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The evolution of Special Purpose Acquisition Vehicles – SPACs Structural Features, Financial Reporting and Performance Measurements

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Introduction

Our research intends to analyze the main features of a relatively new investment instrument which is experiencing an on-going evolution. We think that the adaptability of the SPAC as an investment vehicle to institutional investors' preferences and to sellers' objectives is what has so far ensured a broad acceptance of such instrument. It must be noted that the first SPACs were launched over 15 years ago in the US and they spread over Europe before the Great Financial Crisis of 2008. After a muted period between 2009 and 2014, they grew to new life in 2015 and the following years. However, only in 2020 we witnessed a dramatic surge in SPAC listings and issuances and the resulting "back-end" business combinations (or de-SPACings) thanks to several factors that we will analyze in our dissertation.

In order to put the SPAC in the most appropriate perspective we firstly analyze its structural features and the objectives that the instrument (or better said the SPAC's sponsors and founders) aim to pursue. It is also important, as suggested above, that a history of the evolution of the SPAC is presented, as the structural and legal adaptation of the SPAC to financial market expectations represent a very distinguished feature of the instrument. In this context, we also provide evidence of some failing mechanisms that were modified over time up to the current mainstream structure (which continues to evolve and adapt to investors preferences and regulators' concerns).

After describing the lifecycle of the SPAC and the roles of its promoters we focus our analysis on how the SPAC is assessed by investors considering capital deployment and by a corporate seller vis a vis multiple monetization and value enhancing alternatives for its assets.

Other relevant topics that have been covered include the financial reporting requirements of the SPAC, mostly driven by the US practice, and the performance / returns measurement tools, prior to and after the back-end combination / de-SPACing. We conduct a comprehensive review of academic literature regarding performance measurement and we complement it with the analysis of selected research analysts.

The last section of the dissertation provides an update on the SPAC market and its recent trends based on empirical observation and data analysis.

Our work also intends to answer a question which is now recurring among academics and market participants, i.e. whether the SPAC in its current structure will continue to flourish as a viable and permanent investment / monetization instrument (which has been the case for the last 15 years) or its booming success during 2020 and Q1 2021 is somehow inflated and thus potentially exposes the instrument to significant downside risks. While the recent downturn which started in Q2 2021 may suggest such a view, it must be noted that SPACs have already experienced significant volatility in terms of issuances and/or de-SPACings and market performance over the years. Our view is that the instrument will continue to represent a viable alternative to traditional monetizations (mostly Initial Public Offerings) for companies, especially for those operating in a high technology / high growth environment, provided that SPAC sponsors and targeted operating companies

can convince investors on the relevant features that need to be assessed in traditional IPOs, such as business case, fundamentals and projections.

The dissertation is also based on empirical evidence gathered through interviews with market participants and investment professionals (investment banks, law firms, SPAC sponsors), attendance to dedicated seminars and conferences, and analysis of selected case studies.

Chapter I Anatomy of the SPAC

1. Definition of SPAC, legal nature and current context

Special Purpose Acquisition Companies ("SPACs") can be defined as investment vehicles established as corporate entities to raise capital in an initial public offering ("IPO"), with the specific and exclusive purpose of using the proceeds to acquire or merge with one or (less frequently) more unspecified (at the time of the IPO) operating company or business or asset (the "target") to be identified after the IPO. Unlike an operating company that becomes public through a traditional IPO, a SPAC is a "cash-shell company" or "blind pool" when it becomes public. This means that it does not have an underlying operating business and does not have assets other than cash, i.e. the proceeds from the IPO, or the securities in which such cash is invested until the business combination with the operating company is completed.

Being an investment vehicle aimed at acquiring an operating business, we may assimilate a SPAC to a private equity fund. However, we highlight three important differences: firstly, private equity funds undertake their fundraising privately i.e. without carrying out an IPO; secondly, private equity funds deploy the proceeds from the fundraising in multiple acquisitions while SPACs generally acquire or merge with one single target; thirdly, private equity firms generally rely on a substantial amount of acquisition debt to carry out their investments (Leveraged Buy Outs or LBOs) while SPAC are mostly financed by virtue of equity securities rather than by debt.

