common objective, the realisation of the business combination. Indeed, the alignment of objectives is facilitated thanks to the extreme transparency that characterises the entire process. Since new generation SPACs are listed - as will be described in the next chapter - through a relatively easier and faster procedure, they have to undergo several obligations imposed by the regulating bodies of the stock exchange. Among these, we mention the filing of financial statements and of every other event relevant for the purpose of the operation in place.

As confirmation of what just exposed, we point out that, in most cases, it is the SPAC to self-impose restrictions on its operativity and on directors, in order to protect the investors and the resources they provide during the IPO[41]. Besides, the alignment of objectives and interests entails a series of advantages for all the actors involved[42]. In particular, to the **investors** - being them the underwriters in the IPO phase - the SPAC offers several advantages, synthesised below:

- Investors have no substantial costs to incur: the lack of fees or commissions to pay promoters for their activity, in fact, is one of the elements that most differentiates the SPAC from the other financing instruments. The promoters, in addition, are incentivised to pursue the business combination with success, because only then will they obtain a remuneration.

[41] For the drafting of the paragraph, cues from "*SPAC from the US to Italy: an evolving phenomenon*", G. Gigante & A. Conso, 2020.
[42] "*Lo sviluppo delle SPAC in Italia: Un nuovo modo di fare Private Equity e di quotare le imprese in Borsa*", M. Fumagalli, 2014.

- Investors have the possibility to withdraw should the identified target not fully satisfy their interests, as long as they do so before the business combination itself. Not only: along with the withdrawal right - disciplined in Italy by the Civil Code - they would be refunded of what they invested. It is so defined as a low-risk operation because, as will be discussed further in the paper, the shares of the investors are underwritten in an "empty" company, formed only in sight of the business combination. It is with the announcement of the operation, indeed, that shares can undergo swings and, therefore, be characterised by volatility.
- The time horizon, although initially uncertain regarding the business combination date, appears limited if compared to the canonical 12 years of private equity operations. In fact, it takes 24 months at most, concluded the which the business combination can either have a successful outcome - listing on the stock exchange - or a negative outcome, due to which the SPAC will be put into liquidation.
- Promoters have the duty to complete the negotiation of the business combination: in that way, non-professional investors will be protected by the presence of experts in charge of concluding the deal with the target company.
- SPACs are usually characterised by a high level of liquidity: investors, in fact, can decide to disinvest both at finalised business combination - exercising the withdrawal right - and during the pending phase itself. In this latter case, they will - alternatively - withdraw from the investment or sell the shares in the market, although being exposed to the risk of a potential loss, due to price fluctuations.

It is deemed that **promoters** have the advantage of obtaining a considerable economic return on the operation and the possibility to conclude the business combination at a price lower than the market one, obtaining a discount which leads to a security revaluation. The SPAC allows promoters to receive a gain also in terms of reputation: the usage of high expertise in the search of the investment and the finding of resources needed, the commitment and reliability, allow them to obtain a greater visibility on the market.

Finally, it was demonstrated how the SPAC can offer several advantages also to the target company. More precisely:

- The SPAC brings a massive amount of capital to the firm, in exchange of a minority stake. As detected in the previous paragraphs, this type of resources retrieval represents a valid alternative for all those firms that, in such a fragile economic context, have more and more difficulties in accessing banking credit.
- The listing process of the target firm appears less uncertain in the outcome and more facilitated compared to the traditional IPO process. Since this topic will be widely discussed in the following paragraph, here we decided not to go further with the discussion.
- To the entrepreneur, being the owner of the target firm, is offered the chance to operate freely, with the only limit to develop the firm as it was communicated to the market. He also has available the technical and managerial expertise of the promoters, who offer their contribution for the good outcome of the operation. For their part, in case of disagreement with regard to the strategy adopted, the investors can decide to dissolve the bond with the entrepreneur in every moment, selling - as already stated - their shares.

By virtue of such premises, it appears that entrepreneurs always willingly accept the presence of the promoters within their governance bodies and corporate structure.

1.5.2 Disadvantages

Despite the several advantages abovementioned, some scholars believe SPACs also present many negative aspects[43]. We highlight, first of all, a certain difficulty in concretely identifying the object of the business combination, since the research of the target company is initiated only after having found the resources needed, through the underwriting from the investors. In addition, these latter could show some concerns, both

[43] For the drafting of the paragraph, cues from "*SPAC from the US to Italy: an evolving phenomenon*", *Op. Cit.*

regarding the total lack of diversification of the investment and the low liquidity of the shares before the announcement of the business combination. Then, if this is not concluded, the initial investment could suffer a loss in value of about 15%.

Also, in case of unsuccessful outcome of the operation, the return for investors would be pretty much null, since they only get refunded for the initial capital invested. Instead, with a successful outcome of the business combination, the shareholders still suffer on average about a 20% dilution in favour of the promoters, due to the conversion of the special shares of promoters, the underwriting fees and the post-merger dilution caused by SPAC warrants and rights.

Moreover, despite the limited time horizon of SPACs can represent an advantage, there is the risk that promoters undermine the quality of the target research to fall within the predefined deadline, since they might be able to obtain a return anyway. On the side of the shareholders of the target, instead, there is the awareness that the investors might decide not to approve the realisation of the combination.

1.6 Comparison with the main financing alternatives

Many authors claim that SPACs, by virtue of their characteristics, represent a sort of hybrid instrument, halfway between the two main methods of opening up capital - the traditional IPO and the listing through private equity operation - and, consequently, can be a valid alternative for small and medium enterprises that wish to be listed on the stock exchange.

1.6.1 SPAC vs traditional IPO[44]

Theoretically, the SPAC can represent "a faster, cheaper and less stressful path to open up capital" compared to the placement through traditional IPO. In fact, although the ultimate purpose of both processes is that of collecting the resources needed to allow the firms to achieve their long-term sustainable objectives and open up the capital to investors, the literature - national and international - has proven that SPACs present substantial differences with respect to traditional IPOs[45] and that, under certain aspects, their usage allows to overcome some limits of the latter. However, although the ultimate purpose - as we just said - is the same for both types of operations, the object of the two is very different: the SPAC, in fact, is a vehicle often compared to an "empty box", as it has no assets, whereas the traditional IPOs have as their object organised and operating companies.

For the experts of the sector, one of the main points in favour of SPACs is the speed at which the firm can conclude the listing process: if, on one side, the IPO is characterised by a very long and complex procedure, on the other side the SPAC, through the business combination, allows the target company an almost immediate quotation - although indirect - which coincides with the completion of the operation itself and occurs, namely, with a company already listed on the market.

Another difference that cannot be ignored in the comparison between SPAC and IPO is the placement of shares to the investing public. In fact, in standard IPOs, there is always the need of a financial intermediary, usually represented by an investment bank. This is because, usually, its presence allows to overcome the information asymmetry problem between investors and issuing company, ensuring the good quality of the operation, thanks also to their reputation. The intermediaries, having continuous

[44] In comparing SPACs and IPOs, we refer to the papers "*Lo sviluppo delle SPAC in Italia*" (Op. Cit.), "*Going public through the back door*" (Op. Cit.) and "*Special Purpose Acquisition Companies - Are they an Alternative to IPOs?*" (Op. Cit.).

[45] A company's first sale of stock to the public. Securities offered in an IPO are often, but not always, those of young, small companies seeking outside equity capital and a public market for their stock. Investors purchasing stock in IPOs generally must be prepared to accept considerable risks for the possibility of large gains. IPOs by investment companies (closed-end funds) usually include underwriting fees that represent a load to buyers, Glossary, Nasdaq.

relationships with investors - think, for example, of the brokerage activity on the secondary market - have all the interest to avoid moral hazard behaviours and, consequently, to improve their credibility. It is said there exists a sort of trust between investment bank and client: a trust they would not have if the listing company were operating first-hand, which - not having an interest to go back on the market right after the listing - could adopt opportunistic behaviours to offer investors an excessively optimistic image of their economic-financial situation.

Related to what we just said, there is the theme of *pricing*: in an IPO, in fact, the financial intermediary - which, in the premarketing phase, assumes the role of bookrunner[46] - has the duty of collecting the opinions of the potential institutional investors with regard to the securities to be issued. In this way, heh/she can identify a price range, within the which will later be defined the actual issue price. It is deemed that this process still contains high levels of risk and volatility, in that it may happen that, once the IPO is under way, they are unable to receive enough orders in terms of price or quantity. The eventual abandonment of the operation, clearly, implies not only economic damages for the company, but also reputational ones.

For what concerns the SPAC, instead, the promoters of the business combination themselves bear the burden to identify the potential investment and to start the process of price negotiation. These phases, differently from what happens in an IPO, take place earlier than the announcement of the business combination and so allow to avoid the risk of rejection in the shareholders meeting. The figure of the intermediary continues to persist even in the moment of identification of the alternative investment to pursue: the main difference is in the fact that his/her involvement is limited to the phases of company listing on the stock exchange and fund raising. In the moment of the business combination – which can be thought of as the actual IPO of a SPAC – he/she offers a marginal contribution, assuming the mere role of equity researcher.

[46] The managing underwriter for a new issue. The book runner maintains the book of securities sold, Glossary, Nasdaq.

Moreover, letting a professional negotiation only to promoters allows a greater protection for investors for what concerns the onset of contingent liabilities and shortcomings. Such protection is possible thanks to the system of reps & warranties[47], thanks to which the target company guarantees it has a sufficient capital solidity, and to earn-outs clauses, binding part of the payment to the achievement of certain objectives or conditions.

In a traditional IPO, the book is built through discretional choices of the bookrunner, who, analysing different factors - ranging from investor typology to geographical diversification - forms the free float and allows the listing company and its shareholders to be visible to investors. This generally does not happen in a SPAC because, since the business combination itself is the actual IPO, the allocations made before can incur changes without being controlled either by the shareholders or management. The result is, therefore, that of having to necessarily accept a free float of which you do not fully know the composition.

In the comparison between SPAC and IPO, it is worth mentioning the issue of under-pricing[48]: if, in fact, in a traditional IPO under-pricing is an overriding factor, it has been proven by many studies that in a SPAC it is close to zero. The main reason of such difference relies in the lack of information asymmetry, both in terms of price - which, as we already mentioned, is not characterised by volatility before the business combination announcement - and in terms of funds raised, which must be allocated to an escrow account. Another aspect deemed to be in favour of SPACs is its cheapness: its quotation process, as we pointed out, seems to be much faster and leaner compared to an IPO; also, in the absence of full support of a financial intermediary, the fees and commissions paid to the promoters are pretty much null.

[47] A representation is an assertion as to a fact, true on the date the representation is made, that is given to induce another party to enter into a contract or take some other action. A warranty is a promise of indemnity if the assertion is false. The terms "representation" and "warranty" are often used together in practice. If a representation is not true it is "inaccurate." If a warranty is not true it is "breached.", Glossary, Thomson Reuters, Practical Law.
[48] Issuing securities at less than their market value, Glossary, Nasdaq.

An interesting contribution with regard to the differences between SPAC and IPO is the one by Kolb and Tykvova[49]. The authors identify some factors deemed essential in determining the choice between the two instruments:

- SPACs are preferred to IPOs in periods of high market volatility. This because, as we said, they represent a risk-free investment, thanks to their short life and to the possibility, given to investors, to exercise the withdrawal right.
- SPACs, by virtue of their higher liquidity, allow for higher cash-out levels to their shareholders, who are not forced to disinvest their stocks selling them on the market - generating a negative perception of the company - but can, as already mentioned, obtain the refund in cash of their investment.
- The companies accessing the stock exchange through a SPAC have a higher market-to-book ratio[50]. Kolb and Tykvova deem that this implies very low levels of future profitability. Some studies[51] have in fact highlighted that small firms, with high market-to-book ratios, are considered riskier by the market, because they present a more volatile prospective capacity to generate revenues.
- The more financially and economically solid firms tend to prefer the quotation process through IPO. The SPAC is an alternative usually adopted by SMEs, which do not have the resources nor the requirements to access the stock exchange with an Initial Public Offering.
- Firms with high leverage levels tend to prefer the SPAC to the IPO. The reason is attributable to the desire of reducing the debt ratio accessing the capital market. Such reason, moreover, leads the authors to claim that SPACs represent a method to open up capital used by low quality firms.
- The typical target company of a SPAC is of much smaller dimensions than those listed through IPO. This is because of the impossibility, in the case of a SPAC, to turn to highly qualified underwriters and to incur the costs that an IPO entails.

[49] "*Special Purpose Acquisition Companies - Are they an Alternative to IPOs?*", J. Kolb & T. Tykvova, 2014.
[50] The ratio of the market value to the book value of equity of a company, Glossary, Nasdaq.
[51] "*Is the book-to-market ratio a measure of risk?*", R. Peterkort & J. Nielsen, 2004.

1.6.2 SPAC vs Private Equity[52]

SPAC and Private Equity[53] present multiple analogies, so much that often the first is considered an upgrade of the second, but also many differences, which will be addressed in the course of the paragraph.

First things first, as underlined by Pegoraro - and similar to what said for Initial Public Offerings - the SPAC has a much more limited investment horizon compared to that of a Private Equity fund. For the latter, in fact, we expect a period ranging from 4 to 10 years, with the chance - not so remote - to extend the refund to investors.

The experts deem an additional advantage of SPACs lies in their high level of liquidity: as we know, investors can perform their way-out from the investment in any moment, because their participation is represented by shares and warrants, which are listed financial instruments. The same feature is not attributable to Private Equity, because the shares of the fund are not tradable before the expiration date, since the potential sale or repurchase from other shareholders requires a series of permissions from the general partner which are difficult to obtain.

For SPAC investors, differently from the PE ones, we do not observe the mechanism of draw-downs[54]: in fact, they are expected to inject all the funds invested during the underwriting. At the same time, however, they have to bear the opportunity cost implied by the investment typology: before the business combination, indeed, the funds raised are not deployed in any way. Such cost does not look of much relevance in any case, considering the high liquidity level that we mentioned earlier.

Another relevant aspect in the comparison between the two instruments is the topic of compensation of the promoters: it is deemed that SPAC promoters, differently from the

[52] In comparing SPACs and Private Equity, we refer to the papers "*SPAC from the US to Italy: an evolving phenomenon*" (Op. Cit.), "*Le SPAC italiane: confronto con l'esperienza USA e con altre forme di investimento in aziende non quotate*" by N. Pegoraro and "*Lo sviluppo delle SPAC in Italia*" (Op. Cit.).

[53] Investment activity of firms that use their own capital or capital raised from investors to take companies private with the aim of running them better and later taking them public or selling them at a profit, Glossary, Nasdaq.

[54] In context of private equity, when investors commit themselves to back a private equity fund, all the funding may not be needed at once and therefore, capital is drawn down at a later date, Glossary, Nasdaq.

ones of a fund, are not remunerated through fees or commissions. In fact, since the good outcome of the operation depends on them, they will obtain an (important) economic return only when the combination will be completed. This entails a greater alignment of interests compared to what happens between the actors of a PE fund. Likewise, Fumagalli highlights how for SPACs there are no ongoing costs - like the management fees - to be borne once inside the investment. In a Private Equity fund, instead, such fees amount to about 2% per annum.

If then, on one side, the SPAC is criticised for its total lack of diversification of the investment, on the other side it is acknowledged for its high level of transparency: becoming a listed company, in fact, the target shall be subject to the regulation of financial markets and its acquisition must be approved by the shareholders meeting. In a fund, instead, the promoters - despite complying with the directives of Borsa Italiana - are limited to provide an ex-post report of the work done.

SPAC investors, differently from the ones of a PE fund, have the right to have a say on management proposals and the right to exit. With regard to the first characteristic, it should be noted that, in a Private Equity operation it is always required the presence of the advisory board, whose duty is mainly of advisory and authorisation, especially for operations with related parties. For what concerns the topic of minority stakes transactions: in Private Equity funds, often, when a minority stake is bought out, the exit from the investment is guaranteed by shareholders' agreements[55]. However, these agreements impose rigid corporate governance requirements, with the right of veto in the hands of the minority, which reserves the final say on extraordinary operations and strategic investments. This obstacle can be easily overcome undertaking the SPAC: here, the target can equally place a minority, without being bound in any way to it through shareholders' agreements. Additionally, such operation will not be characterised by the

[55] An agreement made between the shareholders. In a management buyout transaction, the investment agreement is sometimes known as the shareholders' agreement and evidences the commitment of both the private equity provider and the management team to subscribe for shares in the new company for cash. They also set out the rights attaching to these shares, regulate their transfer, provide for the running of the new company and contain warranties from the management team in favour of the private equity provider, Glossary, Thomson Reuters, Practical Law.

typical valuation uncertainty of an IPO and the entrepreneur will not bear any placement costs.

A last difference, analysed by the authors Gigante and Conso, is related to the methods of fund raising. Although, in fact, both the instruments have as end point the collection of capital among a plurality of investors, through the implementation of a well-defined plan, the SPAC entails an investment in the equity of a non-listed company. A Private Equity operation, instead, performs the collection of capital among the public through the constitution of a collective investment scheme called UCITS (Undertakings for Collective Investment in Transferable Securities): the resources collected flow into a collective fund – indeed, of Private Equity – with the purpose of equally sharing among the participants, in proportion to their share, the returns that arise from the operation.

Finally, for what regards the similarities, it is noted that both the operations are assigned to highly qualified and specialised managers. Also, in no case it is possible to identify ex ante the target company. It will only be identified after the retrieval of the resources needed for the investment. Moreover, in both cases the management team invests in the initiative, bearing the risk.

CHAPTER 2. SPACs' FUNCTIONING AND CHARACTERISTICS

As we already mentioned in the previous chapter, the Special Purpose Acquisition Company is an investment vehicle, devoid of assets (hence, the typical definition of "empty box"), which is created with the only purpose of acquiring another company, called target, and to lead it to the listing on the stock exchange.

Although its diffusion in the US market dates from the last century, in Europe the SPAC was inaugurated only in 2005, with the listing of International Metal Enterprise Inc. on the London AIM. In Italy, instead, the phenomenon is even more recent: it was only in 2011 that Borsa Italiana welcomed Italy 1 Investment SA. The present chapter has the purpose of describing the functioning of Italian SPACs - from the creation to the actual business combination - and the role of the main actors involved. We will also offer an overview of the Italian market and the regulatory framework, as well as the accounting aspects.

2.1 Functioning and overview

SPACs are financing instruments used in multiple countries, each characterised by different legislations and stock markets. Nevertheless, Fumagalli deems it is possible to outline some functioning mechanisms common to all the technical-legal forms which later materialised.

In general, in fact, a SPAC is born from the will of a few subjects - usually the *promoters*, but it can also happen that the idea comes from the *sponsors*[56] - to form a company (indeed, the SPAC) by underwriting some capital. Part of the resources contributed, defined "capital at risk" and "working capital", are used respectively to sustain the IPO costs and for the functioning of the newly created company. Should the operation not be successful, the investment will therefore be lost. In addition, the

[56] An underwriting investment company that offers shares in its mutual funds, or an influential institution that highly values a particular security and thus creates additional demand for the security, Glossary, Nasdaq.

management team, composed of the promoters themselves, is responsible for the actual administration of the vehicle.

Once formed, the SPAC is listed through an Initial Public Offering[57] on a regulated market. The objective of this phase - so how it is specified by the by-laws in the section of the corporate object - is to open up the capital to a large pool of investors to collect additional resources to allocate to the implementation of the business combination. The stock underwriters of a SPAC are usually offered the so-called *Units*: hybrid securities composed of shares and one or more warrants. Since the topic will be widely discussed in the fourth paragraph of this chapter, here we only anticipate that units are initially traded as a whole and, only later, the detachment of the two securities takes place.

Anyway, the listing can't take place before the underwriters publish the admission prospectus to be subjected to the approval of Consob, through which the management team communicates to the market the intention to perform an IPO. The document, to be drafted in according with what determined by the supervisory authority, has to contain an overview of the company mainly in terms of activities done, targets sought after, potential conflicts of interests and risk factors. The quotation process of a SPAC is considered simpler than the one of similar companies, because characterised by a greater simplicity of price determination of the stocks (pricing): in this case, in fact, the value of the entity is represented only by the liquidity injected during the constitution and, therefore, easily identifiable.

One of the main characteristics of this instrument, as already mentioned in the previous chapter, is the use of some mechanisms – like trust fund or escrow account – aimed to protect the capital collected during the IPO and to avoid that the management has immediate liquidity available. They, in fact, can access to it only in the case the merger project is approved by the shareholders. Conversely, if the general meeting does not approve the combination, the trust will liquidate the resources injected by the shareholders. In this sense, it is believed the investors underwrite securities that are, until

[57] Please refer to the paragraph 6.1 of the previous chapter for the definition of Initial Public Offering.

the moment of the business combination, risk-free: the trust, in fact, being typically financed with the 98/100% of the gross IPO proceeds and earning interests over time, allows the shareholders to recover all (or even slightly more) of their initial investment[58].

Once the necessary resources are collected, the promoters begin to accurately search for a target to merge with. It is considered extremely important to conclude such operation by the prescribed time: the SPACs, as we pointed out many times, have a very short time horizon - which rarely exceeds 24 months - within which the promoters have the duty to identify the target to implement the business combination. In the majority of cases, it is difficult to identify ex ante the type of target more suitable to the objectives and needs of the SPAC but, according to the recent practice, this can at least be identified within a specific sector/industry, depending on the type of operation that wants to be carried out.

Once the target is found, the management team has the duty to submit the operation to the approval of the shareholders/investors, that is expressed with the attainment of a qualified majority equal, usually, to about 80%. In order for the acquisition to be approved, also, it is necessary that the withdrawal right - granted by law to the shareholders - is exercised by less than 30% of the capital. Such phase is preceded by a road show[59], through which the promoters have the chance to directly get in touch with the investors. This represents one of the most uncertain moments of the operation: the promoters, in fact, to be able to offer the public of investors a detailed overview of the deal and the target, are forced to publicly disclose many sensible information about the company. Should the investors decide to reject the proposal, such information would be disclosed in vain and, actually, take the risk of damaging the company and its management. Therefore, to the main shareholders of the SPAC is often asked to sign an NDA (non-disclosure agreement) to be able to know in advance the relevant news about

[58] "*SPACs: An Alternative Way to Access the Public Markets*", R. Berger, Journal of Applied Corporate Finance, 2008.
[59] A promotional presentation by an issuer of securities to potential buyers about the desirable qualities of the investments, Glossary, Nasdaq.

the course of the investment project, like for example the possibility to sign a letter of intent with the target.