We will see below that another important difference vis a vis private equity funds and other investment vehicles (including open ended funds) is that in a SPAC the higher risk associated with equity securities in terms of a winding up / bankruptcy perspective is basically irrelevant[1]. Indeed, as previously outlined, SPACs are usually not financed by debt securities in the same way as private equity funds that rely on significant leverage. Hence, the shareholders of a SPAC can be entitled to a full reimbursement of their original investment (technically speaking, a redemption right) before the commencement of a possible distribution procedure under a winding up / bankruptcy scheme. At the international level, including the U.S. and the European level, there is no homogeneous and harmonized legal discipline for SPACs[2].

An interesting attempt to legally categorize the SPAC, which we tend to agree with, is the one according to which SPACs should be considered as "collective investment undertakings" although such a conclusion has not yet become official in the U.S. or in Europe or anywhere else. SPACs' blind pool status means they qualify as non-operating companies. For this reason, it would be limiting to define a SPAC as a financial intermediary or an investment company as this would assimilate them to hedge funds or might call for the application of a

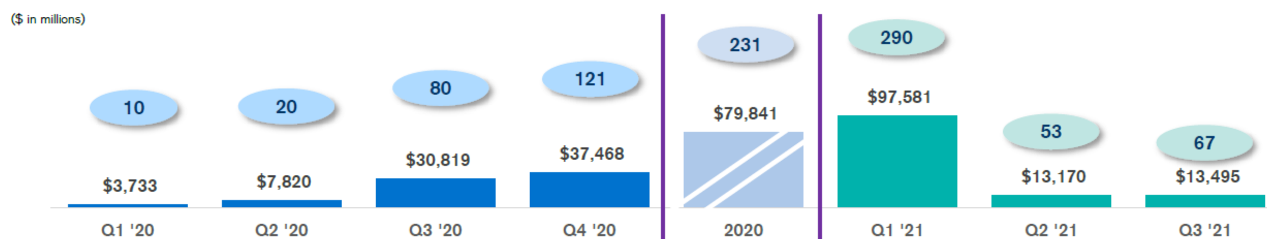
[1] B. Schumacher, *A New Development in Private Equity: The Rise and Progression of Special Purpose Acquisition Companies in Europe and Asia*, Journal of International Law & Business, May 2020.
[2] D. D'Alvia, *The international financial regulation of SPACs between legal standardised regulation and standardisation of market practices*, Researchgate, June 2020.

bank-like regulation. SPACs are a possible form of collective investment undertaking because they mainly resemble these market operators in terms of aims, fund raising and management control as explained below.
The legal notion of collective investment undertaking can be found in European jurisdictions rather than in the United States. Notwithstanding the guidelines relating to directive 2011/61/EU on Alternative Investment Fund Managers (AIFMD) by the European Securities and Markets Authority (ESMA) have not provided any clarification on the legal nature of the SPAC, such guidelines define a collective investment undertaking.
In particular, a collective investment undertaking: (a) does not have a specific business or industrial objective; (b) gathers capital from investors with the aim of investing cash deployed by these investors; and (c) its shareholders have a say on the use of proceeds. SPACs have all these features since they are non-operating companies, and do not pursue any industrial aim; and finally, the management of the SPAC is carried out by professionals who are not acting under direction from the shareholders, although they operate under a fiduciary duty to protect their interests.
As outlined below, the SPAC as a type of investment vehicle originates in the 1990s in the U.S. and has witnessed a wider recognition in the previous decade. However, since 2020 there has been a dramatic increase in the number of SPACs coming to market. Our dissertation focuses on the most recent phenomenon and the most recent structure, which has been designed in the U.S. capital markets. In the previous decade, there has been a co-existence of structures but only recently we can recognize homogeneous structural features, mostly driven by widespread market acceptance. In our analysis we will refer, unless otherwise indicated, to the "U.S. style" structure as this is currently the prevailing structure that obtains interest and recognition from investors worldwide.
Although SPACs can and have listed on many stock exchanges around the world, most SPACs nowadays list in the United States through an Initial Public Offering ("IPO"). This applies to U.S. - sponsored and/or focused SPACs[3] but also to SPACs sponsored by European or Asian investors and/or with a European or Asian focus[4].
A few data can provide an effective indication of the size of the SPAC market and its recent trends. There were 246 SPACs conducting an IPO on either NYSE or Nasdaq Stock Market in 2020 raising $80 billion (representing 49% of total U.S. volume), up 317% and 486% respectively over 2019 when there were 59 SPAC IPOs raising $13 billion. Moving into 2021, there were 300 SPAC listings during the first quarter, raising approximately $90 billion in cash, with an estimated backlog of $ 210 billion[5].
If we look at the most recent data, as of September 17, 2021, there were 424 SPACs seeking acquisitions (of which c. 7% with a European focus), representing c. $130 billion of capital. It must be noted though that has

[3] We define U.S. sponsored SPAC a SPAC with the majority of the sponsors qualifying as U.S. investors. U.S. focused SPAC indicates a SPAC whose target is (exclusively or primarily) a U.S. based operating company (or a company with a major presence in the U.S.).
[4] It must be noted that during 2018 there was only one listing of a SPAC with Asian sponsors and/or Asian focus and this was the same for 2019. The number of listings increased to 7 in 2020 and 36 in 2021 (as of August 20, 2021). Source: Dealogic and FactSet – only SPACs with IPO size in excess of $150 are taken into account. As of September 3, 2021, according to Dealogic, there were 26 European-listed SPACs utstanding for a total value of $6 billion and another 30 with a European focus listed in the U.S.
[5] Source: Dealogic, SPAC Analytics, U.S. market only, >$100 million deal size.

been a significant decrease in the number of SPAC IPOs compared to the first quarter of 2021, as shown in figure 1. On average, 5 SPACs went public every business day during the first three months of the year, while this number has significantly dropped afterwards to 5-10 IPOs weekly[6].

Figure 1: SPAC IPO Volumes 2020 – Q3 2021



Source: Dealogic, FactSet as of September 17, 2021.

2. An overview of the instrument

As mentioned above, a SPAC is a publicly traded company created for the sole purpose of acquiring or merging (the "back end business combination", also known with the neologism "de-SPACing") with an existing operating company, often providing such target company with an alternate route to a traditional IPO[7]. This transaction is typically structured as a reverse merger in which the operating company is incorporated into the SPAC or a subsidiary of the SPAC. The cash raised by the SPAC at the time of the IPO (or subsequently) is thus (i) "combined" with an operating company improving its financial position (increase of cash balance or reduction of debt) and accelerate its growth path (i.e. through higher capital expenditures or acquisitions); and/or (ii) distributed to the owners of the operating company who are willing to monetize part of their investment in the target.

While there are various ways to structure the initial business combination, the combined company following the transaction is a publicly traded company and carries on the target operating company's business.

SPACs raise capital via an IPO with the express mandate to acquire a private company within, generally, 18-24 months, subject to certain expectations. Investors in the SPAC IPO are essentially investing based on the capability of the SPAC sponsors (also known as founders - usually seasoned executives with industry expertise[8] who often partner with financial backers, i.e. private equity firms[9]) to execute on an acquisition. Although at the time of the SPAC IPO an acquisition target is generally not known, investors rely on the sponsors' skills to identify the right target and create value for their investment through the business

[6] Source: Dealogic.

[7] As of September 17, 2021 there are 121 de-SPACings announced. In terms of SPAC backlog, there are currently 311 SPACs with public filing since 2020 which have not yet launched. These SPACs represent $70.8 billion in aggregate volume according to the currently filed base deal size (source:Dealogic, Company filings. U.S. SPACs only).

[8] Some examples include Steve Chazen (Oxy), Ed and Jonathan Cohen (Atlas Energy), Tom Farley (NYSE), Roger Deromedi (Kraft Foods), Chinh Chu (Blackstone), Mike Fascitelli (Vornado), Noam Gottesman (GLG), Xavie Niel (Iliad), Adam Bain (Twitter), Richard Branson (Virgin), Bill Foley (Fidelity), Hubertus Muehlhauser (CNH), Charles Drucker (Vantiv, Worldpay), Mike Morgan (Kinder Morgan), Gary Cohn (Goldman Sachs), Sam Zell (EGI). Companies into brackets indicate the most relevant or recent entity they have been associated to as founders, owners, CEOs or top executives.

[9] Several private equity firms have sponsored SPAC IPOs in the last two years, including, among others, Apollo, Blackstone, Carlyle, CenterView, Crescent, Forthress, Hudson Bay, Lion Capital, Magnetar, Neuberger Berman, Oaktree, TPG, Thomas H Lee, WL Ross.

combination. Prior to an acquisition being completed, investors do have the option to redeem their initial investment, which is held in a trust account. This is a very important feature as it ultimately meant to protect investors who deployed their capital in the SPAC IPO or have subsequently invested in SPAC shares in the secondary market.