The decision of the general meeting is determinant for the good outcome of the operation: this last one, obviously, can only proceed if the business combination is approved. However, if the outcome is negative, there is the chance for the sponsors to look for another target to present again to the shareholders meeting. Alternatively, they proceed with the liquidation of the company. It can also happen that, once the planned lifetime of the SPAC is over, no business combination is approved. In this scenario, the company is dissolved, and the capitals contributed are returned to the investors.

If instead the approval from the shareholders meeting is obtained, the SPAC continues the path for the completion of the business combination, which can happen in different ways:

1. Acquisition from the current shareholders of the target's shares.
2. Subscription of new shares of the target.
3. Merger - direct or reverse - between target and SPAC.

It is noted, on the basis of the analysis conducted so far, that the third form is the most frequently adopted. Moreover, the business combination is defined by the experts as the actual IPO of the SPAC: only in this phase, in fact, the investors will decide whether to effectively become shareholders of the operating target company or to withdraw from the operation, asking for the refund of the sums invested[60].

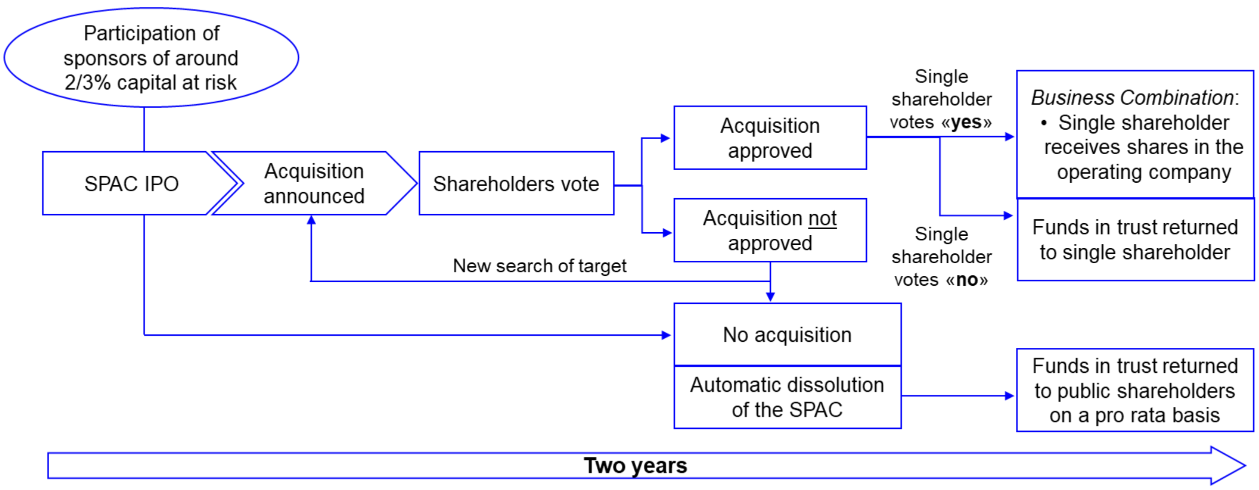
Anyway, it is relevant to notice that the SPAC has the possibility to realise the relevant operation not only by obtaining the control of the target, but also by acquiring a minority stake as consideration of the resources provided. On the basis of these premises, then, it is evident that there is no predefined scheme to follow to realise the business combination: the SPAC, in fact, can benefit from a certain operating flexibility, that

[60] The topic of the withdrawal right will be widely discussed in the fourth paragraph of the current chapter.

allows it - at least in theory - to choose from different types of operations, all characterised by a high degree of complexity.

Ultimately, the completion of the business combination implies the listing of the target. The latter, thanks to the SPAC, obtains the status of listed company without however incurring the costs and criticalities that this process usually entails. To the company, in addition, massive contributions are made in terms of financial resources and expertise of the promoters. The experts deem that the most significant advantages for the target are represented by the possibility of a faster dimensional and competitive growth and a greater internationalisation[61].

Figure 4: Life cycle of a SPAC.



Source: personal elaboration from www.innovaitaly1.it

2.2 Main players involved

As we mentioned many times, one of the main strengths of the SPAC, according to experts, is the alignment of all the interests involved. Indeed, the completion of the business combination implies the involvement of several actors, that are essential to the good outcome of the operation and whose role persists for the entire life cycle of the SPAC. Even the identification of the right target company - as one would expect -

[61] "*SPAC from the US to Italy: an evolving phenomenon*", Op. Cit.

represents a fundamental factor for the implementation of the business combination. For this reason, such research should comply to certain conditions, which will be explored later.

2.2.1 Promoters, investors, PIPE financing

As we said, the creation of a SPAC stems from the will of some individuals - called **promoters -** to acquire relevant stakes in non-listed companies, with the intention to lead the latter to the quotation on the stock exchange. For this purpose, they contribute to the SPAC the capitals needed to sustain the IPO costs.

The promoters, moreover, in accordance with the provisions of our legal system, are also offered the subscription of shares that are different from the ones of investors: being special shares, in fact, they present different characteristics[62], summarised below:

- They are not transferable until the business combination is completed.
- They do not give their owners the power to decide on the outcome of the operation, because they don't give any voting right neither in the ordinary nor in the extraordinary meetings.
- While allowing the participation to the distribution of available reserves, they don't offer the right to receive the dividends distributed after the business combination.
- Should the company be dissolved, they attribute the right of liquidation of their equity portion in subordination to the ordinary share.

The remuneration of promoters is uncertain until the completion of the combination, in absence of any fee or commission in return for their work: should the operation not have a good outcome, the promoters will suffer the loss of all the resources they contributed to the company. If instead the transaction is completed with success, they will witness the appreciation of the SPAC shares and have the possibility to exercise their sponsor warrants, converting their special shares in common ones. Such conversion is

[62] "*Lo sviluppo delle SPAC in Italia*", Op. Cit.

very beneficial to promoters, with ratios ranging from 1:5 to 1:8[63] and, on the contrary, very dilutive to investors.

In the analysis conducted by Jog and Sun (2007) we mentioned in the previous chapter, it resulted from their sample (62 SPACs raised during 2003-2006) that shareholders earn an average annualised return of -3% while the management obtains a return of 1900%. Famous is their conclusion that “it looks like the investors wrote a blank cheque to management”.

SPACs’ promoters are characterised by a vast experience in M&A and Private Equity operations, usually being former directors coming, for example, from important investment firms. For this specific reason, they are assigned the administration and strategic management of the company: they will provide not only specific expertise, but also a wide network of consolidated relationships, granting the company a faster expansion and access to the capital markets. Besides, their professionalism is directly related to their reputation: this is essential to make attractive and high-quality, in the eyes of investors, a company like the SPAC which, actually, is only composed of the capital contributed during the formation and, therefore, just of cash.

It was already mentioned that one of the points in favour of the SPAC is the ability to align the interests of all the actors involved. To obtain this result, the promoters have also the duty to prevent any conflict of interests with the current and potential investors: it is then convention that they commit to communicate to the company every opportunity arising.

Investors are the subjects promoters need to finance the IPO. They are also defined underwriters, because they subscribe “sight unseen” - so, in advance - shares of the SPAC and, later, they assist the promoters in the pricing and marketing phases. It can also happen that part of their remuneration - as it is for the promoters - is liquidated only at the conclusion of the business combination. This is deemed to be another expedient to maintain the balance of all the interests involved.

[63] “*SPAC from the US to Italy: an evolving phenomenon*”, Op. Cit.

In theory, the possibility to participate in the IPO is extended to all the public of investors, both institutional and retail. The experts, however, believe that the operations completed in Italy have seen the participation of investors - national and international - with very similar characteristics to the promoters: think, for example, to Private Equity funds, operators of the banking sector, investment banks and hedge funds. A sign, this, of a general distrust, from the retails, towards this instrument. The reason should also be attributable to the very large minimum amount required in the subscription phase.

A peculiarity of SPACs is the presence of the so-called **PIPE financing** mechanism. A study from Stanford University in 2020[64] showed that, out of a sample of 47 SPACs between 2019 and 2020, about 73% of the total cash raised during the IPO is returned to the shareholders withdrawing from the investment. To make up for such “loss” and move on with the proposed transaction, instead of backing off, the sponsors can either ask for the additional cash to existing investors or to new outside investors, using a Private Investment in Public Equity (PIPE) transaction.

Such placements usually cover 25% of the cash delivered to the target in the merger, so they largely contribute to the success of the operation. Moreover, PIPE investors help in providing more certainty about the price and the deal itself, especially if the sponsor can secure a commitment in advance to offer such coverage. To remunerate such early commitment, sometimes PIPEs are made at a (10%) discount to the IPO price.

2.2.2 Target company

The identification of the target company is one of the most important phases in the life cycle of a SPAC: if it is deemed appropriate from the Board of Directors, in fact, the business combination will be approved. The promoters, therefore, perform a deep market analysis, focusing their attention towards small or medium sized firms, family owned, leaders in their sector, obviously not listed and most of all with a high growth potential.

[64] “*A sober look at SPACs*”, M. Klausner, M. Ohlrogge, E. Ruan, New York University & Stanford University, November 2020.

As we mentioned in the previous paragraphs, the operations concluded till now in Italy haven't involved target companies belonging to specific sectors, because, often, it could turn out to be complicated for the SPAC to decide ex ante to search for companies operating only in predetermined markets.

Generally speaking, though, the SPACs specify the main standards[65] that a company should possess to be deemed suitable to the business combination. We provide below the ones considered best significant:

- Growth perspectives: the selection process focuses on companies that possess a business model of proven success and a solid and effective industrial plan, containing different development strategies to support its own growth. During the identification, the characteristics of the market in which they operate will be taken into account: the main factors of interest, in this regard, will be the possible presence of entry barriers and of relevant competitors, the expected growth rates and the chance to access privileged sources.
- Competitive positioning: the target, to attract the attention of promoters, must possess a proven experience in its reference sector and a competitive positioning allowing to distinguish themselves from similar companies, both in terms of dimensions and of the products' characteristics and processes utilised. Moreover, some SPACs might search for targets that operate in one or more market niches and that are able to fully exploit their brand, their positioning in the distribution channels and/or their knowhow.
- Internationalisation: the promoters tend to focus their research on firms that, despite having their executive office in Italy, intend to expand into foreign markets, in order to maintain or strengthen their national competitive position in the medium/long term.
- Positive cash-flow: the target companies must possess a stable and lasting - historical and prospective - positive cash-flow potential, as well as solid financial results.

[65] For more information, please refer to the "Investor information" section in the websites of each company.

- Management team quality: it is necessary that the company disposes of a highly experienced management team, able to implement strategic plans on a global scale and to achieve objectives that allow to create more value. The team, in general, has therefore to prove openness towards a new phase of development for their company.

2.3 The reference market[66]

In Italy, the SPACs can access two markets: the AIM Italia (Alternative Investment Market), born with the intention to increase the chances of access to the capital market for SMEs, and the MIV (Market for Investment Vehicles). With reference to the latter, we precise that on 24th May 2020 changes were made to the market rules by Consob, with the resolution nr. 17302, which provided for the introduction of a new professional segment dedicated to Special Investment Vehicles (SIV), among which we find the SPACs. Below, we briefly provide the main characteristics and advantages regarding the listing on these markets.

2.3.1 AIM Italia

The AIM is defined a multilateral trading facility (MTF), namely “a multilateral system which brings together multiple third-party buying and selling interests in financial instruments”[67].

[66] For the drafting of the following paragraphs, cues from the website of Borsa Italiana, www.borsaitaliana.it.
[67] Definition from Directive 2014/65/EU, MiFID II.

Figure 5: How to be listed on AIM Italia.

24 weeks	12 weeks	6 weeks	1 weeks
Select the team of advisors and in particular the Nomad	Check problematic areas appeared from the due diligence	Complete due diligence and documentations	Publication of admission document (3 days before)
Share the activities to be carried out and relevant timig	Prepare the draft of the admission document	Roadshow with investors	Definition of the price and allocation of offer
Start due diligence	Share the preliminary evaluation hypothesis	Notification of pre-admission (10 days before)	
Build the so-called equity story and the investor relations strategy	Presentation to analysts		

Source: www.borsaitaliana.it

It differs from the other markets, being characterised by a simple and fast listing process, which is concluded within about 10 days from the notification of the admission request and is supported by the presence of the Nominated Advisor (NOMAD). This one has the duty of assisting the listing company not just during the admission phase, but also for its entire permanence on the market. For what concerns, instead, the negotiation phase of the securities, this is constantly done for a daily time from 9:00 am to 5:25 pm. Moreover, the market is accessible to both institutional investors - to whom is normally addressed the issue of securities during the admission phase - and retail investors, who have the possibility to trade the same shares later, on the secondary market. As already pointed out, one of the main strengths of the AIM is the presence of less requirements[68] needed to be admitted to the quotation. More precisely:

[68] In the Mercato Telematico Azionario (MTA) of Borsa Italiana, in fact, differently from the two other abovementioned markets, the following formal requirements are needed during the IPO phase:

- Free Float: 25%.
- Audited financial statements: 3.
- Accounting principles: international.
- Offering: institutional/retail.

- There is no minimum market capitalisation required.
- The required Free Float must be at least 10%.
- The listing company can either use Italian or international accounting standards.
- The appointment of a NOMAD for the entire process is required.

By calling mainly on SMES, the AIM also requires some material requirements that are able to attract the investing public. The small and medium firms, in fact, to be allowed to proceed with the admission, must possess a stable financial structure and a clear and sustainable strategy that allows them to create value. It is also appreciated a managerial autonomy and a good competitive positioning within an expanding sector. For the completion of the process some mandatory documents are required, among which we find the admission document and an audited financial statement.

Finally, with respect to the ongoing obligations to which the company must comply, apart from the already mentioned presence of the NOMAD, it is required the drafting of the half year data and the annual data. It is also necessary to comply with the price sensitive obligations, including the communication to the market of asset acquisition/sale and extraordinary deals.

2.3.2 MIV[69]

According to Borsa Italiana, the MIV "*is the regulated market dedicated to the listing of vehicles that invest in real economy*". It is therefore characterised by the presence of multiple vehicles very different from each other, like funds of Private Equity, Public and Private Debt, Venture Capital, Real Estate and Multi-Strategy.

- Other documents: Prospectus/MIS/Business Plan.
- Market Cap (€): Min € 40 m.
- Website: mandatory.
- Main advisor: Sponsor/Global coordinator.

[69] Additional cues for the paragraph from "*MIV - Market for Investment Vehicles*", Borsa Italiana, Publications, Markets and Products, January 2011.

Even in this case, one of the main peculiarities is the alignment of interests of all the actors involved. In fact, in light of simple admission requirements and a flexible policy of investment for the issuers, the investors have the chance to easily identify the vehicles and invest in a regulated market. In general, the greatest strengths of the MIV can be synthesised as follows:

- The listing companies have a large visibility among potential investors.
- Greater transparency level compared to non-listed vehicles.
- The issuers of the European Union are not subject to restrictions of registered office or tax domicile.
- An efficient secondary market in terms of trading of the instruments.
- Capacity to meet the needs of a plurality of different vehicles and to offer them a wide regulatory flexibility.

For the purpose of this paper, it is of our interest to analyse the MIV segment dedicated to SIVs (Special Investment Vehicles), since these include the Special Purpose Acquisition Companies. Notice that this segment is not accessible to retail investors, but only to professional ones.

In order for a Special Investment Vehicle to be admitted to the MIV, there are some requirements to be satisfied. In particular, the SIV duration cannot exceed 36 months, within the which it has to carry out one or more significant investments equal to at least 50% of the total assets of the company. Extensions are allowed only if, close to the end date, an operation is about to be finalised.

There is an obligation to provide an investment policy that has the minimum content required from the Regulation and that includes a use of resources in hedge funds not higher than 20% of the SIV'S total assets. In this way, the investors are offered a greater protection.

As it is known, the capitals raised during the admission phase has to be deposited in an escrow account and at least three members of the management team must possess the technical expertise to efficiently manage the investments that form the object of the company. The SIV also has to comply with specific disclosure requirements, like the preparation of a financial report of at least one period and the compliance with the rules relating to conflict of interests.

With reference to the quantitative requirements, instead, it is required a market cap of at least € 40 m and a free float of at least 35%. Finally, the SIVs also have to appoint a sponsor, whose duty consists of issuing, during the discovery process, a statement on the experience, professionalism and reputation of the management as well as the adequacy of the resolution policy of conflicts of interests.

2.4 Regulatory framework

The experts believe that one of the greatest issues regarding SPACs under Italian law is the lack of a specific legislation able to regulate the instrument. For this reason, according to Conso[70], these must adapt to the general and special rules thought for similar legal instruments. This is demonstrated by the fact that SPACs, in Italy, take the form of S.p.A. (*società per azioni*)[71]. The author claims that such choice is attributable to the will of regulating adequately the relations between the subjects involved and to ease the capital raise in the market. Consequently, the rules regulating this type of company are contained in the Civil Code and complemented by the Legislative Decree 58/1998 of the Consolidated Law on Finance and the Rules for Companies of Borsa Italiana. In the course of this paragraph, the main "critical factors" of this regulatory framework will be described.

We highlight that the topics reported below will mainly refer to the contributions of the already mentioned Fumagalli's "Lo sviluppo delle SPAC in Italia" and Gigante's "SPAC from the US to Italy: an evolving phenomenon". The choice was dictated by the will of offering a clear and precise description of the characteristics present in the Italian

[70] "*SPAC from the US to Italy: an evolving phenomenon*", Op. Cit.
[71] An Italian corporate form for *joint-stock companies*. More or less equivalent to a *public limited company* or *S.A.* in other countries.

context: therefore, we decided to recall the works that, in our view, are the most significant among the ones that have investigated the SPACs phenomenon in Italy till today.

2.4.1 IPO and listing

The SPAC - as it is known - realises the business combination offering its shares to the public, in order to list them on the stock exchange. In general, in Italy, the Initial Public Offering is disciplined by the art. 93-bis et seq of the Consolidated Law on Finance and by the art. 3 et seq of the Rules for Companies of Consob, which impose specific obligations, among which the publication of the prospectus, to subject the financial statements to audit and to distribute the disclosure documents required for the public of investors in the manner established by Consob. The drafting of the prospectus, however, is not mandatory if the securities are issued only to qualified investors: such provision tends to justify the choice of the SPACs not to place the shares to retail investors. The publication of this prospectus, in fact, is translated into an expensive fulfilment, both in terms of money and time, in that subject to the approval of the supervisory authority.

When the SPAC intends to proceed with the listing on regulated markets, it also has to undergo the rules provided by art. 51 et seq of the Rules for Companies and the EU legislation, while the quotation process and the issuer itself are subject to the on and off-site surveillance powers of Consob. As it has been made clear, the listing on unregulated markets, conversely, imposes less stringent obligations, like for example the exoneration from the discipline of the IPO prospectus.

2.4.2 Shareholders' meetings and withdrawal right

Analysing the corporate organisation of the SPAC, we immediately realise as this differs for many aspects from the standard model of a S.p.A.: firstly, the social structure, ruled by art. 2363 et seq of the Civil Code, is composed by the promoters - who are also part of the Board (art. 2380-bis et seq), taking therefore the role of Directors - and the investors, who provide the resources during the IPO phase.

Fumagalli believes that, in the application of the schemes provided by the lawgiver for the S.p.A.s, the **shareholders' meeting** is an interesting element. In particular, he underlines how the meeting approving the business combination can be summoned both in ordinary and extraordinary session. The author thinks that being the SPAC an open capital company, the first objective of the promoters is to involve in the meeting as many shareholders as possible. For the approval of the meeting resolutions, besides, it is usually required the majorities prescribed by law: for the SPACs listed on regulated markets, though, such majorities can be obtained easier than for the vehicles listed on the AIM Italia. In the first case, in fact, it is required a quorum for resolution of 2/3 of the represented capital and a constitutive quorum of 20% of the share capital. In the second case, by contrary, the deliberative and constitutive quorum are, respectively, 2/3 of the present capital and 1/3 of the share capital.

A further peculiarity about the approval of the business combination regards the threshold of dissenting shareholders established by the corporate bylaws: to be sure about the positive outcome of the resolution, in fact, it is necessary – rather than only reaching the qualified majority – to avoid the exceeding of the predetermined number of withdrawing shareholders. The ultimate goal, in this sense, is to prevent the possibility of not recruiting sufficient new investors to sell the withdrawn shares to, after the liquidation ex art. 2437-quarter of the Civil Code. For such reason, the promoters, both before the announcement of the business combination and before the meeting, act to search the possible substitutes and to understand what level of appreciation there is for the target among the investors.

In presenting the key points of the deal to the future shareholders, it is believed that the promoters offer information considered privileged but that, anyway, falls within the perimeter of art. 184 of the Consolidated Law on Finance, in that "communicated this information to others during the normal exercise of employment, profession, function or office". This theory is supported by the obligation, for the investors, to sign ex ante a confidentiality agreement and a non-trading agreement.

Despite the investors usually prefer to express their ideas during the meeting – since only in that forum they have a wide set of information at disposal – it can happen that the company collects, at the announcement date already, binding agreements to vote in favour. These, recognised as shareholders' agreements ex art. 122 Consolidated Law on Finance, must be communicated to the public within five days.

The proxy system differs depending on whether the SPAC is listed on the AIM or on the main market: for the first, in fact, there's a limit of twenty proxies and it is not allowed to appoint the designated representative referred to in article 135-undecies Consolidated Law on Finance. Besides, a potential proxies' collection promoted by the directors will be taken into consideration only if addressed to more than 200 shareholders. In the same way, it is thought that also the activity of promotion of the participation shouldn't lead to solicitation of proxies ex art. 136 Consolidated Law on Finance.

A last element that deserves to be analysed regards the so-called shareholders identification: often, in fact, for SPACs it is extremely difficult to know the exact number of its shareholders, because of the scarce presence of trading on the market before the business combination. In 2010, the Consolidated Law on Finance decided to solve this problem introducing art. 83-duodecies and allowing, therefore, the listed companies to identify the minority name partners. If provided by its bylaws, then, a listed issuer has the right to request to the depositaries and to Monte Titoli S.p.A. the list of the shareholders that haven't declared in advance to be unavailable to the identification.