The public investors and the sponsor(s) in a SPAC IPO acquire "units" including of 1 share of stock and a fraction of 1 warrant to acquire stock in the SPAC. The warrants "compensate" the IPO investors for investing in a blind pool. In the U.S. market, the units are generally priced at $10.00 per unit, with the strike (conversion) price of the warrants typically set at $11.50 per share (i.e. a 15% premium to the unit price). After the IPO (typically 52 days), warrants are split from the stock and each security starts to trade individually.

The common stock included in the units sold to the public is sometimes classified as "Class A" common stock, with the sponsor / founder purchasing "Class B" or "Class F" common stock. The public shares and founder shares vote together as a single class and are usually identical except for certain governance rights (i.e. the right to elect the entire board of directors of the SPAC prior to the business combination) and anti-dilution adjustments (i.e. in case of a capital increase, a stock split, a stock or cash dividend or other corporate reorganizations).

The sponsors invest in shares of the SPAC, which are denominated as "founder shares" or "promote" and are typically convertible, upon de-SPACing, into 20% of the SPAC's share capital. The promote is intentionally designed to provide the sponsors with a significant return in the event of a successful business combination, while on the other hand it becomes worthless in case there is no business combination within a certain period of time. In particular, the sponsor will pay a nominal amount for a number of shares representing 25% of the shares offered to the public, including a 15% overallotment option, also known as "green shoe"[10].

The holders of the founder shares will forfeit, in the event the green shoe is not exercised, a number of shares so that the founder shares will continue to represent 25% of the number of shares sold to the public. This results in the founder shares equaling 20% of the total shares outstanding after completion of the IPO, including any exercise or expiration of the green shoe. In most of the SPAC structures, founder shares convert into public shares at the time of the business combination on a one to one basis.

However, if additional public shares or equity-linked securities are issued in the context of the de-SPAC transaction, the exchange ratio upon which the founder shares convert to public shares will be adjusted to gross the founder shares up to 20% of the total founder shares and public shares and equity-linked securities outstanding. Sponsors also subscribe to warrants to acquire SPAC shares, with terms similar to the warrants issued as part of the units subscribed by the public. However, the units sold to the public typically include a fraction of a warrant to purchase a whole share, while the sponsor typically purchases whole warrants. The

[10] In an initial public offering (or even a secondary placement) the green shoe option is a call option granted by the selling shareholder or the issuer to the syndicate of underwriting banks on a certain number of shares. Such option allows the banks to over-allocate the shares being sold in the IPO (for an amount equal to those underlying the green-shoe option) so to be able to stabilize the price in the aftermarket.

warrants essentially dilute any subsequent investor and any equity retained by the seller of the target business. The warrants become exercisable on the later of (i) 30 days after the de-SPACing transaction and (ii) the 12-month anniversary of the SPAC IPO. The public warrants are cash settled, i.e. investors have to pay $11.50 per warrant in cash in exchange for one share. The founder warrants may be net settled, i.e. the holder is not required to pay cash but is issued a number of shares a fair market value equal to the difference between the trading price of the stock and the warrant strike price.

The founder warrants are not redeemable. With the exception of the net settlement feature and the non-redeemability, the founder warrants and public warrants present equal terms. The price paid by the sponsor for the subscription of the warrants is the so called "at risk capital" and is determined as an amount equal to the upfront underwriting discount (typically 2% of the gross IPO proceeds) plus (generally) $2 million to bear other IPO expenses and working capital needs[11]. SPACs generally pursue acquisitions of targets whose enterprise value (equity + net financial debt) is 2-5x the size of the SPAC's market capitalization[12]. This is facilitated by bringing in additional investors immediately prior to the acquisition through additional fundraising structured as a private placement with institutional investors, generally referred to a "PIPE" (acronym for private investment in public equity). Investors in the PIPE may comprise of existing or new investors who commit to invest additional equity subject to the closing of the business combination[13]. The PIPE structure can provide a "safety net": cash raised in the PIPE is a sort of a backstop allowing the business combination between the SPAC and the target to be completed notwithstanding a large number of redemptions by the SPAC investors.