It is evident that all the previous actions, put in place by the promoters, have as ultimate objective the good outcome of the business combination: in this way, in fact, they try to avoid, as much as possible, the conflict of interests and to align the objectives of the parties involved.

The grounds for **withdrawal** established for the listed companies are enumerated by art. 2437 of the Civil Code. This article specifies that the shareholders have the right to withdraw from the company if they didn't contribute - among others - to the resolutions regarding a significant change of the object clause. Consequently, for what concerns the SPACs, the decision regarding the realisation of the business combination is included in the perimeter of the statutory grounds for withdrawal regarding the change of the object clause. The reason is attributable to the fact that, during the IPO phase, the object of the SPAC simply regards the looking for an investment opportunity and it will need to be changed by the meeting in the moment of approval.

In this way, it is also possible to point in the Italian law the practice of SPACs of the refund of capital for the dissenting shareholders. The liquidation value of the shares is disciplined by the art. 2437-ter c.c., which establishes, for the companies listed on a regulated market, that such value is determined with exclusive reference to the arithmetic mean of the closing price in the six months before the notice of meeting (in our case, the meeting for the approval of the business combination).

In the context of SPACs, though, we point out a problematic related to the impossibility of knowing the exact redemption value: the price of the previous six months could widely diverge from the refund value communicated to the investors during the IPO. Another criticality we would like to stress is about the timing: in the calculation of the six months average, in fact, it will be included the period within the announcement of the operation and the publication of the notice of meeting. This because, over this period, it is assumed the price will react according to the perceived quality of the operation proposed.

For the SPACs listed on the AIM Italia, instead, the aforementioned art. 2437-ter c.c. requires the liquidation value to be determined by the directors after they heard the opinions of the internal and external auditors and considered: the capital solidity; the earnings prospects; the current market value of shares.

In this second case, the criticalities we notice are that the directors do not necessarily have to assign the same weight to the three elements we just listed. Actually, it is our opinion that SPACs' prospects shouldn't even be taken into account: the ones who withdraw, in fact, are renouncing to the greater value created with the integration of the target and, consequently, will not benefit from the results obtained through the post-merger activity. With reference to the capital solidity, instead, we believe it refers to the amount of the ordinary shares in the escrow account. Finally, we deem that the market value mentioned in the article is generally lower than the pro-rata value of the escrowed funds, therefore making the liquidation value of the shares inferior to the price paid by the investors during the IPO phase.

2.4.3 Shares & Warrants

One of the aspects that most characterises the listing process of SPACs is the type of instruments offered to the public during the IPO. Typically, in fact, a SPAC issues the so-called Units, namely securities composed of shares and one or more warrants[72].

Indeed, an investor, as we already mentioned, in the moment he/she decides to underwrite the shares of a SPAC, has the awareness of investing in a risk-free operation until the moment of the business combination. The lack of risk is shown by the segregation into an escrow account of the share of liquidity contributed to the company and in the obtainment of a call option[73] on an unknown security.

Obviously, the use of fresh capitals is justified in the expectation of obtaining a satisfying economic return, generally equal to the difference between the current market value and the subscription price of the shares. With respect to the evolution of the share price, we distinguish two crucial moments: the announcement date of the business combination and the date of the shareholders' meeting for the approval of the operation. At the announcement date, then, the price appreciates if the market perceives the business combination can create value. Otherwise, the price will remain at its floor value, which is the present value (on that date) of the resources invested.

[72] Please refer to paragraph 4.1 of the previous chapter for the definition of warrant.
[73] An option contract that gives its holder the right (but not the obligation) to purchase a specified number of shares of the underlying stock at the given strike price, on or before the expiration date of the contract, Glossary, Nasdaq.

A complexity factor in the functioning of SPACs is represented by the presence of warrants, to which reference has been made earlier. Warrants, as is known, are derivative instruments that give the right to the holder to subscribe additional shares at a fixed price by a certain date. In phase of IPO, these are offered at no cost along with the shares[74] to make the security more appealing in the eyes of investors. As such, right after the placement, the *unit* trades as a whole. Only afterwards the two components are detached, which means they will start having a separate price and level of risk. The separation in two distinct securities also allows to further collect new resources through capital increase.

Gigante and Conso analyse some features typical of the warrants, briefly listed below:

- At issuance, their price is already in the money[75].
- The owner can exercise the option of the warrant in any moment before the deadline.
- Often the company asks for the exercise of the warrants to happen in cashless mode, which means without a cash payment in exchange for the new shares. The cashless exercise implies that the holder obtains only the equivalent of the value embedded in the warrant in the forms of new shares and he won't be able, as it usually happens, to use the warrants to subscribe new shares by injecting new resources in the company. Simplifying, the number of shares to which a warrant of this class entitles is equal to: $N = \frac{PRICE_{Market} - PRICE_{Strike}}{PRICE_{Market}}$. In our view, this mechanism is often used to avoid dilution in cases where no additional money is needed to the company.

[74] We are referring to the category of market warrants, in that they are offered to the public of investors. We also note the so-called sponsor warrants, subscribed by the promoters.

[75] A put option that has a strike price higher than the underlying security price, or a call option with a strike price lower than the underlying security price. For example, if the March COMEX silver futures contract is trading at $6 an ounce, a March call with a strike price of $5.50 would be considered in the money by $0.50 an ounce, Glossary, Nasdaq.

- Above a certain market price of the shares, the SPAC has the option to buy-back the warrants at a symbolic value. In this way, the holders are incentivised to ask for the conversion in order not to lose the fortune obtained until then. This buy-back right, then, represents a cap to the value of the warrants, in that it establishes a limit to the dilution resulting from their exercise. Consequently, if the market price exceeds the pre-set threshold, the conversion formula above would become:

$$N = \frac{PRICE_{Threshold} - PRICE_{Strike}}{PRICE_{Threshold}}\ .$$

2.4.4 The protection clauses of the promoters

The management team is a key element for the SPAC, since the initiative for its creation is taken by them. In light of that, the experts believe that it is quite remote the chance that the team named during the IPO will be modified before the business combination. Such belief is also supported by the rules on S.p.A. companies to which, as we already explained, SPACs partially refer: the Board of Directors is usually appointed for a three-year duration, a time frame even greater than the SPAC itself.

The fact that the promoters will hardly renounce to their managerial and administrative role in the project, cannot however exclude the possibility that changes are made - although tiny - from the shareholders. The latter, in fact, can decide to remove some promoters or, even, to reduce their influence by increasing the number of Board members.

The promoters, however, can benefit from some protection mechanisms which were created in order to disincentivise their ousting from the company: we are talking, specifically, of clauses – provided for in the corporate bylaws – that resemble those of *good leaver* of Private Equity funds. The purpose is mainly to avoid the functioning of the SPAC itself to be compromised, requiring – as a result – the automatic conversion of the special shares of the promoters into common shares should they, for example, be removed without cause or dismissed. It can also be provided that, until the business combination, the meeting resolutions regarding the distribution of profits and reserves are subject to the approval of the promoters.

2.4.5 The Board of Directors

A last topic that briefly deserves our attention in conclusion of this paragraph regards the functioning of the Board of Directors.

The SPACs listed on the MIV, unlike those listed on the AIM Italia, are expected to prepare a Report on Corporate Governance, in line with what is required by the Corporate Governance Code of the Corporate Governance Committee[76] of Borsa Italiana. Such Code requires, within the company Board, the presence of non-executive and independent directors, in order for a more effective management of the business initiative. These directors are also essential should the business combination present aspects of conflict of interests: think to the - not at all remote - case in which some promoters are also dedicated to other activities, analogous to the ones they perform within the SPAC and, indeed, in contrast between them. The presence of independent figures, therefore, mitigates those risks.

There are other situations that could create scenarios of conflict between promoters and investors and thus require the involvement of independent subjects. Specifically, we are thinking about:

- The possibility that promoters, during the target searching phase, decide to deposit the funds collected into low-rating financial institutions. Such choice could be dictated by the will of obtaining higher interest income.
- The possibility that the management team promotes activities of due diligence carried out in a summary way or by poorly skilled professionals, in order to reduce the expenses and recover part of the capital risk in case of liquidation.

[76] The purpose of the Committee is the promotion of good corporate governance of Italian listed companies, that has to be pursued either by a constant alignment of the Corporate Governance Code for Listed Companies with best practices, and through other initiatives which would enhance the credibility of the Code, Definition, Borsa Italiana.

- The risk that promoters, in view of the meeting, arrange an informative documentation aimed at representing in overly optimistic way the company's prospects, to increase the chance of obtaining the approval.
- The common attempt, by promoters, to determine a redemption value that discourages the withdrawal from the operation, in that detrimental.

2.5 Accounting features

To exhaustively conclude the analysis on the functioning of SPACs, it is necessary to face some accounting matters.

Paragraph 19 of the Rules for Companies in the AIM of Borsa Italiana specifies that the companies listed on that market have the discretion to prepare their financial statements adopting, alternatively:

1. Italian accounting principles (ITA GAAP).
2. International accounting principles (IAS/IFRS).
3. The US generally accepted accounting principles (US GAAP).

It was noted, though, that SPACs tend to prefer, among the three just mentioned, the *International Financial Reporting Standard* (IFRS). Such choice seems to be attributable mainly to the will of making easier the presentation and the bookkeeping of the business combination: in most cases, in fact, the target companies – to make it easier for investors the comparisons with other companies already listed – prepare their financial statements in accordance with the IFRS. To guarantee a greater accounting coherence, then, even the SPAC will prefer presenting its data following the international accounting principles.

We specify that we will be making reference to the latter in the continuation of the paper, in that representative for most of the operations performed until today.

2.5.1 Pre-Business combination

In the phase that precedes the business combination there are two accounting aspects that deserve a deeper analysis: IPO costs and warrants.

With regard to the costs related to the Initial Public Offering, for the SPACS drafting the financial statements according to the IFRS, the IAS 32 provides that:

- "*Distributions (such as dividends) to holders of a financial instrument classified as equity should be charged directly against equity, not against earnings*".
- "*Transaction costs of an equity transaction are deducted from equity*"[77].

It is therefore noted that the costs related to an issue of new shares should be charged, net of the tax effect, directly to the equity. These generally regard fiscal costs and of legal advice. Other costs derive from the drafting and printing of the prospectus, distribution and underwriting fees and others. By contrast, instead, if the costs regard the listing of already existing shares, these should be charged in the profit and loss. However, this event seems quite remote in the case of a SPAC, in that all the ordinary shares listed - as we've seen - are of new issuance.

Just like the costs incurred during the IPO, even the accounting treatment of warrants - including the ones offered for free to investors during a capital increase - is disciplined by the IAS 32. By virtue of their features, the warrants fall within the perimeter of financial instruments as described by the accounting principles and, thus, are defined as "*contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity*"[78].

One of their main criticalities regards their classification on the financial statements: indeed, it is necessary to understand whether these should be considered a financial liability or an equity instrument. The topic is addressed in paragraph 16 of the IAS 32,

[77] IAS 32 - Financial Instruments: Presentation.
[78] IAS 32 - Financial Instruments: Presentation.

which describes the requirements such that the warrant is considered an equity instrument. In particular:

a) *It includes no contractual obligation to deliver cash or another financial asset to another entity*
b) *if the instrument will or may be settled in the issuer's own equity instruments, it is either:*
  - *a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or*
  - *a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.*

In other words, there need to be two conditions in order for the warrants to be classified as equity instruments, namely a *fixed for fixed* (non-variable) subscription ratio and an allocation towards all the shareholders. If these requirements are not met, the IAS 32 provides that the warrants are recognised in the balance sheet, as a liability, and will later be evaluated at their fair value with impact on the income statement (profit and loss).

2.5.2 Business combination

As we well know at this point, the objective of the promoters of a SPAC is that of identifying a target company in order to carry out the business combination. Earlier, we briefly mentioned the different ways in which this operation can happen: acquisition/subscription of shares of the target or merger. In the current paragraph we will further investigate the main features of the latter, which - as of today – appears the most utilised in Italy, while also trying to identify its correct accounting treatment. In fact, it is necessary to specify that the SPAC, given its characteristics, presents some peculiarities reflected on the choice of the accounting treatment to adopt.

In general, the merger consists in the union into a single legal entity of the assets and the social structure of two distinct companies. In the specific case of SPACs, we witness a direct merger when the vehicle incorporates the target - being it participated -, or to a reverse merger, where, conversely, it is the target to incorporate the SPAC. The nature of the operation entails implications also in terms of presence on the stock market: in the first case, in fact, we witness to a continuity of listing (although indirect), while in the second case it will be necessary to conduct a new listing. In the course of the paper, we will refer mainly to the first solution, since - according to the experts - adopted in most of the cases.

That between SPAC and target could be defined a merger between "independent" companies, in that the incorporating does not own any participation in the capital of the incorporated. As a result, the first will acquire the second through the issue of new shares in favour of the shareholders of the incorporated, in exchange of the shares of the latter in their company. Given the complexity, it is evident that this type of aggregation produces significant impacts on the companies' balance sheets, also causing some criticalities to take into account for the choice of the accounting principles to adopt. The relevant operation, in fact, differs from the "classic" merger, since as it is known, the SPAC - although listed - is not an operating company. In this sense, then, the operation doesn't even fall within the definition of "business combination" according to the IFRS 3[79].

We now highlight further critical points, listed below:

- The SPAC is defined a "minority", in that the target shareholders form the majority of the share-capital of the post-merger entity.
- The resulting company inherits the status of listed company from the non-operating entity.
- The market price of the SPAC's shares and the consideration transferred to the target can present differences.

Since, as of today, there is no specific accounting principle for this instrument, it has been long debated the possible application of the aforementioned IFRS 3, which however only refers to business combinations among operating companies. We agree in

[79] For more details, please refer to paragraph 3B of the IFRS 3.

considering this as a criticality: according to this principle, in fact, "*a business consists of inputs and processes applied to those inputs that have the ability to create outputs*". We believe that such characteristics are hardly attributable to a SPAC which, by contrast, by having only the resources contributed by promoters and investors during the creation (as possible input), does not have the possibility to create a possible output.

One of the most significant contributions we found about this problem comes from the IFRS Interpretations Committee (previously IFRIC)[80], which has expressed himself over it through the publication of "*IFRS 3 & IFRS 2 - Accounting for reverse acquisitions that do not constitute a business*" and the official "IFRIC Updates" of September 2012, November 2012 and March 2013. The committee also refers to the IAS 8, according to which, *in the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management must use* - among the others - *the requirements and guidance in IASB standards and interpretations dealing with similar and related issues*[81].

In virtue of what just described, then, the Interpretations Committee argues that, for the purpose of accounting and bookkeeping, the relevant operation should be qualified as a *reverse acquisition*, disciplined by the IFRS 2, rather than a business combination: the shareholders of the SPAC, in fact, are included in the social structure of the target through a capital increase and, in return, the shareholders of the target will receive the net assets of the SPAC and the status of listed company. Therefore, it takes the shape of an operation with payment based on the issuance of new shares, as disciplined by the IFRS 2.

Usually, as we briefly mentioned earlier, it is then detected a difference between the net assets contributed by the SPAC to the target and the fair value[82] of the shares, namely the financial instruments issued for the acquisition of the operating entity. On the basis of

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[80] The IFRS Interpretations Committee (Interpretations Committee) is the interpretative body of the International Accounting Standards Board (IASB). It works with the Board in supporting the application of IFRS and responds to questions about the content and correct application of them.

[81] IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

[82] According to the IFRS, the fair value is represented by the market price in the day in which the business combination takes place.

the IFRS 2, the difference represents the provision of a service that, in this case, corresponds to the listing of the target company. Hence the need to understand its economic meaning and identify the correct accounting treatment, since it doesn't fall under the definition of intangible assets offered by the IAS 38[83]: in such case, the principle provides that this is recognised in the income statement as a cost, among the financial charges.

Finally, to correctly identify the "accounting acquirer", it is necessary to make reference to what provided by the IFRS 3: indeed, although being the SPAC that, legally, incorporates the target, from an accounting perspective the first is identified as acquired and the second as acquirer. The reason lies in the fact that, in this case, as we already pointed out, it is the incorporated company that acquires the assets and liabilities of the incorporating company.

[83] The IAS 38 "outlines the accounting requirements for intangible assets, which are non-monetary assets which are without physical substance and identifiable (either being separable or arising from contractual or other legal rights)".

CHAPTER 3. EMPIRICAL ANALYSIS ON THE ITALIAN EXPERIENCE

3.1 The sample of investigation

In this chapter we will provide an analysis of the SPACs currently present in the Italian market and of the relative target companies. The objective is that of investigating whether this type of instrument can represent for Italian firms a valid alternative for opening up the capital.

Before entering into the thick of the empirical analysis it is also necessary to provide an overview of the (timeframe) context in which these SPACs were listed and some completed the business combination. For this purpose, we thought appropriate to report in the following paragraphs the most significant qualitative characteristics.

3.1.1 Overview of the Italian SPACs

Below, a thorough description of all the SPACs formed until 31/12/2020.

Table 1: Evolution of the SPACs present in the Italian market as of 31/12/2020.

	SPAC	Post BC company	SPAC IPO date	Admission Market	Capital Raised (M)	BC date	Current Market
	Italy 1 Investment	IVS	27/01/11	MIV	150.00	16/05/12	MTA STAR
	Made in Italy 1	Se.sa	27/06/11	AIM Italia	50.00	01/02/13	MTA STAR
(1)	Ipo Challenger	Italian Wine Brands	n.a.	Private Bond	52.00	n.a.	n.a.
	Industrial Stars of Italy	Lu.Ve.	22/07/13	AIM Italia	50.00	09/07/15	MTA
	Space	Fila	18/12/13	MIV	130.00	01/06/15	MTA STAR
(4)	Greenitaly 1	Prima Vera	27/12/13	AIM Italia	35.00	22/12/15	n.a.
	Space 2	Avio	31/07/15	MIV	300.00	10/04/17	MTA STAR
	Capital For Progress 1	GPI	04/08/15	AIM Italia	51.10	29/12/16	MTA
	Glenalta Food	Orsero	10/11/15	AIM Italia	80.00	13/02/17	MTA STAR
	Industrial Stars of Italy 2	SIT	27/05/16	AIM Italia	50.50	20/07/17	MTA
	Innova Italy 1	Fine Food	19/10/16	AIM Italia	100.00	01/10/18	AIM Italia
(1)	Ipo Club 1	Ipo Challenger 1	n.a.	Closed-end fund	150.00	n.a.	n.a.
	Crescita	Gruppo Cellular	15/03/17	AIM Italia	130.00	04/06/18	MTA STAR
	Space 3	Acquafil	05/04/17	MIV	152.85	04/12/17	MTA STAR
(1)	Ipo Challenger 1	Pharma Nutra	n.a.	Private Bond	20.00	n.a.	n.a.
	Glenalta SpA	CFT	19/07/17	AIM Italia	98.00	30/07/18	AIM Italia
	Sprintitaly	Sicit Group	21/07/17	AIM Italia	150.00	04/06/19	AIM Italia
	EPS	ICF	01/08/17	AIM Italia	150.00	14/05/18	AIM Italia
(2)	Capital For Progress 2	n.a.	04/08/17	AIM Italia	65.00	-	-
(2)	Spactiv	n.a.	27/09/17	AIM Italia	90.00	-	-
	Industrial Stars of Italy 3	Salcef Gourp	19/10/17	AIM Italia	150.00	08/11/19	AIM Italia
(2)	IdeaMi	n.a.	11/12/17	AIM Italia	250.00	-	-
	Space 4	Guala Closures	21/12/17	MIV	500.00	06/08/18	MTA
	Spaxs	Illimity	01/02/18	AIM Italia	600.00	05/03/19	MTA
	ALP.I	Antares Vision	01/02/18	AIM Italia	100.00	18/04/19	AIM Italia
(3)	VEI 1	-	27/02/18	AIM Italia	100.00	-	-
(2)	Life Care Capital	n.a.	07/03/18	AIM Italia	140.00	-	-
(3)	Gabelli value for Italy	-	20/04/18	AIM Italia	110.00	-	-
(3) (4)	EPS 2	-	10/05/18	AIM Italia	74.00	-	-
	Archimede	Net Insurance	21/05/18	AIM Italia	47.00	17/12/18	AIM Italia
	TheSpac	Franchi Umberto Marmi	02/08/18	AIM Italia	60.00	15/10/20	AIM Italia
(1)	ELITE Spac-in-cloud	Digital Value	n.a.	AIM Italia	22.50	n.a.	n.a.
	Gear 1	Comer Industry	26/02/19	AIM Italia	30.00	13/03/19	AIM Italia

(1) Vehicles technically different from the SPACs and therefore excluded in the analysis
(2) SPACs for which it was announced but not completed the business combination
(3) SPACs for which it wasn't identified the target
(4) SPACs for which Borsa Italiana has withdrawn the trading of shares on the stock exchange.

Source: Personal elaboration on data from BeBeez Reports and Borsa Italiana.

As can be seen in *table 1*, the first SPAC to have been listed on Borsa Italiana on 27 January 2011 was Italy 1 Investment, a company under Luxembourg law. Since that date, Special Purpose Acquisition Companies started to spread in our country. All the SPACs after Italy 1 Investment, however, were listed but also formed in Italy.

From 2011 to 2020 – last calendar year – 33 SPACs have been listed, however, for the purpose of this analysis we had to exclude 4 of them, since they present some technical features that make them more similar to *pre-booking companies* than SPACs. The first, in fact, though sharing the same philosophy of the second ones – meaning the will to collect capitals with the purpose of acquiring another company to list it – do not get listed before the business combination. For the sake of completeness, they will be briefly indicated hereafter:

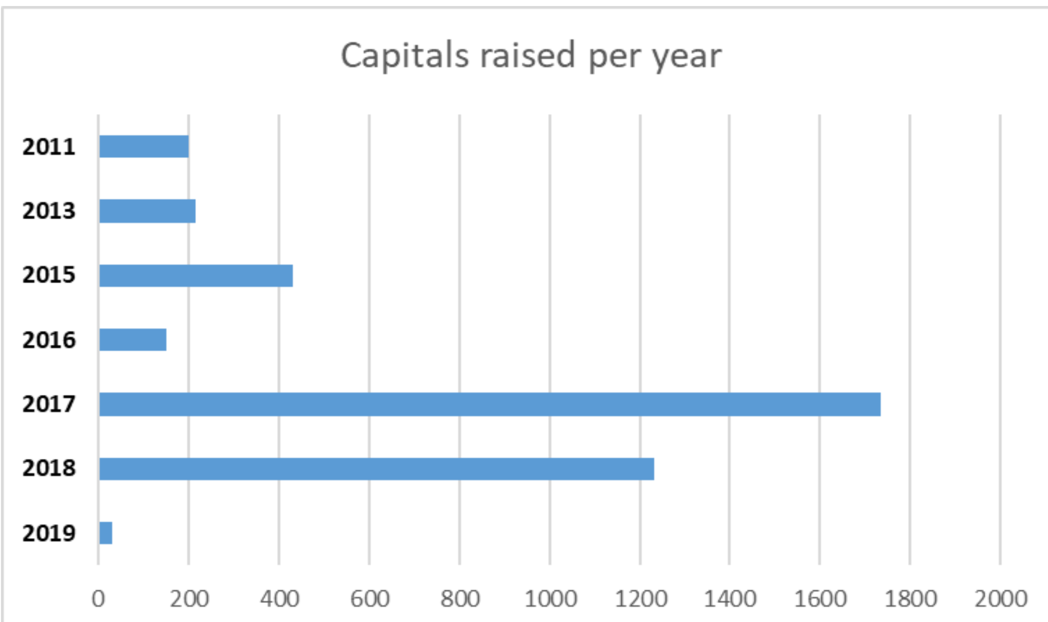
- IPO Challenger is a non-listed investment vehicle (considered a sort of evolution of a SPAC) which collected more than 50 million thanks to the issue of convertible bonds, exchangeable with the shares of the target. Thanks to the following business combination, Italian Wine Brands was born and listed on the AIM through IPO.
- IPO Club 1 is a closed-end fund promoted by Azimut Global Counseling in 2016, whose aim is to invest in securities issued by pre-booking companies, thereby assuming the role of "serial" investor in SPACs[84].
- IPO Challenger 1 is another investment vehicle, promoted by IPO Club 1 itself, born on the heels and with the same technical features of its predecessor IPO Challenger. The company brought Pharmanutra on the market, a company producing medical devices.
- Elite Club Deal, finally, is a highly innovative SPAC typology – defined "in cloud" – which therefore differs from the companies just described. It is an online platform which connects professional investors and promoters with the target companies, with the purpose of determining the main terms of the operation. Digital Value, in 2018, was the first one to adopt this model for its debut on Borsa Italiana.

[84] *Ipo Club raccoglie 20 mln euro con Ipo Challenger 1, la sua prima pre-booking company*, Bebeez, July 2017.

On the basis of the considerations abovementioned, the sample under investigation has been restricted only to the 29 “traditional” SPACs present on the Italian market as of today. These SPACs have collectively raised 3,933 million euros, with an average of 103.2 million euros each. The collection of capital from investors, in almost all of the 29 cases, has been solely finalised to the search and the possible listing of a target company.

As it is evident in figure 6 below, 2017 and 2018 appear the years with the greater collection recorded, alongside the progressive diffusion and comprehension of this instrument from investors. Conversely, 2012, 2014 and 2020 are characterised by a total lack of capitals raised.

Figure 6: Amount of capitals raised per year.

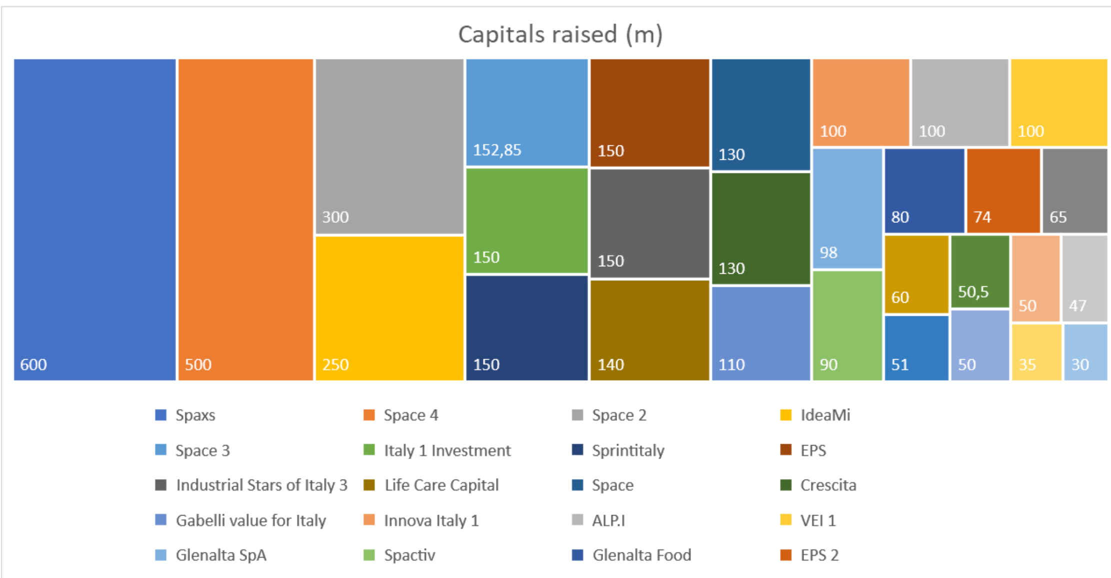


Source: Press releases of individual SPACs, personal elaboration.

The number of resources collected in 2018 is basically conditioned by the project “SPAXS”, for which alone 600 million euros were raised. In the same year, Space 4 follows with 500 million euros and, in 2016, Space 2 with 300 million euros. Such high amounts of capitals raised, compared to other SPACs, has certainly incremented the average value mentioned above. The companies to which we attribute the minor amount of resources collected appear to be Green Italy 1 and Gear 1, with respectively 35 and 30 million euros.

The SPACs present on the Italian market, by reason of the resources collected, can be divided into three different clusters: “large” SPACs (4), those on which the investors placed the most confidence, contributing resources for a total of 1,650 million euros. Although representing only 13% of the sample analysed, they possess 41% of the whole collection. “Medium” SPACs (12, equal to 41% of the total), instead, have collected resources ranging from 100 to 153 million euros, for a total of 1,563 million (40% of the whole collection). “Small” SPACs (13, equal to 46% of the total), in the end, are characterised by a collection below 100 million euros, for a total of 781 million (19% of the whole collection).

Figure 7: Amount of capitals raised per SPAC.



Source: Press releases of individual SPACs and BeBeez, personal elaboration.

It was repeatedly affirmed that the collection of capitals through the public of investors during IPO is finalised to the search and investment into the target company. In the Italian scene, however, there have been two cases in which only a part of the resources has been used for such purpose: Space2 has in fact made use of half of the capitals collected for the creation of a new SPAC, through a partial split in favour of the newly formed Space3. The latter, therefore, didn’t have the need to perform an Italian Public Offering, since it could benefit from the capitals contributed by the previous SPAC. Space3 has later presented request for admission to listing of its shares and warrants, beginning to trade on the effective date of the split. A similar episode occurred with EPS Equita PEP, which allocated 74 million euros (out of 150 initially collected) to EPS Equita PEP 2, born – likewise – from the partial split of the first one.

A further aspect directly attributable to the capitals collection abovementioned regards the deposit of the sums into an escrow account. In the investigated Italian experience, it appears that almost all of the SPACs (23, 80% of the sample) have segregated 100% of their funds into an escrow account, while the remaining ones (6, 20% of the sample) deposited 99% of the funds, leading to an average of 99.7%. It is evident how this characteristic represents a form of protection towards investors, to whom – on one side – it is guaranteed the refund of the investment in case of withdrawal or failure to complete the business combination and – on the other hand – it is given the assurance that the resources are not immediately fully available to the management.

On the basis of the admission documents of the SPACs analysed, we discovered that the only amounts used by the promoters in the establishment phase of the SPAC and for searching the target are the initial sums contributed by the promoter themselves, as well as 100% of the interests accrued (and accruing) on the escrowed funds[85]. This implies the obligation for the directors of optimal management of the resources contributed, to efficiently cover the running costs and expenses of the SPAC.

In our sample, the 7 SPACs that have been liquidated as of today – which we will discuss later – present a mandatory deposit of 100%. According to some analysts this specific approach would contribute to assure the investors about the possibility of being forced to approve an actually unattractive business combination, to avoid the hypothesis of not receiving back the full amount contributed.

In our view, instead, a 100% refund could incentivise opportunistic behaviours of investors. We mention, for example, Capital For Progress 2, the second SPAC – after Capital For Progress 1, promoted by Massimo Capuano, Antonio Perricone, Marco

[85] For further information, please refer to the admission documents present on the websites of the Special Purpose Acquisition Companies and on the website of Borsa Italiana.

Fumagalli, Alessandra Bianchi and Bruno Gatti: in the fall of 2018, the company had recorded a number of withdrawals equal to 57.38% of the ordinary shares[86], thus impeding to complete the project of business combination with the identified target, ABK Group Industrie Ceramiche SpA. According to us, the liquidation of such company is not much attributable to a wrong choice of the target, but rather to the uncertain context in which the SPAC operated, which in fact favoured the opportunistic behaviour of the investors: due to the unfavourable market conditions and the consequent depression of share prices, many subjects, with the perspective of being liquidated at 10 euros, decided to buy the share which on the previous day had closed at 9.2 euros.

Therefore, it appears evident that the withdrawals percentages recorded during the shareholders' approval meeting can be a measure of the larger or smaller appreciation of the target by the shareholders. The upper limit of such percentages (which implies the quorum for resolutions), in the Italian experience, is around 30%. In one case only, that of Italy 1 Investment, it was established a limit of 35%, while in four other cases (Space, Crescita, Glenalta SpA, and Space4) it was set at 33%.

In general, the target companies are initially little known and for this reason the investors are often induced to exercise the withdrawal right: they can't in fact take advantage of a vast set of information to accurately assess the possible investment. Among the main reasons of this poor presence in the market – apart the fact of not being listed – we recognise their limited brand awareness and their modest size[87]. Indeed, in the early years of diffusion of the SPACs in our country, it has been recorded a high number of withdrawals (suffice it to say that Italy 1 Investment, the very first Italian SPAC, reached about the 21%). We argue that this behaviour is partially attributable to the scarce knowledge of this instrument. Over time, in fact, we witnessed a trend inversion, even arriving at zero in some operations (like Space1, Space2 and Space3). Nevertheless, we still observe very high percentages in some cases. According to the authors Gigante and

[86] "*Risultati dell'esercizio del diritto di recesso e deposito dell'offerta in opzione*", Press release, 3rd November 2018, www.capitalforprogress.it.

[87] "*Lo sviluppo delle SPAC in Italia*" (Op. Cit.).

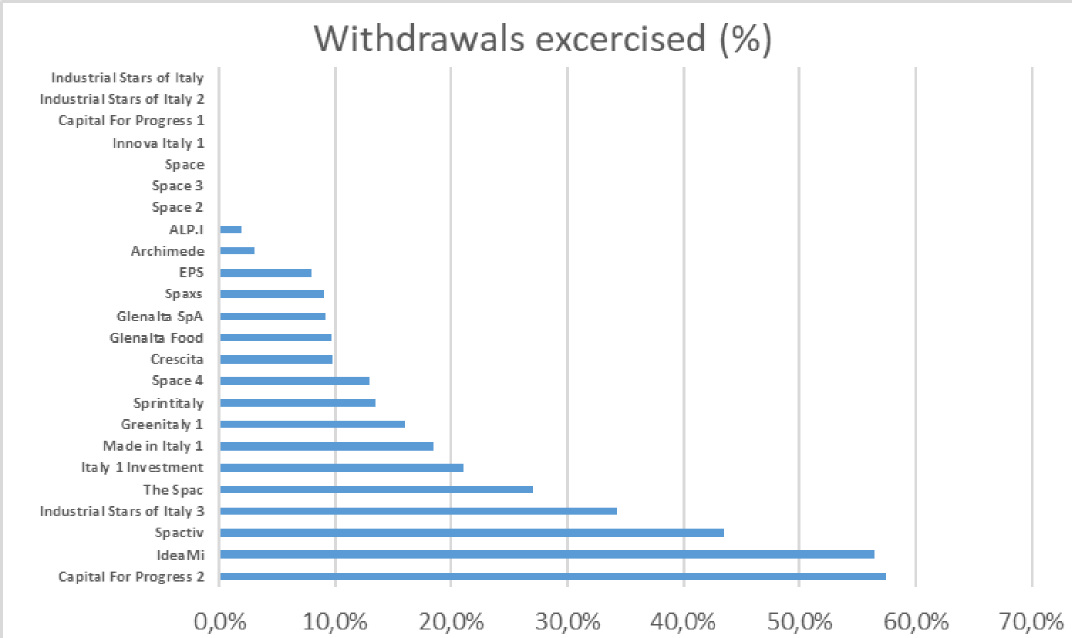
Conso, the causes can be numerous: on the basis of our analysis, we can assert that this is mainly attributable to a short-term orientation of the investors with speculative trading purposes.

For greater clarity, we provide in *Figure 8* below the summary of withdrawal percentages exercised by all the SPACs by 31 December 2020. IdeaMi, Capital For Progress 2 and Spactiv registered the highest levels - the first one didn't even reach the quorum for resolution in the meeting required by law. Industrial Stars of Italy 3, instead, had initially registered a 34.3% of withdrawals. To still be able to perform the business combination, however, the remaining SPAC shareholders were offered an option for 3.4% of the shares withdrawn, therefore lowering the maximum threshold set by the Statute. The latter methodology has also been put in place by Spactiv, which however failed to do so, given a very high amount of shares to be placed (13.47%, given a withdrawal percentage of 43.47%).

Ultimately, it can be noted how we voluntarily excluded from the graph Gear 1 and Life Care Capital. Gear 1 is the only SPAC formed in 2019, which completed its business combination on the 13 March 2019 with Comer Industry. The operation represents a unique case in the Italian scene and for this reason it deserves a separate discussion. Indeed, it is defined as an "accelerated business combination": the peculiarity lies in the fact that the shareholders meeting approved the merger between the companies before the listing of the ordinary shares and warrants of the SPAC. Hence, it didn't follow the typical procedure provided for such vehicles but has identified the target company even before its debut on the AIM. For this reason, this operation implied the absence of allocation of any withdrawal right in favour of the investors who subscribed the ordinary shares of Gear 1 during the private placement[88]. Life Care Capital, instead, didn't even reach the constitutive quorum of the shareholders meeting.

[88] "Si quota all'Aim Comer Industries, grazie all'*accelerated business combination* con la Spac Gear 1", BeBeez, SPAC, 13 March 2019.

Figure 8: % of withdrawals exercised per SPAC.



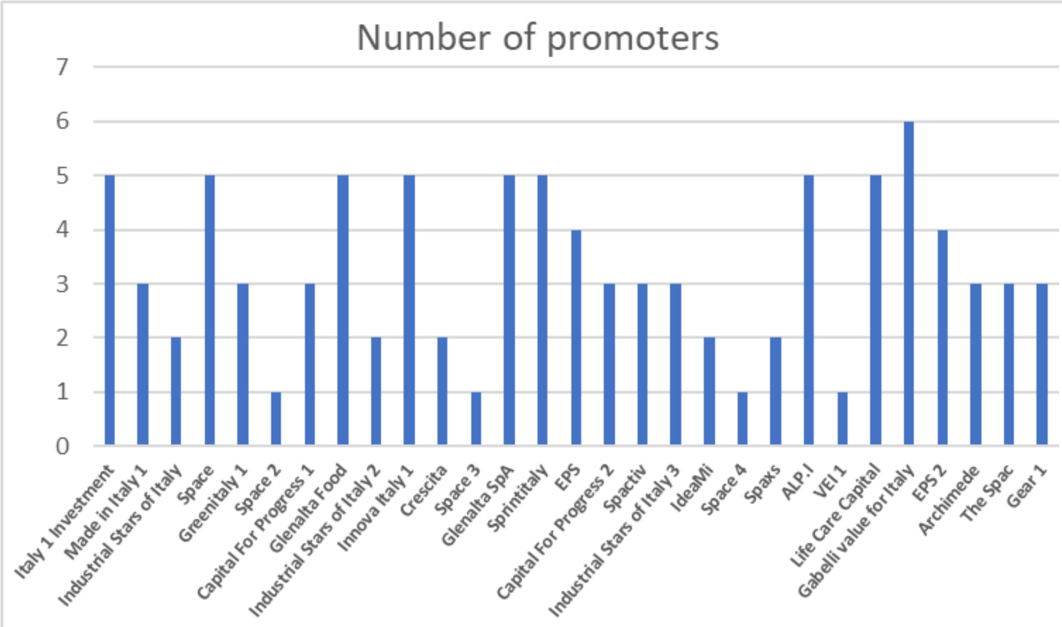
Source: Press releases of individual SPACs and BeBeez, personal elaboration.

From the list provided in Table 1, we highlight another peculiarity of Italian SPACs: the names of the companies recur over time, even at a distance of years from one listing to another. In order of debut on the stock market, they are: Industrial Stars of Italy, Space, Capital For Progress, Glenalta and EPS. Such SPACs are defined "serial", in that promoted by particularly active subjects, who start new initiatives after having success on the first one.

For now, in Italy, we only record two cases of failure related to serial SPACs: the already mentioned Capital For Progress 2 and the case of EPS 2. Anyway, while the first one had already identified the target company and therefore announced the business combination, the second was liquidated because the condition for an operation didn't occur by the deadline. The remaining serial SPACs, instead, managed to complete their business combinations with success and according to the experts it was mainly due to the experience and skills of the promoters, many of the whom come from the Private Equity world and have a vast experience and knowledge in terms of extraordinary operations.

Analysing the 29 SPACs present on the market, moreover, we detected an average number of promoters equal to 3.3 per company. TheSpac with the highest number of promoters is Gabelli Value For Italy (no. 6). The remaining ones present a management team usually composed by 3 or 5 subjects.

Figure 9: Number of promoters per SPAC sorted by year of listing.



Source: Admission documents on the companies' websites and press releases, personal elaboration.

The data recorded in the analysis differ from the ones provided in the study by Lakicevic, Shachmurove and Vulanovic[89]: these, as we partially mentioned in chapter II, using a sample of US SPACs born from 2003 to 2012, try to identify the possible determinant variables for the good outcome of the operation and their evolution over time. Among these characteristics, they also include the number of promoters. According to the authors, US SPACs present a management team composed on average of 5.9 promoters and the number appears to be increasing in the most recently formed SPACs. As we can see, the average number of promoters in Italy is far below. The data could also suffer from a bias in terms of numerousness of the sample (much smaller in Italy). Moreover, as we can infer from *Figure 9*, the number in Italy does not seem to follow the upward trend of the US. A possible explanation is found in the greater novelty for our country of this investment instrument. Another reason we can think of, is the presence in Italy of the

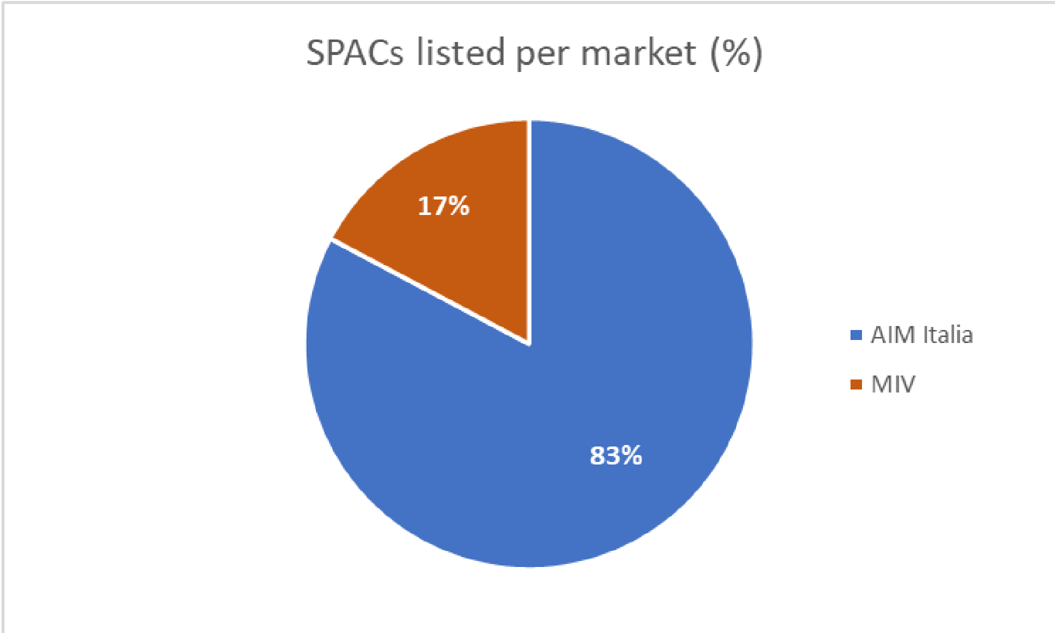
[89] "*Institutional Changes of Specified Purpose Acquisition Companies*", M. Lakicevic & M. Vulanovic & Y. Shachmurove, 2013.

abovementioned serial SPACs, to which we could attribute a cause of lower increase of the number of promoters over time.

We then took into consideration what observed by Lakicevic, Shachmurove and Vulanovic, according to whom the SPACs composed by more numerous management teams have higher chances to complete the business combination, especially thanks to the high level of expertise and the broad network of relationships of the promoters. If in the US this hypothesis has been confirmed, in Italy the results are ambiguous: the already mentioned Gabelli Value For Italy, for example, though having the highest number of promoters in the sample, is also counted among the SPACs that, during the previous year, have been liquidated for lack of identification of a target company to merge with. In our opinion, the reason of such failure stands not so much in the management composition, but rather in the chosen investment policy: the SPAC, promoted – among the others – by one of the most famous investment firms listed on the NYSE, has mainly searched for Italian firms already present in the United States of America with needs of expansion: a very specific characteristics, which is not easily findable in our SMEs, by virtue of the aspects already treated in the first chapter of this work. The data of the remaining SPACs that, by the 31 December 2020, completed the business combination, appear to confirm what claimed by the authors: most of them are in fact composed by 5 promoters.