The PIPE provides comfort to the owners of the target company as they see a higher chance that the de-SPACing will go through, as well as to the investors in the SPAC since the PIPE investors are the ones who conduct a detailed valuation exercise on the target. The PIPE process can be considered similar to the pre-marketing and book-building processes of traditional IPOs. As a result, the lack of sufficient PIPE investors' interest in a proposed de-SPACing can jeopardize the positive outcome of the contemplated combination, similarly to what we would have in the event of a traditional IPO with low demand from investors. The cash raised through the PIPE allows the SPAC to target operating companies whose size can be a multiple of the

[12] While market is accepting a wide range of sizes, the primary driver for sizing a SPAC should be what is appropriate for the target set. It is also relatively easy to upsize SPAC for a larger acquisition through a concurrent PIPE and/or issuing more shares to the seller. The bigger is the enterprise value of the target, the less dilutive is the impact of founder's shares and warrants as it is spread over a larger base. As a way of example, assuming a SPAC size of $300 million, a promote of $75 million, an Ebitda of the target of $30 million and a valuation multiple of 10x (SPAC target of 1x SPAC size), the resulting valuation to the seller and to the market will be $300 million (10x) and $375 million (12.5x) respectively. All other things being equal, if we assume now an Ebitda of the target of $120 million (SPAC target of 4x SPAC size), the resulting valuation to the seller and to the market will be $1,200 million (10x) and $1,275 million (10.6x) respectively. It must be noted that larger size SPACs (i.e. over $500 million) tend to attract the attention of larger, multi-billion private companies looking for a de-SPACing. A large size SPAC also has more initial liquidity based on the public shares outstanding. On the other hand, smaller SPACs (i.e. $300 million) can find a larger number of targets while keeping flexibility to raisee more capital if needed through the PIPE.

[13] PIPE investors typically include the largest global money managers including, among others, Blackrock, Capital Group, Fidelity, Franklin Templeton, Jennison Associates, Norges Bank, Putnam Investments, T. Rowe Price, Wellington Management. Observation of company filings in the U.S. for 2020 shows 65 PIPEs raised, over $20 billion of committed capital; $330 million of average PIPE size (20% of the enterprise value of the de-SPACed targets) and 1x as average PIPE size compared to the initial size of the SPAC.

SPAC's size, thus materially increasing its buying power. Another way to ensure the combination is through the forward purchase agreements entered into between the SPAC and the sponsors. In several recent SPAC IPOs, affiliates of the sponsor or institutional investors (generally private equity funds) have entered into a forward purchase agreement with the SPAC, committing to purchase equity (stock or units) in connection with the de-SPAC transaction to the extent the additional funds are necessary to complete the transaction.

Based on the structure described herein, at a very broad level, the SPAC unit can be defined a bond plus a warrant until an acquisition is announced. The bond-like nature comes from the fact that the SPAC IPO proceeds are invested in risk free government bonds (via the trust account) that can be redeemed by investors prior to an acquisition for their proportional share of the trust account's assets, rendering the bond portion effectively risk-free. As a result, SPACs generally trade like a fixed income instrument until a combination is announced and like a stock after the combination is successfully closed. In other words, SPACs provide downside protection to investors until an acquisition is completed after which it trades like a stock in an operating company (in which the SPAC has merged or reverse merged). However, such protection is full only if the investor has purchased the SPAC shares at IPO (i.e. at the issue price)[14] or subsequently if the stock has traded in line with the issue price[15].

Table 1: Illustrative Sources and Uses of a SPAC IPO

Sources		**Uses**	
IPO of Units	$500 Million	Fund Trust Account	$490 Million
Sale of founder warrants	$12 Million	Up front u/w fees	$10 Million
		Fund Trust Account	$10 Million
		IPO Expenses	$1 Million
		Working Capital	$1 Million
Total Sources	**$412 Million**	**Total Uses**	**$512 Million**

Source: R. Layne, B. Lenahan, Special Purpose Acquistion Companies: An introduction, Harvard Law School Forum of Corporate Governance, July 6th, 2028. Example assumes a $500 million IPO.