With regard to the preferences of listing paths, we can observe that the most appreciated market is the AIM, where 24 out of 29 vehicles decided to get listed on (83% of the total).

Figure 10: Percentage of SPACs listed per market.



Source: Data from Borsa Italiana, personal elaboration.

The choice seems to be dictated by the presence of more stringent requirements required by the MIV of Borsa Italiana, that drive the SPACs to tend towards the AIM. The latter, in fact, as pointed out in the previous chapter, has less onerous admission requirements.

Often, after the completion of the relevant operation, the companies decide to modify the reference market on which to get listed. Such change can also happen in the following years, rather than on the effective date. The choice is very common for the SPACs on the MIV which, as we already said, is an ad hoc segment born for the investment vehicles: since with the business combination it is the target that starts to be trading on the market, it is natural that it will be decided to change the reference market. Indeed, we noted that all of the 5 SPACs initially listed on the MIV did later move to the MTA STAR, a segment of MTA of Borsa Italiana dedicated to the medium firms with a market capitalisation between 40 million and 1 billion euros[90]. Likewise, 3 other SPACs

[90] Among the STAR requirements, listed on the website of Borsa Italiana, we summarise:

- High transparency and high disclosure requirements.
- High liquidity (minimum 35% of free float).
- Corporate Governance in line with international standards.

previously listed on the AIM, chose this market segment for their target companies, while 3 others moved to the MTA (without specification of the respective segment). The remaining ones kept their shares on the AIM.

With reference to the listing market, we also highlight two cases – that of Green Italy 1 and of EPS 2 – for which Borsa Italiana withdrew the negotiation of the shares from the AIM. The first had completed the business combination with the company Prima Vera (later, Zephyro) on the 22 December 2015 and, after 3 years only – on the 23 October 2018 – the delisting was announced. The withdrawal came after the mandatory tender offer[91] launched by Edison: the latter, in fact, had announced that its subsidiary Fenice would acquire the 71.6% of the capital of Zephyro SpA at a price of 10.25 per share[92]. The promoters of the second one, not having identified a target company by the deadline, proposed a share buyback which closed with a 98.6% adherence. Obviously, this operation allowed the shareholders to accelerate the exit time from the investment, without having to wait the technical time of liquidation. After this event, on the 16 December 2019, Borsa Italiana ordered the revocation of the ordinary shares of EPS 2 trading on the AIM.

To sum up the situation of the sample: as of 31 December 2020, there are 29 SPACs on the Italian market. Of these, 22 have identified a target and then completed the business combination. They represent the 76% of the total, which reasonably indicates a progressive diffusion and acceptance of the instrument by investors and proves how most of the SPACs formed until now have been able to reach with success the purpose of their creation.

It is appropriate to mention that in the course of 2020, two of the announced business combinations, the ones by Spactiv and Life Care Capital, both failed to be completed and the two companies were liquidated respectively on the 12 August 2020 and 17 July 2020. The main reasons for such failure may also be attributed to the adverse

[91] A tender offer is typically an active and widespread solicitation by a company or third party (often called the "bidder" or "offeror") to purchase a substantial percentage of the company's securities, Glossary, SEC.

[92] For further information, please refer to the press release published on the website www.zephyro.com on behalf of Edison SpA on the 28 May 2018.

conditions brought by the pandemic, which impacted the valuations of both the targets and led the investors to withdraw from two deals which, at the beginning of 2020, looked very promising in terms of appreciation and that were about to be completed. In particular: Spactiv was initially approved in February 2020, but then suffered the uncertainty of the period, which was reflected on the investors' inability to correctly assess the deal and thereby not subscribe the shares given in option (at least 13.47% of the withdrawn 43.47%); Life Care Capital didn't even reach the constitutive quorum to vote for the combination, with only 5% of the share capital being represented at the meeting.

With reference to the other liquidated SPACs, instead, we record 5 more cases of failure: as it is evident in the table below, the shareholders meetings of Capital For Progress 2 and IdeaMi, after identifying the target company – announced, in both cases, after about one year from their listing – didn't approve the business combination, leading the two SPACs to the liquidation. The remaining three SPACs were liquidated due to the lack of identification of a target company with which to pursue the operation by the prescribed period (usually equal to 24 months after the initial listing date).

Table 2: Overview of the liquidates SPACs.

SPAC	Target	SPAC IPO date	Status
Capital For Progress 2	ABK Group Industrie Ceramiche	04/08/17	**Liquidated**
Spactiv	Betty Blue	27/09/17	**Liquidated**
IdeaMi	A. Agrati SpA	11/12/17	**Liquidated**
VEI 1	-	27/02/18	**Liquidated**
Life Care Capital	Biogenera	07/03/18	**Liquidated**
Gabelli Value for Italy	-	20/04/18	**Liquidated**
EPS 2	-	10/05/18	**Liquidated**

Source: Press releases of individual SPACs, personal elaboration.

The SPACs formed in Italy until now – exception made for some cases which will be discussed in the following paragraph – seem not to prefer a determined sector of the target, since the type of industry or business searched is not specified ex-ante. The scarcity of the sample available, however, doesn't allow to assess whether a greater focus by the promoters on a given sector could benefit in terms of good outcome of the relevant operation.

Analysing then the 22 business combinations effectively completed in Italy, we recognise very different structuring approaches among the operations. More precisely:

- A SPAC (EPS) opted for an acquisition of the entire capital of the target company.
- In 14 cases, we witnessed a merger by incorporation of the target company into the SPAC. Of these, two have also acquired a majority stake.
- In the remaining cases (7), there has been a merger by incorporation of the SPAC into the target.

Table 3: Business combinations structure.

SPAC	Admission Market	Current Market	BC Structure
Italy 1 Investment	MIV	MTA STAR	Merger by incorporation of the ***target*** into the **SPAC**
Made in Italy 1	AIM Italia	MTA STAR	Merger by incorporation of the ***target*** into the **SPAC**
Industrial Stars of Italy	AIM Italia	MTA	Merger by incorporation of the **SPAC** into the ***target***
Space	MIV	MTA STAR	Merger by incorporation of the ***target*** into the **SPAC**
Greenitaly 1	AIM Italia	n.a.	Merger by incorporation of the ***target*** into the **SPAC**
Space 2	MIV	MTA STAR	Merger by incorporation of the ***target*** into the **SPAC** and acquisition of a majority stake
Capital For Progress 1	AIM Italia	MTA	Merger by incorporation of the **SPAC** into the ***target***
Glenalta Food	AIM Italia	MTA STAR	Merger by incorporation of the ***target*** into the **SPAC**
Industrial Stars of Italy 2	AIM Italia	MTA	Merger by incorporation of the **SPAC** into the ***target***
Innova Italy 1	AIM Italia	AIM Italia	Merger by incorporation of the ***target*** into the **SPAC**
Crescita	AIM Italia	MTA STAR	Merger by incorporation of the ***target*** into the **SPAC**
Space 3	MIV	MTA STAR	Merger by incorporation of the ***target*** into the **SPAC**
Glenalta SpA	AIM Italia	AIM Italia	Merger by incorporation of the ***target*** into the **SPAC**
Sprintitaly	AIM Italia	AIM Italia	Merger by incorporation of the ***target*** into the **SPAC**
EPS	AIM Italia	AIM Italia	Acquisition by the **SPAC** of the entire capital of the ***target***
Industrial Stars of Italy 3	AIM Italia	AIM Italia	Merger by incorporation of the **SPAC** into the ***target***
Space 4	MIV	MTA	Merger by incorporation of the ***target*** into the **SPAC** and acquisition of a majority stake
Spaxs	AIM Italia	MTA	Merger by incorporation of the **SPAC** into the ***target***
ALP.I	AIM Italia	AIM Italia	Merger by incorporation of the ***target*** into the **SPAC**
Archimede	AIM Italia	AIM Italia	Merger by incorporation of the **SPAC** into the ***target***
TheSpac	AIM Italia	AIM Italia	Merger by incorporation of the ***target*** into the **SPAC**
Gear 1	AIM Italia	AIM Italia	Merger by incorporation of the **SPAC** into the ***target***

Source: Merger plans of individual SPACs, personal elaboration.

The direct merger (by incorporation of the target into the SPAC) results the most frequent method, equal to 64% of the total. The choice is attributable to the following reason: by incorporating the target, we assist to an immediate and automatic listing –

although indirect – of the latter. Being the SPAC already listed on the market, in fact, it will only be sufficient to change the name of its shares, attributing to them the name of the company resulting from the merger. In broad outline, the operation consists in a capital increase of the SPAC and the issue of new shares to be offered to the shareholders of the target in exchange of their old shares, which will be simultaneously cancelled.

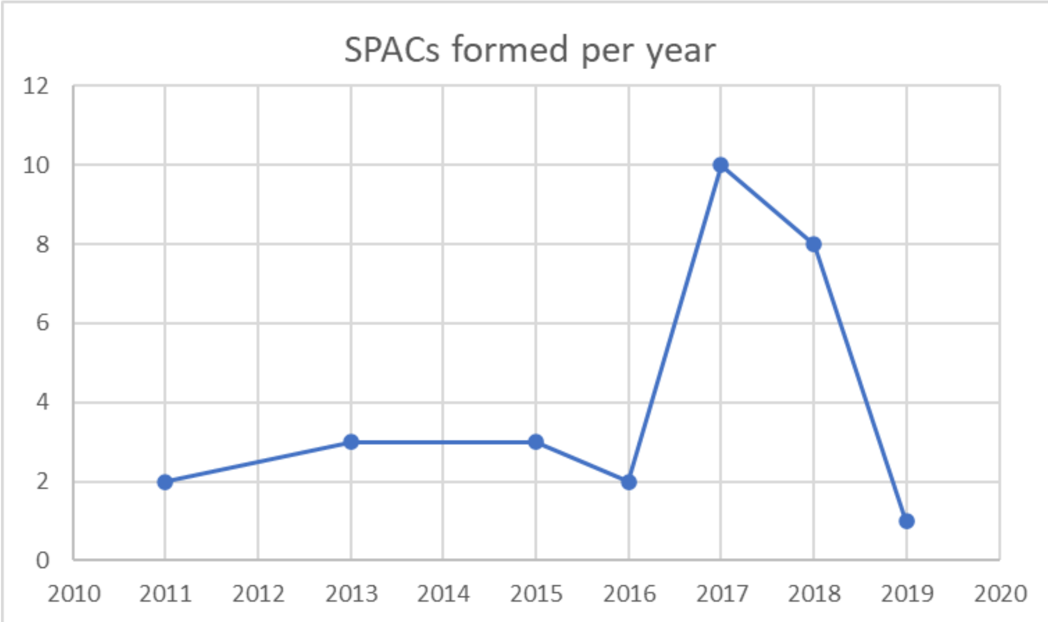
An alternative (chosen by 32% of the sample) can be the reverse merger, which involves the incorporation of the SPAC into the target company. In this case, we witness a capital increase functional to the issue of new shares of the target. A further capital increase can be necessary should the shareholders decide to exercise the conversion right of the warrants. This method results operatively more complex to perform compared to the previous one, because it is necessary to obtain the admission of the shares of the target through a separate request to Borsa Italiana.

Finally, we find only one case of SPAC which opted for the acquisition of the entire capital of the target, thereby becoming its holding company[93]. This happens through direct acquisition of the shares from the departing shareholders.

For the purposes of this paper, it was considered appropriate to include a time period assessment of the initiatives conducted by Italian SPACs. The following figure shows the evolution over time of the SPACs from 2011 to 2020, showing the number of SPACs formed per year.

[93] A corporation that owns enough voting stock in another firm to control management and operations by influencing or electing its Board of Directors, Glossary, Nasdaq.

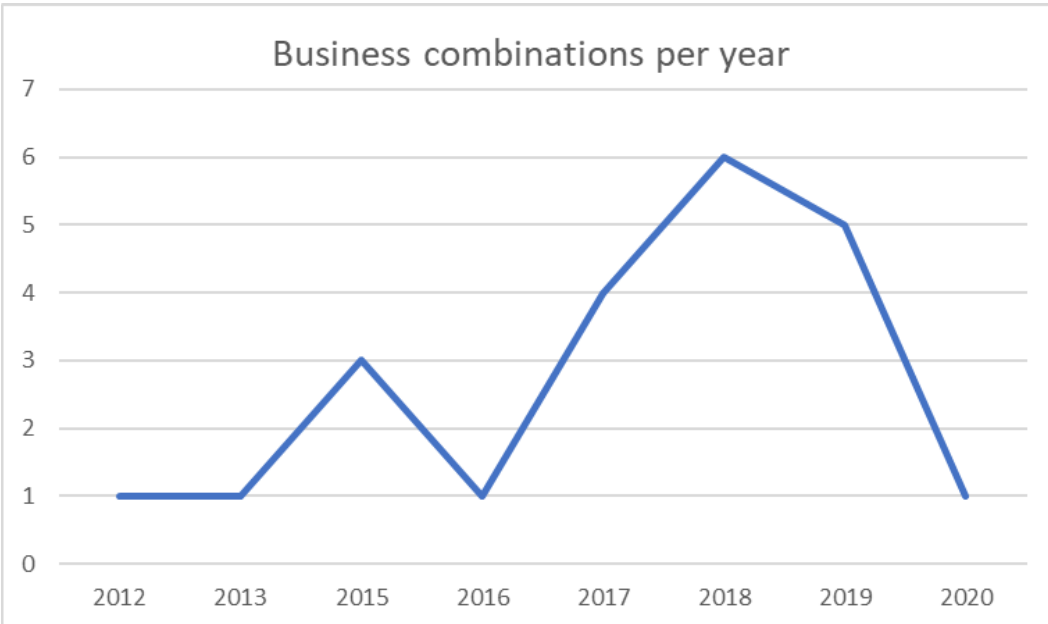
Figure 11: Number of SPACs formed per year.



Source: Admission documents and Borsa Italiana, personal elaboration.

The graph shows a generally growing trend, with a modest presence in the first 6 years, a strong acceleration in the following two and then a decline. In 2011, year of introduction of the first SPAC in Italy, we only count two companies formed, with the same number showing again in 2016. 2013 and 2015 recorded a slight improvement, with 3 SPACs per year. 2012 and 2014, instead, showed a total absence of new companies on the market. This initial fluctuation is to be attributed mainly to the conditions of uncertainty of the Italian macroeconomic context correlated to the course of the crisis. In such situation, the propensity for change for the adoption of innovative financial instruments like the SPAC has surely slowed down. Only in the following years the development of these investment vehicles resumed: 2017 and 2018, in fact, have respectively seen the listing of 10 and 8 companies. 2019 and 2020 mark a new stop, with the formation of respectively one and zero SPACs. In reality, these last data have to be properly interpreted. 2019 has indeed been the year with the most business combinations completed, after 2018. In fact, the high volume of SPACs brought on the market by years 2017 and 2018 saw the completion of their cycle in the last 2 years. Another reason we attribute to the scarcity of SPACs presence in 2020 is the pandemic, as we already mentioned the damages it caused to the valuation and certainty of operations which were almost concluded.

Figure 12: Number of business combinations completed per year.



Source: Admission documents and Borsa Italiana, personal elaboration.

The SPACs have on average 24 months to carry out the objective for which they are formed: after exceeding the deadline without completing the relevant operation, hence, the promoters have to inevitably proceed with the liquidation of the company. It is therefore interesting, for the 22 SPACs that completed the business combination, to analyse the gap in time between the initial listing date and the effective date of the combination with the targets, to verify in how much time the first ones finalised the merger with the second ones.

Table 4: Gap in time between IPO date and business combination.

SPAC	SPAC IPO date	BC date	Gap in time	<24 months
Italy 1 Investment	27/01/11	16/05/12	15.8	Y
Made in Italy 1	27/06/11	01/02/13	19.5	Y
Industrial Stars of Italy	22/07/13	09/07/15	23.9	Y
Space	18/12/13	01/06/15	17.7	Y
Greenitaly 1	27/12/13	22/12/15	24.2	N
Space 2	31/07/15	10/04/17	20.6	Y
Capital For Progress 1	04/08/15	29/12/16	17.1	Y
Glenalta Food	10/11/15	13/02/17	15.4	Y
Industrial Stars of Italy 2	27/05/16	20/07/17	14.0	Y
Innova Italy 1	19/10/16	01/10/18	23.7	Y
Crescita	15/03/17	04/06/18	14.9	Y
Space 3	05/04/17	04/12/17	8.1	Y
Glenalta SpA	19/07/17	30/07/18	12.5	Y
Sprintitaly	21/07/17	04/06/19	22.8	Y
EPS	01/08/17	14/05/18	9.5	Y
Industrial Stars of Italy 3	19/10/17	08/11/19	25.0	N
Space 4	21/12/17	06/08/18	7.6	Y
Spaxs	01/02/18	05/03/19	13.2	Y
ALP.I	01/02/18	18/04/19	14.7	Y
Archimede	21/05/18	17/12/18	7.0	Y
TheSpac	02/08/18	15/10/20	26.8	N
Gear 1	26/02/19	13/03/19	0.5	Y

Source: Borsa Italiana, personal elaboration.

The gap in time provided in *Table 4* is obtained from the difference between the starting date of trading of the SPAC shares on the market and the date in which the business combination becomes effective. In the time frame, the promoters carry out the search of the target. Therefore, Italian SPACs take on average 16 months to identify the target company to merge with and take it to the listing. This data also indicates that they are quite fast to perform the relevant operation, since they take about 66.6% of the maximum time permitted by law. Specifically, we found only three cases in which the time limit to conclude the integration has been reached: Green Italy 1, Industrial Stars Of Italy 3 and The Spac. Actually, the second one has taken 25 months to finalise the relevant operation. The delay was partially caused by a large number of withdrawals by the shareholders (equal to 34.1%), which thereby implied a new option offering to the other shareholders of the SPAC. TheSpac, instead, had approved the relevant operation just one week before the deadline, needing two more months to finalise the option offerings and transcript the merger deed. Clearly, these operations caused a slowdown of the average timing.

Conversely, the fastest SPACs in terms of timing as of today happen to be Gear 1 and Archimede: the first has taken less than a month to complete the operation, while the second just 7 months. We already discussed about Gear 1, being it the only case in our country of accelerated business combination. As already explained, the draft terms of merger were already approved by the shareholders even before the debut of the SPAC on the market. Archimede presents an analogous situation: in this case, in fact, it was performed a "programmed"[94] business combination, since the merger with the target – already identified – was agreed and programmed before the SPAC IPO. The decision though translated initially into a letter of intents, contingent on the following signing of a binding agreement. We believe that the good outcome of this first experience induced promoters to implement a specific model of business combination (represented, indeed, by Gear 1) which allows the target SMEs to undertake a process for listing extremely lean and swift.

We also detected, among the remaining SPACs under investigation, that those with a gap in time below the average are in most cases the serial ones. We suggest that the past experience of promoters could constitute a fundamental variable in such sense, since it should allow them to carry out more focused searches and selections or to finalise initiatives similar to the previous ones, therefore reducing the timings to complete the operation. In terms of gap in time, anyway, we observe a constant improvement as we move on in time.

[94] "*SPAC and "programmed" business combination between Archimede and NetInsurance*", Diritto24, October 2019.

3.1.2 Overview of the target companies

To conclude the analysis of the SPACs in our country in an exhaustive manner, it is necessary to bring attention also on the target companies chosen for the business combination. Please note that, for this purpose, we also included the four companies for which the relevant operation hasn't been approved.

We have previously seen as each SPAC provides – within its own investment strategy – the specific requirements that a company should possess to be attractive in the eyes of the promoters, or at least the characteristics that should be reason of exclusion. In general, as we said, SPACs are defined "generalists", since they decide not to focus on specific sectors, nor they decide ex-ante the type of business to turn to. In our country, we only observed 4 cases of SPACs that decided to focus their search solely on predetermined sectors. They are:

- Green Italy 1, specialised in "green economy" firms.
- Glenalta Food, whose objective is to identify top-class Italian companies in the food & beverage, consumer and retail sectors.
- Life Care Capital, focused on the health & lifecare sector, with particular reference, but not limited to, the segments of med-tech, pharma-biotech, patient-care, digital health and outsourcing services for the companies operating in the health and pharmaceutical sector.
- Gear 1, dedicated to the agricultural and industrial mechanics.

As outlined in *Table 5*, the target companies analysed do not present particular criticalities in terms of industry sector: their characteristics, in fact, result in line with the investment strategies of the related SPACs[95]. However, as of today, there is not a sufficient number of cases to hypothesise whether these companies would have been able to access the capital markets anyway. We are inclined to think that, even in the best

[95] For further information about the investment strategies of the SPACs, please make reference to the previous chapter.

scenario, it would have taken them much more time to "autonomously" open up their capital and get listed.

At the same time, it is not possible to claim that a "generalist" type of SPAC is less effective than a "thematic" one, even if five of the six vehicles which failed to complete the business combination were characterised by generalist investment strategies. Nevertheless, in our opinion, their failure should not be attributed to this aspect: in fact, among the 22 SPACs, 16 were able to complete the relevant operation without focussing on a predetermined industry.

Below, we provide a summary of the main activities conducted by the target companies and the related reference sector. We specify that for the subdivision in the different sectors we decided to follow the ATECO 2007 classification, available in Italian on the ISTAT website[96]. Therefore, *Table 5* describes the reference sector of each target as well as the macro-sector to which they belong.

[96] The classification comes from an autonomous translation of the name of the sectors.

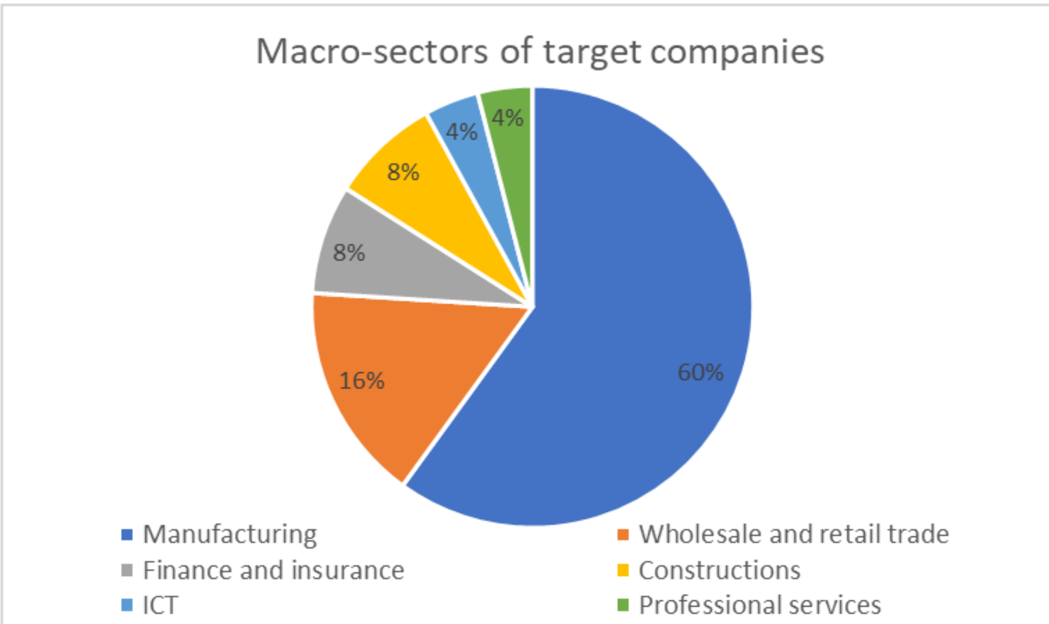
Table 5: Main activities and reference sectors for the target companies.

Target Company	Main activity	Reference sector	Reference macro-sector
IVS Group	Automatic distribution of drinks and snacks	Retail trade	Wholesale and retail trade
Se.sa	Provision of ICT solutions for businesses	Management consulting	Professional services
Lu.Ve.	Production and sale of refrigeration and air-conditioning systems	Machinery and other equipments	Manufacturing
F.I.L.A.	Production and sale of tools for visual and plastic arts and design	Manufacturing - other	Manufacturing
Zephyro (ex Prima Vera)	Provision of energy management	Construction specialised works	Constructions
Avio	Production of space launchers	Means of transportation - other	Manufacturing
GPI	Provision of IT services for healthcare	Software, IT consulting and related activities	Information and communication
Orsero	Import and distribution of horticultural products	Wholesale trade	Wholesale and retail trade
SIT	Design, production and sale of gas appliances components	Machinery and other equipments	Manufacturing
Fine Food & Pharmaceuticals	Development and production for third parties of oral forms for the pharma, nutraceutical and medical devices industries	Food	Manufacturing
Cellularline	Production and sale of accessories for smartphones and tablets	Wholesale trade	Wholesale and retail trade
Aquafil	Production and sale of synthetic fibres	Chemical	Manufacturing
CFT	Production of systems for the food sector	Machinery and other equipments	Manufacturing
Sicit Group	Production and sale of biostimulants and retardants for the agrochemical and industrial sectors	Chemical	Manufacturing
Industrie Chimiche Forestali	Production of adhesives and fabrics	Textile	Manufacturing
ABK Group Industrie Ceramiche	Production and sale of floorings and ceramic tiles	Products of non-metallic ores processing	Manufacturing
Betty Blue	Production and sale of women's dresses and clothing	Wholesale trade	Wholesale and retail trade
Salcef Gourp	Railway construction	Civil engineering	Constructions
A. Agrati	Production of fixing solutions and equipment for the automotive and industrial sector	Machinery and other equipments	Manufacturing
Guala Closures	Production of bottle caps for drinks	Metal products	Manufacturing
Banca Interprovinciale	Banking institution	Finance	Finance and insurance
Antares Vision	Design, production and installation of inspection and track&trace solutions	Computers, electronics and optical products	Manufacturing
Net Insurance	Insurance	Insurance	Finance and insurance
Franchi Umberto Marmi	Production and sale of marbles	Products of non-metallic ores processing	Manufacturing
Comer Industry	Design and production of advanced engineering systems and mechatronics solutions for power transmission	Machinery and other equipments	Manufacturing

Source: Companies' websites and ISTAT, personal elaboration.

By analysing the targets, we find a prevalence of the more traditional industrial sectors, followed by the technology sectors. There are also two companies belonging to the banking and insurance world. In fact, as it appears from the graph below, the majority of the targets belong to the manufacturing sector (60% of the total sample), followed by the wholesale and retail trade sector (16%), finance and insurance (8%), constructions (8%), ICT (4%) and professional services (4%).

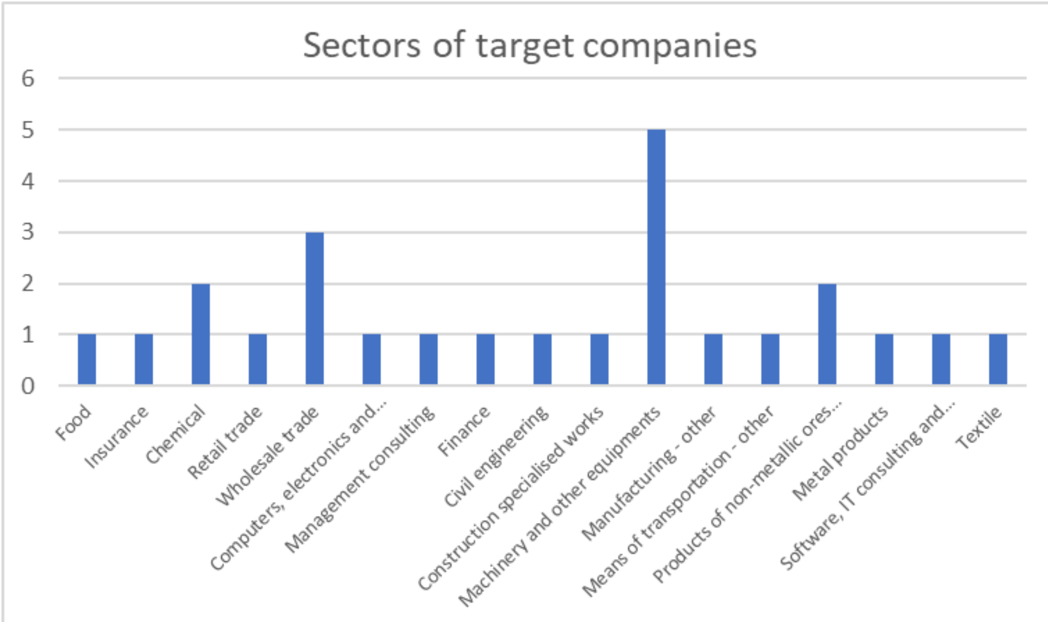
Figure 13: Macro-sectors of the target companies.



Source: Companies' websites and ISTAT, personal elaboration.

In general, thus, the SPACs choose companies operating in a vast plurality of macro-sectors and, although the manufacturing one is representative of a substantial number of targets in the sample analysed, the activities carried out by these are so different between them that it is impossible to identify a unique type of firm with univocal characteristics from the merchandise point of view.

Figure 14: Sectors of the target companies.



Source: Companies' websites and ISTAT, personal elaboration.

In fact, as we evidenced in the graph above, the manufacturing macro-sector encompasses companies operating in 8 different sectors. We detect a prevalence of firms belonging to the sector of machinery and other equipment (33% on the total macro-sector) and chemical (13%) but, even in this case, the activities performed by each of them are too different to allow a comparison or identification of common activities.

On the basis of these premises, we can affirm that the sector to which the targets belong did not represent a highly distinctive aspect for the SPACs analysed, such as to affect their policies and actions. For this reason, we are led to think that the SPACs do not preclude themselves any industry to target, preferring to focus on the specific characteristics of the single identified company. With reference to the geographical area, instead, we can confirm what anticipated in the first chapter: the majority of the companies (68% of the sample), in line with the data provided in the Cerved SMEs Report 2020, are located in the north of Italy, with a clear majority of firms in the north-west (56%). The remaining 32% is composed of targets based in the centre of Italy.

3.2 Empirical analysis and findings

One of the most significant contributions when it comes to SPACs has been offered, in our opinion, by Jenkinson and Sousa (2009): authors that focussed their analysis on the signalling relevance that the share price offers in the period between the announcement date and the shareholders meetings date to approve the business combination. In this paragraph, we will try to figure out to what extent the conclusions to which the authors arrive can be considered valid also for the SPACs under Italian law. In our country, in fact, we observe an information gap that the current analysis will try to fill: as of today, in Italy, there haven't been done behavioural studies on the share prices and, hence, on the investors that decide to "bet" on the SPACs.

The paragraph is thus divided into two parts: the first in which we will provide an overview of the research by Jenkinson and Sousa and the relative results, the second in which we will present the empirical analysis. As we stated, the objective of the comparison is to find our if, and how much, our results differ from the ones of the paper.

3.2.1 "Why SPAC investors should listen to the market"

In February 2009, Jenkinson and Sousa publish a paper titled "*Why SPAC investors should listen to the market*"[97], whose purpose – as already anticipated – is to investigate the signalling behaviour of the shares during two critical moments of the life of a SPAC: the announcement date and the decision date.

The central claim of the authors is very significant: in fact, they conclude that the SPACs, despite being potentially interesting (for example for the fact that they allow investors to make a risk-free investment until the effective implementation of the combination), most of the times lead to value destroying operations. In their view in fact investors, founders and promoters often do not listen to the market signals, with the

[97] Please refer to paragraph 4.2 of the first chapter for an exhaustive overview of the reference US literature.

consequence that more than half of the approved deals – data of the US market – led to a loss of wealth for those who voted for them. Yet the authors claim that there exists a simple "rule" based on the observation of the market prices that, if observed, would lead a rational investor to accept only determined types of deals. The possibility to observe the market prices of the shares once the acquisitions are announced, according to the authors, would provide valuable insights, useful for the shareholders meeting to express a more informed decision about the business combination. Actually, this applies to all the operations in which the investors have the total discretion to express themselves.

For this empirical analysis, Jenkinson and Sousa utilised a sample of 58 SPACs under US law. Of these, 43 did finalise their acquisition and the remaining 15 were liquidated. The 43 approved SPACs are then divided into two clusters, called "Good SPACs" and "Bad SPACs": they define as *Bad* the SPACs characterised by a share price at decision date lower than the pro-rata value of the escrowed funds. The investors, in this case, have approved a relevant operation which – according to the market – is value destroying. The authors believe that this behaviour is not justified from a rational point of view, considering that they would have the chance to vote against the business combination during the meeting and see their share of funds returned.

The *Good* SPACs, by contrast, present diametrically opposed characteristics: here the investors have approved the relevant operation when the share price was higher than the trust value per share[98]. Adopting the thesis according to which market prices contain relevant information, thus, they have given the consent to operations that were expected to create value. Below, we provide the two subsets and the respective results collected by the authors.

[98] For a deeper understanding about the term "trust value", please make reference to the following sub-paragraph.

Figure 15: "Sample descriptive statistics, according to market signals at decision date".

SPACs that made a GOOD acquisition (20)	**Average**	**Median**	**Maximum**	**Minimum**
SPAC size ($mln raised)	65.56	36.15	196.65	9.06
% of IPO procceds in the trust	90.0%	88.4%	100.0%	85.0%
% of management after the IPO[1]	19.2%	17.9%	35.0%	15.7%
% of warrants issue over common stock	148.5%	164.3%	190.6%	68.9%
Nº of days between IPO and annoucement date	331	298	557	62
Nº of days between annoucement date and decision date	300	260	581	170
Share price at announcement date / Actual trust value	104.1%	99.4%	151.5%	94.4%
Share price at day before decision date / Actual trust value	130.6%	117.7%	224.3%	100.8%

SPACs that made a BAD acquisition (23)	**Average**	**Median**	**Maximum**	**Minimum**
SPAC size ($mln raised)	65.15	55.20	172.50	17.31
% of IPO procceds in the trust	91.3%	90.3%	100.0%	85.2%
% of management after the IPO[1]	19.0%	18.7%	22.6%	16.6%
% of warrants issue over common stock	141.0%	161.3%	210.1%	78.9%
Nº of days between IPO and annoucement date	393	456	588	94
Nº of days between annoucement date and decision date	246	227	637	140
Share price at announcement date / Actual trust value	97.7%	97.7%	105.0%	92.6%
Share price at day before decision date / Actual trust value	93.4%	96.1%	99.9%	79.0%

Source: Jenkinson and Sousa, 2009.

They detect 20 good SPACs and 23 bad SPACs: in terms of funds collected during the IPO, the two groups appear quite similar in size and hold the same share (about 90%) of proceeds into an escrow account. There are instead considerable differences in the time between dates: in the case of bad SPACs, we have 393 days between the IPO and announcement date, against the 331 days of the good SPACs. Conversely, the business combination of the good SPACs is approved in a longer time compared to the bad ones (300 vs 246 days). For what concerns the share price at the announcement date, for the good SPACs this stands at around 104.1% of the trust value per share, against the 97.7% of the bad SPACs. However, not surprisingly, the main difference is recorded on the decision date, with the meeting, namely after the investors have assessed the proposed operation: for the good SPACs, the share price was on average 130.6% of the trust value, against the 93.4% of the bad SPACs.

Jenkinson and Sousa also analyse the average return of the entire sample after the announcement of the relevant operation: overall, these appear to be significantly negative (equal to 24% in the following six months and -55% in the following twelve). The results are influenced by the cumulated average returns of the bad SPACs, which record negative performance already after the first day following the approval date of the business combination. In the first six months of trading, moreover, they present an average return of -39% which turns into -79% after a year. By contrast, the good SPACs record a basically flat cumulated average return (-6%) in the first six months after the deal is approved, which is never statistically different from zero.

The conclusion drawn by the authors is that a rational investor should approve a deal only when the share price at the decision date is higher than the pro-rata value of the escrowed funds, because in this case the business combination is considered value creating by the market and the investor has the possibility to obtain a positive return. Jenkinson and Sousa also wonder why, more than half of the operations analysed, has been approved by the investors despite the negative judgement expressed by the market. The conclusion they reach is that, often, the subjects most interested in the approval of the deal in the meeting (like promoters and founders), decide to promote the operation despite being value destroying for the market. According to the authors this is due to a very simple reason: such people receive a compensation only if the business combination is successful. Consequently, they will try to acquire or sell a number of shares such as to reach the quorum for resolutions established by law, despite the unfavourable market signals.

3.2.2 The analysis of Italian SPACs

The sample used for our analysis is composed by 28 SPACs, already widely described in the previous paragraph. We voluntarily excluded a company: Gear 1, because it is a SPAC technically different from the others: in fact, since it formed an accelerated business combination, it didn’t follow the traditional procedure and therefore appears hardly comparable. 7 of the SPACs analysed have been liquidated, while the remaining 21 did announce the business combination. Our examination will focus on the latter plus the ones that had at least announced the business combination.

For the purpose of the analysis, we proceeded to the collection of the daily share prices[99] of each SPAC at the announcement date and decision date[100]. Then, we calculated the trust value per share of each SPAC in those dates. The trust value represents the value of the escrow account (composed of a percentage of the capitals raised during the IPO) on the total shares issued. Generally, it is increased by the interests accrued on the invested sums, which are equal to the difference between the value of the trust at the business combination date and its initial value.

Analysing the admission documents of Italian SPACs, though, we discovered that actually in all cases the 100% of the interests accrued and accruing on the funds are utilised by the promoters, during all the life of the SPAC and until the completion of the relevant operation, to address the ordinary running costs of the vehicle. For such reason, we decided not to include those sums in the calculation of the trust value per share, which for our purposes will therefore be simply equal to the ratio between the initial value of the trust fund and the number of shares issued.

$$TV_{Share} = \frac{(collected\ funds) * (\%\ escrowed\ funds)}{no.\, shares\ issued}$$

We provide below a summary table of what just exposed.

[99] Please note that, similarly to the authors Jenkinson and Sousa, it was chosen for simplicity to only use the prices of ordinary shares and not also those of the warrants.

[100] In the continuation of the paper, the announcement date will be indicated as ***t+1***, while the decision date as ***t+2***. Please bear in mind that these terms were assigned in a discretional way, for the purpose of a greater simplicity of exposition.

Table 6: Summary of the data collected.

SPAC	Capitals raised (m)	% escrow account	No. Shares (m)	Trust Value per share
Italy 1 Investment	150.00	99%	19	7.92
Made in Italy 1	50.00	100%	5	9.71
Industrial Stars of Italy	50.00	100%	5	9.70
Space	130.00	99%	13	9.56
Greenitaly 1	35.00	100%	4	9.67
Space 2	300.00	99%	31	9.59
Capital For Progress 1	51.10	100%	5	9.64
Glenalta Food	80.00	100%	8	9.82
Industrial Stars of Italy 2	50.50	100%	5	9.55
Innova Italy 1	100.00	100%	10	9.80
Crescita	130.00	100%	13	9.92
Space 3	153.00	99%	15	9.79
Glenalta SpA	98.00	100%	10	9.80
Sprintitaly	150.00	100%	15	9.80
EPS	150.00	100%	15	9.74
Capital For Progress 2	65.00	100%	7	9.71
Spactiv	90.00	100%	9	9.68
Industrial Stars of Italy 3	150.00	100%	15	9.90
IdeaMi	250.00	100%	26	9.66
Space 4	500.00	99%	52	9.61
Spaxs	600.00	100%	62	9.71
ALP.I	100.00	99%	10	9.56
Life Care Capital	140.00	100%	14	9.82
Archimede	47.00	100%	5	9.79
TheSpac	60.00	100%	6	9.66

Source: Bloomberg, Borsa Italiana and admission documents of each SPAC, personal elaboration.

In order to compare the share price with the trust value per share at time t+1 and t+2, it was necessary to compound the second at a risk-free rate, because as we said the SPAC involves an almost risk-free investment – at least initially – simply equal to the separation of the funds collected into an escrow account. The growth rate chosen for this purpose is the gross Rendistato index[101], published monthly by Banca d'Italia. For each SPAC, then, we calculated the number of days between the IPO to the announcement date and the decision date and we took an average of the monthly Rendistato, subdivided by ranges of

[101] The Rendistato index is the weighted average yield on a basket of government securities, Definition, Banca d'Italia.

residual lifetime, related to the year of each SPAC. The trust value per share at time t will therefore be equal to:

$$TV_t = TV * (1 + rf_t)^t$$

For the sake of clarity, consider the following example: for a SPAC listed in 2011 and for which the business combination was announced after one year and two months, it is used the average monthly gross Rendistato related to 2011, representative of the securities with maturity within the following fifteen months. In this way, it is possible to have point estimate of the compounded trust value per share. We provide below a table containing the results obtained.

Table 7: Good and Bad SPACs at the decision date.

SPAC	Trust Value	Risk-free t+2	Trust Value t+2	Price t+2	SPAC t+2
Italy 1 Investment	7.92	0.0090%	8.24	9.90	Good
Made in Italy 1	9.71	0.0090%	10.17	10.00	Bad
Industrial Stars of Italy	9.70	0.0048%	10.02	11.35	Good
Space	9.56	0.0034%	9.70	10.85	Good
Greenitaly 1	9.67	0.0048%	9.97	9.70	Bad
Space 2	9.59	0.0003%	9.61	10.50	Good
Capital For Progress 1	9.64	0.0003%	9.65	9.94	Good
Glenalta Food	9.82	0.0003%	9.83	9.95	Good
Industrial Stars of Italy 2	9.55	-0.0007%	9.52	12.51	Good
Innova Italy 1	9.80	0.0000%	9.80	10.30	Good
Crescita	9.92	-0.0010%	9.88	9.85	Bad
Space 3	9.79	-0.0012%	9.77	12.50	Good
Glenalta SpA	9.80	-0.0012%	9.77	10.00	Good
Sprintitaly	9.80	-0.0001%	9.80	13.70	Good
EPS	9.74	-0.0012%	9.71	9.98	Good
Capital For Progress 2	9.71	-0.0006%	9.68	9.55	Bad
Spactiv	9.68	-0.0001%	9.67	9.85	Good
Industrial Stars of Italy 3	9.90	-0.0002%	9.89	9.85	Bad
IdeaMi	9.66	-0.0012%	9.62	9.35	Bad
Space 4	9.61	-0.0012%	9.59	9.90	Good
Spaxs	9.71	-0.0005%	9.70	9.98	Good
ALP.I	9.56	0.0008%	9.59	10.50	Good
Life Care Capital	9.82	-0.0002%	9.81	9.80	Bad
Archimede	9.79	-0.0005%	9.78	9.75	Bad
TheSpac	9.66	0.0012%	9.74	9.80	Good

Source: Bloomberg and Banca d'Italia, personal elaboration.

In the analysed sample, we detected only 8 *Bad* SPACs, against 17 *Good* ones. This data, according to the model of the authors Jenkinson and Sousa, means that Italian SPAC investors better follow the market signals, compared to US investors. We also need to highlight that 3 out of the 8 Bad SPACs (Capital For Progress 2, IdeaMi and Life Care Capital) did not receive the approval for the business combination at the meeting, further lowering the number of "actual" bad SPACs identified. Even this aspect appears in line with what stated by Jenkinson and Sousa: a rational investor should not approve the business combination of a SPAC whose shares have a price inferior to the trust value in the same period. Conversely, Spactiv is the only Good SPAC of the sample to have been liquidated: indeed, as we already mentioned, Spactiv was initially approved (12 February 2020) under resolutive condition of the shareholders that did not attend the meeting. Unfortunately, right after that date, the pandemic hit Europe, affecting the pending deal and the decision of the shareholders, who withdrew their shares and thereby cancelled the agreement.

From this point of view, the first part of the analysis can be considered satisfactory for Italian SPACs, which seem not to follow the negative behaviour detected by Jenkinson and Sousa in the US market. Subsequently, we analysed further characteristics of the two sub-groups, summarised in the table below. Some variables[102] were necessarily excluded due to the impossibility of retrieving enough details.

Table 8: Subdivision of the sample into Good and Bad SPACs and relative characteristics.

Good SPACs	Average	Median	Maximum	Minimum
Capitals raised (m)	175	135	600	50
% Escrowed funds	100%	100%	100%	99%
No. of days between IPO and announcement	370	376	715	71
No. of days between announcement and decision	61	50	153	33
Price $_{t+1}$ / Trust Value $_{t+1}$	108%	104%	137%	97%
Price $_{t+2}$ / Trust Value $_{t+2}$	112%	106%	142%	101%

Bad SPACs	Average	Median	Maximum	Minimum
Capitals raised (m)	102	61	250	35
% Escrowed funds	100%	100%	100%	100%
No. of days between IPO and announcement	424	439	716	183
No. of days between announcement and decision	68	62	130	0
Price $_{t+1}$ / Trust Value $_{t+1}$	100%	100%	102%	99%
Price $_{t+2}$ / Trust Value $_{t+2}$	98%	99%	102%	95%

Source: Bloomberg, Borsa Italiana, Banca d'Italia and admission documents of individual SPACs, personal elaboration.

Even in this case it is possible to highlight the peculiarity of the Italian experience compared to what detected by the US authors. Unlike the US sample, Italian SPACs clearly differs between Good and Bad in terms of size: the first, in fact, have collected on

[102] We had to exclude the percentage of management after the IPO and the percentage of warrants per ordinary shares.

average almost twice the resources compared to the second. We find, instead, similarities in the percentages of capitals held in the trust (with a 100% average in both cases).

Moreover, in line with the US ones, Italian Good SPACs take less time to announce the business combination: we observe an average of 370 days vs 424 of the Bad ones. Such results appear in line with the market reaction: a positive judgement, in fact, could also be attributed to the less time taken by a SPAC to identify the target and communicate the will to perform a merger with it. The deal itself is approved in a much faster time than the average one in the US and we don't see significant differences between Good and Bad SPACs in this regard (with respectively 61 and 68 days).

An almost obvious, but crucial, similarity we notice with the analysis of Jenkinson and Sousa regards the share prices. For the Good SPACs in fact, at the announcement date, the price is equal on average to 108% of the pro-rata value of the escrowed funds (with a 104% median), while for the Bad SPACs it is equal to 100% (with a 100% median). In line with our expectations, we also record an even more substantial difference between the two groups at the meeting date for the approval: the Good SPACs record an average share price of 112% of the trust value, while the bad ones stand at 98%.

On the basis of the above results, we could state that in Italy this investment instrument has been used more regularly until today, making it less likely for the promoters and founders to affect the good outcome of the operation with the main purpose to obtain a remuneration[103].

In addition, for each SPAC, we calculated the average daily return for the period between the day after the meeting and the day prior to the business combination. We specify that we excluded from the sample the 4 SPACs that didn't receive the approval for the operation, in that deemed not significant with regard to the purpose of assessing whether the return of each company is in line with its Good or Bad nature. The results are provided below:

[103] Please refer to paragraph 3.1 of Chapter 2 for a better description of how a SPAC sponsor gets remunerated by a similar operation.

Table 9: Post combination average returns.

Italy 1 Investment	Good	0.051%
Made in Italy 1	Bad	0.193%
Industrial Stars of Italy	Good	0.098%
Space	Good	0.179%
Greenitaly 1	Bad	-0.055%
Space 2	Good	0.285%
Capital For Progress 1	Good	0.020%
Glenalta Food	Good	0.266%
Industrial Stars of Italy 2	Good	0.140%
Innova Italy 1	Good	-0.049%
Crescita	Bad	-0.101%
Space 3	Good	0.048%
Glenalta SpA	Good	-0.040%
Sprintitaly	Good	0.271%
EPS	Good	0.005%
Industrial Stars of Italy 3	Bad	-0.010%
Space 4	Good	0.011%
Spaxs	Good	0.026%
ALP.I	Good	0.094%
Archimede	Bad	0.099%
TheSpac	Good	0.084%

Source: Bloomberg, personal elaboration.

The results appear to confirm our expectations: almost all of the SPACs (88% of the sample) classified as Good at the approval date present positive returns in the following horizon considered, sign of a positive market judgement even after the decision date. We highlighted (in grey), however, some exceptions: there are 2 SPACs that presented positive returns even being classified as Bad and, conversely, 2 Good SPACs with negative returns. Overall, hence, we obtained a result that in 81% of the cases predicted the general behaviour that we (and the US authors) expected.

The reasons of the few exceptions can be attributed to multiple causes, not necessarily linked to the relevant operation but also external to this one. On these evidence we recorded, at least in one case (that of Glenalta SpA), that this "anomaly" is attributable to factors that are exogenous to the business combination. The Spac, in fact, has suffered the effects of the so-called reputational risks[104], because of the charges of fraudulent misrepresentation by the Procura di Parma towards the CEO and the Chairman of the company[105].

Even in this case we observe an overall positive situation, which differs from the one detected by the authors Jenkinson and Sousa for the US SPACs: both the Good and the Bad SPACs, in fact, present flat average cumulated returns, but positive (equal respectively to 0.6% and 0.4%), a phenomenon interpretable as a by now progressive acceptance of the instrument in our market.

3.3 The market reaction

In conclusion of what said so far, we deemed necessary to perform an analysis on the market reactions upon the occurrence of two critical events for the SPAC: the announcement of the business combination and the business combination itself. The ultimate end is to understand if the Italian market considers these events significant.

The sample chosen is the same used in the previous analysis: namely, all the SPACs present on the market as of 31 December 2020 that have at least announced the will to carry out a relevant operation. Here too we excluded, for the reasons set out above, Gear 1. Once identified the target population, we collected from Bloomberg database the daily prices of each SPAC from the IPO date until the day prior to the business combination. With effect from the date of the business combination, instead, we collected the daily prices of the target companies. This because, as we know, once the relevant operation is completed the SPAC’s shares aren’t traded anymore on the stock exchange, leaving the floor to the target’s ones (which, meanwhile, has completed the process for the listing).

[104] “*Reputation risk can be defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect a bank’s ability to maintain existing, or establish new, business relationships and continued access to sources of funding*”, Basel Committee, 2009.
[105] CFT (ex spac Glenalta), accuse di dichiarazione fraudolenta continuata, Milano Finanza, June 2019.

From the same database we also obtained the daily value of the FTSE MIB index, used as benchmark, being it the most significant and complete stock index of Borsa Italiana, calculated and released during the continuous trading phase in real time and at the closing of the daily trading session. The underlying basket is formed by the 40 leading stocks of the MTA and MIV markets, selected on the basis of liquidity and capitalisation[106].

Moreover, for the analysis we decided to use an *event study*, which is a method of statistical analysis whose purpose is to examine the behaviour of a time series of data upon the occurrence of one or more events in the period of interest. This exercise, therefore, deals with the analysis of the potential differences between the single SPAC returns and the benchmark, thereby on the significantly abnormal returns.

After having identified the two *event dates* – namely, the announcement date and the effective date of the business combination – we determined the *event windows*, equal to 5 days around the event dates, and the *estimation windows*, a time frame of 30 days ranging from the 60th day to the 30th day before the event date. Later, through a statistical regression, we managed to calculate the predicted return for each chosen date and for each SPAC. This represents the expected return which we expect to obtain, taking into account the market benchmark and the prices of the single companies.

To the return obtained, we then subtracted the daily return calculated on the same dates for each SPAC, obtaining the abnormal return. On this value, we performed a *t-test*[107], with the aim to verify the potential statistical significance of the difference just calculated. For the variation to be significant and statistically different from zero, the *p-value*[108] must be lower than 0.05.

[106] FTSE MIB index, Glossary, Borsa Italiana.

[107] The t-test is a parametric statistic test whose objective is to verify if the average value of a distribution significantly differs from a certain reference value.

[108] The p-value represents the probability of obtaining results equal or less than the one observed during the t-test, supposing as true the null hypothesis of the test. Such value, therefore, helps to understand if the difference between the result observed and the one hypothesised is due to the randomness introduced by the sampling, or if it is statistically significant and so hardly explainable through the randomness caused by the sampling.

In the following table, we report what obtained from the analysis with reference to the announcement date of the business combination. The column named "coefficient" provides the values obtained from the abovementioned regression: a lower than zero coefficient is sign of negative market reaction, vice versa a greater than zero coefficient is sign of positive market reaction. The last column shows the results obtained from the t-test.

Table 10: Market reaction at the announcement date.

SPAC	Date	Coefficient	Pr (|T| > |t|)
Italy 1 Investment	02/03/2012	0.2823	0.8247
Made in Italy 1	15/10/2012	-0.0113	0.2102
Industrial Stars of Italy	26/01/2015	-0.0292	0.1714
Space	15/01/2015	-0.0428	0.9123
Greenitaly 1	25/06/2015	0.1299	0.4698
Space 2	20/10/2016	-0.1097	0.7104
Capital For Progress 1	05/09/2016	0.0225	0.4521
Glenalta Food	28/10/2016	-0.0533	0.3444
Industrial Stars of Italy 2	25/02/2017	-0.0369	0.7745
Innova Italy 1	07/06/2018	0.2068	0.4293
Crescita	18/01/2018	-0.0745	0.0698
Space 3	15/06/2017	0.1343	0.3613
Glenalta SpA	27/02/2018	-0.1165	0.4600
Sprintitaly	11/01/2019	0.0467	0.5944
EPS	19/01/2018	0.1221	0.4373
Capital For Progress 2	19/06/2018	0.0092	0.4059
Spactiv	12/09/2019	-0.0147	0.3744
Industrial Stars of Italy 3	15/04/2019	-0.0010	0.8762
IdeaMi	29/10/2018	0.0675	0.9754
Space 4	16/04/2018	0.0847	0.0017
Spaxs	13/04/2018	-0.0082	0.7022
ALP.I	19/12/2018	-0.0207	0.9609
Life Care Capital	21/02/2020	0.1262	0.2865
Archimede	20/11/2018	-0.2692	0.5503
TheSpac	18/06/2020	0.1395	0.4452

Source: Bloomberg, personal elaboration.

The analysis performed has registered an overall flat situation: in fact, in one case only – that of Space 4 – there was a significantly different than zero (and positive) reaction. It is therefore possible to assert that the particular technical form of the SPAC does not influence the market judgement at the announcement date.

For what concerns, instead, the results obtained at the effective date of the relevant operation, we find the following:

Table 11: Market reaction at the effective date.

SPAC	Date	Coefficient	Pr (|T| > |t|)
Italy 1 Investment	16/05/2012	0.0245	0.0315
Made in Italy 1	01/02/2013	-0.1395	0.0794
Industrial Stars of Italy	09/07/2015	-0.1020	0.4402
Space	01/06/2015	-0.4853	0.0365
Greenitaly 1	22/12/2015	0.0147	0.5462
Space 2	10/04/2017	0.0390	0.3005
Capital For Progress 1	29/12/2016	0.0137	0.3473
Glenalta Food	13/02/2017	0.0608	0.6191
Industrial Stars of Italy 2	20/07/2017	0.1637	0.4988
Innova Italy 1	01/10/2018	0.1100	0.8322
Crescita	04/06/2018	0.1747	0.3701
Space 3	04/02/2017	0.2802	0.1107
Glenalta SpA	30/07/2018	0.2599	0.2116
Sprintitaly	04/06/2019	-0.3493	0.7714
EPS	14/05/2018	0.0883	0.4855
Capital For Progress 2	n.a.	n.a.	n.a.
Spactiv	n.a.	n.a.	n.a.
Industrial Stars of Italy 3	08/11/2019	-0.0296	0.9842
IdeaMi	n.a.	n.a.	n.a.
Space 4	06/08/2018	0.0488	0.1623
Spaxs	05/03/2019	0.4864	0.0285
ALP.I	18/04/2019	-0.2856	0.2213
Life Care Capital	n.a.	n.a.	n.a.
Archimede	17/12/2018	-0.2368	0.5910
TheSpac	05/10/2020	0.0823	0.2854

Source: Bloomberg, personal elaboration.

In this case, the market records a statistically significant reaction in three circumstances:

- Italy 1 Investment is the first SPAC to be listed on the Italian stock exchange. In this case, the positive market judgement could be attributed to the novelty that it has represented for the investors of our Country and to the resulting expectations.
- Space is the first SPAC under Italian law to be incorporated in the form of a SIV and therefore debuted on their dedicated market. All the previous SPACs had been listed on the AIM, performing only later the eventual transition to another market segment (like the MTA STAR). The market appears to have reacted negatively and the reason could partially be attributed to this choice.
- Spaxs is the SPAC that brought the company Illimity on the market. In line with the expectations, the market expressed a favourable judgement: the grounds relating to this reaction, in our opinion, can be attributed to the novelty that it represented, being it a banking start-up, but also to the consistent marketing and advertising activity promoted, as well as the reputation previously acquired of some of its founders.

FINAL CONSIDERATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

From the results of the analysis performed on the sample of SPACs taken into consideration for this paper, it is possible to assess the overall positive experience of these instruments in Italy so far. Despite the common perception regarding the technical complexity of this instrument, combined with its novelty, the market appears to have welcomed most of such initiatives.

As of 31 December 2020, we count 33 SPACs formed: the first was Italy 1 Investment in 2011, which however represents a unique case, being a company under Luxembourg law, although listed on the Italian market. The sample didn't include four vehicles given their different technical form (it is the case of financing instruments similar to pre-booking companies), despite they share the same purpose with SPACs. The sample analysed is therefore constituted by 29 SPACs in strict sense.

These SPACs have collectively raised capitals for 3,933 million euros (on average, 103.2 million euros each), with a progressive increasing trend over years (culminating in 2017-2018 with a total of 18 operations), which is interpretable as index of a growing confidence towards the instrument and consequent spreading among both the firms and the investors.

As a possible quantitative benchmark, although the substantial difference between the two instruments (one of equity and the other of debt), we can take as reference the data about the minibond issues realised starting from November 2012, according to the most recent data available[109]: we record a total of 1,005 issues, for a cumulated nominal value of 7 billion euros (of which 2.5 billion by SMEs).

A positive trend in time, although less incisive, is recordable also in terms of withdrawals percentages exercised during the shareholders' meeting at the decision date: even to this parameter we can assign a positive value, to the extent that it can represent a

[109] 2020 Italian Minibond Industry Report, Osservatorio Minibond of Politecnico di Milano, February 2021.

decrease of the number of investors that approach SPACs with short-term and purely speculative views. Regardless of its causes, in general the withdrawals phenomenon does not seem to affect the good outcome of the relevant operation.

The average number of promoters of Italian SPACs is slightly lower than the one recorded by the studies of US SPACs (3.3 vs 5.9) and does not seem to follow the same upward trend. This may be due on one side to the smaller sample base available and on the other side to a peculiarity of Our SPACs, namely the presence of the so-called serial SPACs, as they are defined the SPACs that rise again over time and present the same management team.

Anyway, in the Italian experience we found a significant number of SPACs that has achieved the objective stated: 76% of the sample analysed has indeed identified the target company and completed the business combination. This may also be attributed to the involvement in the initiatives of a handpicked and generally stable group of investors. Conversely, there are only 7 cases of failure recorded, of which two in the middle of the Covid pandemic crisis.

The analysis performed highlights a certain rapidity of the Italian SPACs to complete the relevant operation, with an average of 16 months from the moment of their listing. This feature can probably depend on the presence of the serial SPACs abovementioned and on the implementation of two business combination defined, respectively, “programmed” and “accelerated”, characterised by the identification of the target company before the IPO.

The analysis on the target companies didn’t provide unusual evidence from which to derive specific insights: from the point of view of the reference sector, the target companies just appear coherent with the investment strategies declared by the respective SPACs. Also due to the limited number of available cases, it was not possible to identify “classes” of firms with unique features to which to correlate possible advantages in the use of SPACs.

When comparing some characteristics of the US SPACs (included in the work of Jenkinson and Sousa of 2009) with the Italian ones, we detected some significant differences, in particular for what concerns the behaviour of investors on occasion of the approval for the business combination: if, according to Jenkinson and Sousa, US SPACs' investors seem to have acted in an irrational way (to be clear: assuming decisions inconsistent with the market), those of Italian SPACs tend to act in line with the market judgement (in a rational way): the majority of the US SPACs analysed are judged as "Bad" by the market (namely priced below the trust value per share) and thus value destroying. Vice versa, in the Italian case, out of 25 SPACs for which the business combination has been announced, only 8 (three of the which didn't receive the approval for the business combination) were considered Bad by the market, while the other 17 (68% of the sample analysed) were considered Good and thus value creating.

Finally, with reference to the market reaction on the two most critical moments of a SPAC – the announcement date and the effective date of the business combination – we didn't identify statistically significant movements, which leads to conclude that even these two critical phases of the instrument do not influence overall the normal market behaviour, almost to prove, always with reference to the sample investigated, its "compatibility" with the reference system. The only three exceptions (Italy 1 Investment, Space and Spaxs) have regarded particular cases.

Speaking of the suggestions to further investigate this instrument, instead, we took into consideration the opinions of some of the best-known promoters of Italian SPACs (like Mr. Simone Strocchi), that believe there are other differences between Italian and US SPACs that need to be discussed as well. First of all, we are talking about two very different markets in terms of size and liquidity, with the differences that this entails in the share price movements. Moreover, the life of a SPAC in the US market is characterised by more phases and placements, with the promoters actively looking for new potential investors to sell the shares to (such as PIPE investors) in case of high withdrawal percentages. Lastly, we need to bear in mind that the US market is rapidly evolving for what concerns the system of the "Units", usually offering a warrant every 2 or even 3 shares. The Italian market, instead, rarely exceeds the 1:1 ratio. This is a critical aspect that should be taken into account when it comes to assessing the price of a SPAC, because in that case a potentially dilutive effect could have an enormous impact.

The judgement we can express on the Italian experience of SPACs so far is overall positive: we believe it is an instrument that, despite its relative newness, the lack of certain specific regulations and some implementation complexities, can represent for the firms that aim to their business development a valid opportunity to obtain new capitals on the market.

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Department of Business and Management

Chair of M&A and Investment Banking

Special Purpose Acquisition Companies:

An Empirical Analysis on an Alternative Financing Vehicle for Italian SMEs

(Summary)

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ACADEMIC YEAR 2020/2021

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INTRODUCTION

The Special Purpose Acquisition Companies (SPACs) are particular type of companies devoid of assets, formed as investment vehicles with the purpose of selecting and leading to the listing, through a business combination, an operating target company.

Despite their diffusion in our country being relatively recent, the SPACs realised in the Italian market have reached, in our opinion, a sufficient numerousness and significance to justify an in-depth examination. The purpose of this paper is therefore the identification of the initiatives classifiable in the category of the SPACs realised in the Italian market so far, the analysis of their outcomes and the recognition of the main reasons of success/failure, in the attempt to formulate a judgement about the attractiveness of this instrument for our firms. The structure of this paper is the following:

- In the first chapter, we propose an analysis of the Italian economic-productive structure with regards to the private firms, significantly characterised, as we said, by a high number of small-medium dimensions subjects. We then describe the origins of the SPACs and provide an overview of the literature available. Finally, we compare them to more traditional instruments like Private Equity and Initial Public Offerings.
- The second chapter describes the characteristics and functioning of the SPACs, the role of the main players involved, the reference market and finally the most relevant accounting aspects of the operation and the current regulatory deficits in our system.
- The third chapter is dedicated to the empirical analysis: first, we describe the most significant features of the SPACs and targets present in the Italian market. Then, we take as reference the paper by Jenkinson and Sousa: "*Why SPAC investors should listen to the market*" (2009), to analyse the signals of the share price from the announcement date and the decision date, using the same criteria of the authors. We then analyse the average daily returns of each SPAC from the meeting date to the business combination. Lastly, we analyse the market reactions in two critical moments of the SPAC: the announcement date and the effective date, to identify the possible correlation between the market judgement and the particular technical form of the SPAC.

CHAPTER 1. SPACs: A NEW FINANCING INSTRUMENT IN ITALY

1.1 The Italian economic environment

The Italian business landscape is by far composed of small and medium enterprises. Even if, after 2007, some improvements have been recorded in terms of turnover and growth, the recovery of SMEs after the financial crisis is still really weak. The explanations lie on the intrinsic structural inefficiencies of our Country, which cause several limitations in terms of dimensions, interest towards internationalization and capitalization of the firms.

Our entrepreneurial system presents another peculiarity: the high concentration of Industrial districts (IDs) which, in the last years, have kept beating non-district areas in terms of turnover, growth and labour productivity. A significant amount of the firms belonging to these districts is aiming to strategies of internationalization and innovation.

Apart from the macroeconomic specificity just reported, many experts think they can identify a series of elements, typical of our firms, due to which there have been long-time obstacles to growth and innovation. These have also made the need for firms to adopt alternative instruments, compared to the traditional bank-centric approach, to finance their expansion. Among these, *Special Purpose Acquisition Companies* are to be accounted for.

1.2 Opening up capital

The relatively low dimension of Italian firms is deemed to be the greater obstacle to the development of a stable financial and credit market. Traditionally, SMEs have a simple financial structure, with a relevant undercapitalization and a considerable reliance on bank debt, partially fostered by the Italian fiscal system, which discourages the reinvestment of profits and encourages the recourse to debt, through the tax-deductibility of interests. This situation might have led Italian firms to “sacrifice” their capitalization.

The 2007 financial crisis brought to a progressive rationing of bank credit, an increase in the borrowing costs and the adoption of new risk measuring instruments from the banks: together, these phenomena have shown strong pro-cyclicality and made it difficult for the more fragile SMEs to access traditional sources of bank financing. These experiences have pushed a good amount of firms to explore different financial solutions that could allow them to start a recovery. The trend is also highlighted in the Cerved SMEs Report 2020, which states that in the past decade we observed a lower recourse to the bank channel for SMEs and a growing number of firms recurring to self-financing.

However, alternatively to self-financing, it has been noted that Italian SMEs started to look for alternatives to the bank channel. Such opening up of capital happens especially through the adoption of alternative instruments, attributable to Private Equity and Venture Capital. If we look at the data collected by AIFI: in 2020, we count 471 of such operations, with a dramatic increase of 27% compared to the previous year and a concurrent decrease in disinvestments of 39%. The conditions of the pandemic led the investment funds to collect a huge pool of dry powder to spend: specifically, the capitals collected in 2020 amounted to € 2,612 m, against the € 1,591 m of the previous year.

1.3 Family firms

A peculiar aspect of the Italian economic system is the ownership and organizational model of the SMEs defined as *family firms*. In Italy, the majority of firms is controlled and managed by a member of the owner family. The ultimate purpose of these firms is for the founding entrepreneur to transmit to future generations all the instruments in order to, one day, retain full control of the firm and carry on the business activity with success. Family firms play a crucial role in the Italian economic scene, however, it has been proven that today they present many evident critical issues, like the fact that owners cover the highest managerial roles, centralizing the power and control on themselves: this can represent one of the main curbs to dimensional growth and the chance to create value.

Another peculiarity of family firms is the Board of Directors, usually entirely composed by family members. Many studies have proved that the presence of external advisors makes the firms less adverse to risk and change and usually more profitable. This is to be ascribed to the introduction in the BoD of individuals with more specialized managerial skills and characterized by independency and objectivity.

Furthermore, the by now distant crisis begun in 2007 - and the most recent pandemic crisis we are living - has questioned many "self-referential beliefs" of family business, including the need to adopt alternative financing instruments. This has also affected the strategies adopted in the transfer of family firms. Unlike in a more or less recent past, in fact, strategies involving the opening up of capital have now more relevance, through transfer of shares or access to capital markets, which we will discuss later.

1.4 Introduction to SPACs

SPACs are investment vehicles born to collect financial resources through an *Initial Public Offering* (IPO), with the purpose of putting in place the acquisition of a company, called *target*, and to list this one on the public market. At the beginning of the '80s, in the United States, the so called "*Blank Check Companies*" began to be born: companies that were listed on the stock exchange without being endowed with a specific business plan, with the purpose of performing M&A operations with other companies/entities not yet identified. Given the lack of a specific regulation, Blank Check Companies were initially marked by a high number of illicit episodes. The SEC had to intervene in 1992 with a new set of rules: it was firstly enacted the *Penny Stock Reform Act*. Later, the Rule 419 was enacted: this was intended on one side to curb the speculative objectives typical of Blank Check Companies and on the other side to protect small investors. The new strict requirements made it pretty much impossible, for these companies, to conclude any kind of operation. Thanks to the contribution of David Nussbaum and the law firm Graubard Miller, the first "modern" SPACs started to show up. The idea was substantially to create a new investment vehicle that, in quantitative terms, overcame the limits imposed by the Rule 419, so that this couldn't be applied, but at the same time respected some regulations adopted by the SEC, especially in terms of protection, like the obligation to deposit a large part of the funds raised during the IPO phase into an escrow or trust account.

1.5 Pros & Cons of SPACs

The positive aspects of a SPAC lie around the fact that promoters, investors and entrepreneurs act in a cohesive manner to get to a common objective, the realisation of the business combination. The alignment of objectives is facilitated thanks to the transparency that characterises the entire process.

The main negative aspects are that, in case of a successful outcome of the business combination, the shareholders still suffer on average about a 20% dilution in favour of the promoters, due to the conversion of the special shares of promoters, the underwriting fees and the post-merger dilution caused by SPAC warrants and rights. There is also the risk that promoters undermine the quality of the target research to fall within the predefined deadline, since they might be able to obtain a return anyway.

1.6 Comparison with the main financing alternatives

Many authors claim that SPACs represent a sort of hybrid instrument, halfway between the two main methods of opening up capital - the traditional IPO and the listing through private equity operation - and, consequently, can be a valid alternative for SMEs.

Theoretically, the SPAC can represent "a faster, cheaper and less stressful path to open up capital" compared to the placement through traditional IPO. However, although the ultimate purpose is the same for both operations, the object of the two is very different: the SPAC, in fact, is often compared to an "empty box", as it has no assets, whereas the traditional IPOs have as their object organised and operating companies. One of the main points in favour of SPACs is the speed at which the firm can conclude the listing process.

With regard to the comparison with Private Equity, the SPAC has a much more limited investment horizon. The experts deem an advantage of SPACs lies in their high level of liquidity: as we know, investors can perform their way-out from the investment in any moment. Another relevant aspect is the compensation of the promoters: SPAC promoters, differently from the ones of a fund, are not remunerated through fees or commissions. In fact, since the good outcome of the operation depends on them, they will obtain an (important) economic return only when the combination will be completed. This entails a greater alignment of interests compared to what happens between the actors of a PE fund. Likewise, for SPACs there are no ongoing costs - like management fees - to be borne once inside the investment. In a Private Equity fund, instead, such fees amount to about 2% per annum. Then, SPAC investors, differently from the ones of a PE fund, have the right to have a say on management proposals and the right to exit. Finally, for what regards the similarities, it is noted that both the operations are assigned to highly qualified and specialised managers and that it is not possible to identify ex ante the target company.

CHAPTER 2. SPACs' FUNCTIONING AND CHARACTERISTICS

This chapter has the purpose of describing the functioning of Italian SPACs, from the creation to the business combination, and the role of the main actors involved. We then offer an overview of the Italian market, the regulatory framework and accounting aspects.

2.1 Functioning and overview

In general, a SPAC is born from the will of a few subjects to form a company by underwriting some capital. Should the operation not be successful, the investment will therefore be lost. Once formed, the SPAC is listed through an IPO on a regulated market. The objective of this phase is to open up the capital to a large pool of investors, who are usually offered *"Units"*: hybrid securities composed of shares and one or more warrants.

One of the main characteristics of this instrument, is the use of some mechanisms – like trust fund or escrow account – aimed to protect the capital collected during the IPO. If the general meeting does not approve the combination, the trust will liquidate the resources injected by the shareholders. In this sense, it is believed the investors underwrite securities that are, until the moment of the business combination, risk-free: the trust, in fact, being typically financed with the 98/100% of the gross IPO proceeds and earning interests over time, allows the shareholders to recover all of their initial investment.

Once the necessary resources are collected, the promoters begin to accurately search for a target to merge with. It is important to conclude such operation by the prescribed time: the SPACs only have 24 months to identify the target to implement the business combination.

Once the target is found, the management team has the duty to submit the operation to the approval of the shareholders/investors, that is expressed with the attainment of a qualified majority equal, usually, to about 80%. In order for the acquisition to be approved, also, it is necessary that the withdrawal right is exercised by less than 30% of the capital.

The target, thanks to the SPAC, obtains the status of listed company without however incurring the costs and criticalities that this process usually entails. The experts deem that the most significant advantages for the target are represented by the possibility of a faster dimensional and competitive growth and a greater internationalisation.

2.2 Main players involved

One of the main strengths of the SPAC, according to experts, is the alignment of all the actors involved. The creation of a SPAC stems from the will of some individuals - called promoters - to acquire relevant stakes in non-listed companies, with the intention to lead the latter to the quotation on the stock exchange. Therefore, they contribute to the SPAC the capitals needed to sustain IPO costs. Should the operation not have a good outcome, the promoters will suffer the loss of the resources contributed to the company. If the operation is completed with success, they witness the appreciation of the shares and have the possibility to exercise their warrants, converting their special shares in common ones.

Investors are the subjects promoters need to finance the IPO. In theory, the possibility to participate in the IPO is extended to all the public of investors, both institutional and retail. The experts, however, believe that the operations completed in Italy have seen the participation of investors with very similar characteristics to the promoters: for example, Private Equity funds, operators of the banking sector, investment banks. The reasons are attributable to the very large minimum amount required in the subscription phase.

A peculiarity of SPACs is the presence of the so-called PIPE financing. A study from Stanford University (2020) showed that about 73% of the cash raised during the IPO is returned to the withdrawing shareholders. To make up for such “loss” and move on with the proposed transaction, the sponsors can ask for additional cash to existing investors or to new outside investors, using a Private Investment in Public Equity (PIPE) transaction.

The identification of the target company is one of the most important phases in the life cycle of a SPAC: the promoters, therefore, perform a deep market analysis, focusing their attention towards small or medium sized firms, family owned, leaders in their sector, obviously not listed and most of all with a high growth potential.

2.3 The reference market

In Italy, the SPACs can access two markets: the AIM Italia (Alternative Investment Market) and the MIV (Market for Investment Vehicles). The AIM differs from the other markets, being characterised by a simple and fast listing process, which is concluded within about 10 days from the notification of the admission request and is supported by the presence of the Nominated Advisor (NOMAD). The MIV is defined as *the regulated market dedicated to the listing of vehicles that invest in real economy*. It is therefore characterised by the presence of vehicles very different from each other, like Private Equity funds, Public and Private Debt, Venture Capital, Real Estate and Multi-Strategy.

2.4 Regulatory framework

The experts believe that one of the greatest issues of Italian SPACs is the lack of a specific legislation able to regulate the instrument. The SPAC realises the business combination offering its shares to the public in an IPO, which, in Italy, is disciplined by the Consolidated Law on Finance and the Rules for Companies of Borsa Italiana.

For the approval of the meeting resolutions it is usually required the majorities prescribed by law: for the SPACs listed on regulated markets, though, such majorities can be obtained easier than for the vehicles listed on the AIM Italia. A further peculiarity about the approval regards the threshold of dissenting shareholders established by the corporate bylaws. The ultimate goal here is to prevent the possibility of not recruiting sufficient new investors to sell the withdrawn shares to, after the liquidation.

A complexity factor in the functioning of SPACs is represented by the presence of warrants. In phase of IPO, these are offered at no cost along with the shares to make the security more appealing in the eyes of investors. Right after the placement, the *unit* trades as a whole. Only afterwards the two components are detached, which means they will start having a separate price and level of risk. The separation in two distinct securities also allows to further collect new resources through capital increase.

Finally, about the Board of Directors, the Corporate Governance Code of Borsa Italiana requires the presence of non-executive and independent directors in it, in order for a more effective management of the business initiative. Think to the case in which some promoters are also dedicated to other activities, analogous and in contrast to the ones they perform within the SPAC. The presence of independent figures, therefore, mitigates those risks.

2.5 Accounting features

Paragraph 19 of the Rules for Companies in the AIM specifies that the companies listed have the discretion to choose the accounting principles to prepare the financial statements. It was noted that SPACs tend to prefer the *International Financial Reporting Standard* (IFRS). In most cases, in fact, the target companies prepare their financial statements in accordance with the IFRS. To guarantee a greater accounting coherence, then, even the SPAC will prefer presenting its data following the international accounting principles.

In the phase that precedes the business combination there are two accounting aspects that deserve a deeper analysis: IPO costs and warrants. The costs related to an issue of new shares should be charged, net of taxation, directly to the equity. These include fiscal costs, legal advice, drafting and printing of the prospectus, distribution and underwriting fees.

On the other hand, one of the main criticalities of warrants regards their classification on the financial statements: there need to be two conditions in order for the warrants to be classified as equity instruments, namely a *fixed for fixed* (non-variable) subscription ratio and an allocation towards all the shareholders. If these requirements are not met, the IAS 32 provides that the warrants are recognised in the balance sheet, as a liability.

When the merger takes place, the SPAC issues new shares in favour of the shareholders of the incorporated, in exchange of the target shares. Given the complexity, this aggregation produces some criticalities to take into account for the choice of the accounting principles to adopt. The relevant operation, in fact, differs from the "classic" merger. Since today there is no specific accounting principle for this instrument, it has been long debated the possible application of the IFRS 3, which however only refers to business combinations among operating companies. The Interpretations Committee argues that, for the purpose of accounting and bookkeeping, the relevant operation should be qualified as a *reverse acquisition*, disciplined by the IFRS 2, rather than a business combination: in fact, SPAC shareholders are included in the social structure of the target through a capital increase and, in return, the target shareholders receive the net assets of the SPAC and the status of listed company. Therefore, it takes the shape of an operation with payment based on the issuance of new shares, as disciplined by the IFRS 2.

CHAPTER 3. EMPIRICAL ANALYSIS ON THE ITALIAN EXPERIENCE

3.1 The sample of investigation

In this chapter we provide an analysis of the SPACs currently present in the Italian market and of the relative target companies. The objective is to investigate whether this type of instrument can represent for Italian firms a valid alternative for opening up the capital. First, we thought appropriate to report the most significant qualitative characteristics.

As can be seen in *table 1*, the first SPAC to have been listed on Borsa Italiana on 27 January 2011 was Italy 1 Investment, a company under Luxembourg law. Since that date, Special Purpose Acquisition Companies started to spread in our country.

From 2011 to 2020 – last calendar year – 33 SPACs have been listed, however, for the purpose of this analysis we had to exclude 4 of them. These SPACs have collectively raised 3,933 million euros, with an average of 103.2 million euros each. 2017 and 2018 appear the years with the greater collection recorded, alongside the progressive diffusion and comprehension of this instrument from investors. Conversely, 2012, 2014 and 2020 are characterised by a total lack of capitals raised.

The withdrawals percentages recorded during the shareholders' approval meeting can be a measure of the larger or smaller appreciation of the target by the shareholders. The upper limit of such percentages (representing the quorum for resolutions), in the Italian experience, is around 30%. In general, the target companies are initially little known and for this reason the investors are often induced to exercise the withdrawal right: they can't in fact take advantage of a vast set of information to accurately assess the possible investment. Indeed, in the early years of diffusion of the SPACs in our country, it has been recorded a high number of withdrawals. We argue that this behaviour is partially attributable to the scarce knowledge of this instrument. Over time, in fact, we witnessed a trend inversion. We still observe very high percentages in some cases, and we think this is mainly attributable to a short-term orientation of the investors with speculative trading purposes. For greater clarity, we provide in *Figure 8* the summary of withdrawal percentages exercised by all the SPACs by 31 December 2020.

From the list provided in Table 1, we see another peculiarity of Italian SPACs: the names

of the companies recur over time, even at a distance of years from one listing to another. In order of debut on the stock market, they are: Industrial Stars of Italy, Space, Capital For Progress, Glenalta and EPS. Such SPACs are defined “serial”, in that promoted by particularly active subjects, who start new initiatives after having success on the first one.
Analysing the 29 SPACs present on the market, moreover, we detected an average number of promoters equal to 3.3 per company.
With regard to the preferences of listing paths, we can observe that the preferred market is the AIM, where 24 out of 29 vehicles decided to get listed on (83% of the total), probably because of the more stringent requirements required by the MIV of Borsa Italiana.
To sum up the situation of the sample: as of 31 December 2020, there are 29 SPACs on the Italian market. Of these, 22 have identified a target and then completed the business combination. They represent 76% of the total, which reasonably indicates a progressive diffusion and acceptance of the instrument by investors and proves how most of the SPACs formed until now have been able to reach with success their purpose.

Analysing the 22 business combinations effectively completed in Italy, we recognise very different structuring approaches among the operations. The direct merger (by incorporation of the target into the SPAC) results the most frequent method, equal to 64% of the total. The choice is attributable to the following reason: by incorporating the target, we assist to an immediate and automatic listing – although indirect – of the latter.
The SPACs have on average 24 months to carry out their objective: after which the promoters have to proceed with the liquidation of the company. The gap in time provided in *Table 4* is obtained from the difference between the starting date of trading of the SPAC shares on the market and the date in which the business combination becomes effective. Therefore, Italian SPACs take on average 16 months to identify the target company to merge with and take it to the listing. We also detected that those with a gap in time below the average are in most cases the serial ones, suggesting that the past experience of promoters could constitute a fundamental variable in such sense.

In general, SPACs are defined “generalists” since they decide not to focus on specific sectors ex-ante. In Italy, we only observed 4 cases of SPACs that chose to focus their search only on predetermined sectors. The target companies analysed don't present particular criticalities in terms of industry sector. *Table 5* shows the reference sector of each target as well as the macro-sector to which they belong. We find a prevalence of traditional industrial and manufacture sectors, followed by technology sector (*Figure 13*).

3.2 Empirical analysis and findings

In 2009, Jenkinson and Sousa publish a paper titled "*Why SPAC investors should listen to the market*", whose purpose is to investigate the signalling behaviour of the shares during two critical moments of the life of a SPAC: the announcement date and the decision date.

The authors conclude that the SPACs, despite being potentially interesting, most of the times lead to value destroying operations. In their view, in fact, investors often do not listen to the market signals, with the consequence that more than half of the approved deals – US market – led to a loss of wealth for those who voted for them. The authors claim that there exists a simple "rule" based on the observation of the market prices that, if observed, would lead a rational investor to accept only determined types of deals.

For this empirical analysis, Jenkinson and Sousa divided their sample into two clusters, "Good SPACs" and "Bad SPACs": they define as *Bad* the SPACs characterised by a share price at decision date lower than the pro-rata value of the escrowed funds. The investors, in this case, have approved a relevant operation which – according to the market – is value destroying. The contrary holds for *Good* SPACs. They detected 20 good SPACs and 23 bad SPACs. The authors also analyse the average return of the entire sample after the announcement date. The bad SPACs, in the first six months of trading, present an average return of -39%. The good SPACs record a statistically flat cumulated average return in the first six months after the deal is approved. The conclusion they draw is that a rational investor should approve a deal only when the share price at the decision date is higher than the pro-rata value of the escrowed funds.

The sample used for our analysis is composed by 28 SPACs, 7 of which have been liquidated while the remaining 21 did announce the business combination. Our analysis will focus on the latter plus the ones that had at least announced the business combination.

For the purpose of the analysis, we proceeded to the collection of the daily share prices of each SPAC at the announcement date and decision date. Then, we calculated the trust value per share of each SPAC in those dates. The trust value represents the value of the escrow account on the total shares issued. In order to compare the share price with the trust value per share at time t+1 and t+2, it was necessary to compound the second at a risk-free rate, because as we said the SPAC involves an almost risk-free investment.

In the analysed sample, we detected only 8 *Bad* SPACs, against 17 *Good* ones. This data, according to the model of Jenkinson and Sousa, means that Italian SPAC investors better follow the market signals, compared to US investors. We also need to highlight that 3 out of the 8 Bad SPACs did not receive the approval for the business combination at the meeting, further lowering the number of "actual" bad SPACs identified. Even this aspect appears in line with what stated by the authors: a rational investor should not approve the business combination of a SPAC whose shares have a price inferior to the trust value.

From this point of view, the first part of the analysis can be considered satisfactory for Italian SPACs, which seem not to follow the negative behaviour detected by the US authors. Moreover, unlike the US ones, Italian SPACs clearly differs in terms of size: the Good, in fact, have collected on average almost twice the resources compared to the Bad. However, we find similarities in that Italian Good SPACs take less time to announce the business combination: we observe an average of 370 days vs 424 of the Bad ones. Such results appear in line with the market reaction: a positive reaction, in fact, could also be attributed to the less time taken to identify the target and announce the operation.

A crucial similarity we noticed with the analysis of Jenkinson and Sousa regards the share prices. For the Good SPACs in fact, at the announcement date, the price is equal on average to 108% of the pro-rata value of the escrowed funds, while for the Bad SPACs it is equal to 100%. In line with our expectations, we also record an even more substantial difference between the two groups at the meeting date for the approval: the Good SPACs record an average share price of 112% of the trust value, while the bad ones stand at 98%.

On the basis of the above results, we could state that in Italy this investment instrument has been used more regularly until today, making it less likely for the promoters to affect the good outcome of the operation with the main purpose to obtain a remuneration.

In addition, for each SPAC, we calculated the average daily return between the day after the meeting and the day prior to the combination. The results seem to confirm our expectations: almost all of the SPACs (88% of sample) classified as Good at the approval date present positive returns in the following horizon, sign of a positive market judgement even after the decision date. The reasons of the few exceptions can be attributed to multiple causes, not necessarily linked to the relevant operation but also external to that.

In conclusion, we thought necessary to perform an analysis on the market reactions upon the two most critical events for the SPAC: the announcement of the business combination and the business combination itself, to see if the Italian market considers these events significant. The sample chosen is the same used earlier. We collected from Bloomberg database the daily prices of each SPAC from the IPO date until the day prior to the business combination. With effect from the date of the business combination, instead, we collected the daily prices of the target companies, because once the relevant operation is completed the SPAC's shares aren't traded anymore on the market, leaving the floor to the target's ones. From the same database we also obtained the daily value of the FTSE MIB index, used as benchmark. For the analysis we decided to use an *event study*. After having identified the two *event dates* – namely, the announcement date and the effective date of the business combination – we determined the *event windows*, equal to 5 days around the event dates, and the *estimation windows*, a time frame of 30 days ranging from the 60th day to the 30th day before the event date. Later, through a statistical regression, we managed to calculate the predicted return for each chosen date and for each SPAC. To the return obtained, we then subtracted the daily return calculated on the same dates for each SPAC, obtaining the abnormal return. On this value, we performed a *t-test*, to verify the potential statistical significance of the difference just calculated. For the variation to be significant and statistically different from zero, the *p-value* must be lower than 0.05.

In *Table 10*, the column named "coefficient" provides the values obtained from the abovementioned regression: a lower than zero coefficient is sign of negative market reaction, vice versa a greater than zero coefficient is sign of positive market reaction. The last column shows the results obtained from the t-test.

The analysis performed has registered an overall flat situation: in only one case there was a significantly different than zero (positive) reaction. It is therefore possible to assert that the particular technical form of the SPAC does not influence the market judgement at the announcement date. For what concerns, instead, the results obtained at the effective date of the operation, the market records a statistically significant reaction in only three cases.

FINAL CONSIDERATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

From the results of the analysis performed in this paper, it is possible to assess the overall positive experience of these instruments in Italy so far. Despite the common perception regarding the technical complexity of this instrument, combined with its novelty, the market appears to have welcomed most of such initiatives.

In comparing some characteristics of the US SPACs with the Italian ones, we detected some significant differences, in particular for what concerns the behaviour of investors on occasion of the approval for the business combination: if, according to Jenkinson and Sousa, US SPACs' investors seem to have acted in an irrational way (from the market point of view), those of Italian SPACs tend to act in line with the market judgement.

Finally, with reference to the market reaction on the two most critical moments of a SPAC, we didn't detect statistically significant movements, which leads to conclude that even these critical phases do not influence the normal market behaviour.

To conclude, we suggest other differences between Italian and US SPACs that need to be discussed as well, to further investigate this instrument. First of all, we are talking about two very different markets in terms of size and liquidity, with the differences that this entails in the share price movements. Then, the life of a SPAC in the US market is characterised by more phases and placements, with the promoters actively looking for new potential investors to sell the shares to. Lastly, we notice that the US market is rapidly evolving for what concerns the system of the "Units", now offering a warrant every 2 or even 3 shares. The Italian market, instead, rarely exceeds the 1:1 ratio. This is a critical aspect that should be taken into account when it comes to assessing the price of a SPAC, because in that case a potentially dilutive effect could have an enormous impact.