3. Key objectives and main advantages

A SPAC can be considered as a financial or investment product with a specific and well-defined life cycle: initial formation, IPO, search for a target, shareholder merger vote, and closing of an acquisition (or the return of the SPAC's proceeds to investors in case there is no business combination within the 18-24 months period or if notwithstanding the business combination is agreed upon, investors elect to be redeemed before the

[14] A study from Stanford University conducted on 2020 market data has shown though that the median cash pile of a SPAC at the time of the business combination is $6.67, well below the $10.00 issue price (M. Klausner et al., *A Sober Look at SPACs*, Harvard Law School Forum on Corporate Governance, November 19, 2020). This may also explain why SPACs can trade below $10.00, although the main reasons can be ascribed to the opportunity cost given the higher interest rate environment in the U.S. market, as well as to supply and demand unbalances. An analysis of SPAC share price performances pre and post business combinations will be conducted in the following chapters.

[15] It is not uncommon that in the period perceived to be close to a business combination, a SPAC price goes above $10.00 thus exposing investors to downside risk should the de-SPACing not materialize Share price spikes ahead of a business combination announcement has prompted allegations of insider trading and leaks in the context of PIPE transactions (although PIPE investors are bound by confidentiality obligations and standstill provisions when conducting due diligence on a potential de-SPACing).

closing date of the proposed combination). It is interesting to note that a SPAC can be defined in many different ways depending on the way which, thanks to the capital raising at IPO and the subsequent PIPE, they can pursue a private equity type of investment (the business combination).

From the point of view of the investors in the SPAC's IPO, acquiring units (shares and warrants) in a SPAC represent a diversification of their investment portfolio or, in other words, an allocation of a fraction of available liquidity in a cash-equivalent redeemable financial instruments for 18-24 months, provided with an "equity kicker" feature. Investors in the PIPE are looking at the SPAC investment in a way similar to what they would do in a traditional IPO as they have to analyze the target company that will eventually be acquired by the SPAC (they do conduct a due diligence exercise). Owners and managers of the target company also look at the SPAC as an alternative way to carry out a public market sale of the company they own or work for[16]. SPACs can be helpful to achieve several objectives and have a considerable number of advantages for all of the parties involved: the target company and its owners, the SPAC IPO investors, and the SPAC managers. In the view of the target business and its owners, a SPAC may be an advantageous way for a company to raise cash without having to conduct an IPO of its own. Should a small company desire growth, the method is an effective way to acquire exposure to well-established investment firms and get multiple funding sources.

In contrast to a traditional IPO, there is no strict time limit to make a deal when using a SPAC. SPACs have more recently been used by as experienced investors and management teams to reduce the market volatility and execution risk of traditional IPOs, especially for small and mid-sized companies. There is generally less interest in the public market for small company IPOs, which effectively leaves smaller companies with fewer options to raise cash: a de-SPACing can thus represent a viable alternative. Additionally, many owners or management teams of operating companies do not wish to give up full control or a portion of control to private equity investors. Since the vast majority of SPACs are looking for minority investments, they leave owners and management of the operating company as majority shareholder of the operating company post combination with the chosen SPAC. Finally, especially in the U.S. market, a standard initial public offering raises money that must go to help finance the company, while secondary IPOs (i.e. cash proceeds go to the selling shareholders) are rarely accepted by investors.

However, as the present owners often want to cash-out from the deal, then allowing the company to be purchased by a SPAC means that their own shares can be among those purchased by the SPAC. The main benefits of SPACs for investors include the right for their investments to be returned if a target company is not acquired within 18 or 24 months or if investors decide to reject the proposed transaction. In other words, through such redemption right (which is in essence a put option), investors until de-SPACing are exposed to a (low return) fixed income investment with upside potential. Such upside potential is represented by the fact that investors have the opportunity to make a substantial profit from their initial investment if the de-SPACing

[16] Deloitte, *Private-Company CFO Considerations for SPAC Transactions*, September 2020.

is approved by them, and the acquired company is perceived to be a profitable company (and the stock price rises as a result).

From a different perspective, SPACs provide an opportunity for all investors, regardless of the amount of capital they have, to get a "piece of the action" in a private equity investment. In the view of the SPAC management team, the instrument offers a powerful tool to raise cash and acquire a company. Although managers receive no salary, a fraction of the IPO proceeds that are not held in escrow will be used to pay for directors' and officers' insurance, legal, and accounting expenses. Due diligence costs incurred to assess potential targets, as well as the costs of negotiation, structuring, and obtaining shareholder approval for the merger, will also be paid from this money.

The funds that will go to pay for these expenses are considered the working capital of the company. It is convenient for the SPAC's management team to have such working capital available as it searches for a business acquisition. Additionally, the managers typically receive the 20% interest in the SPAC's shares as compensation for locating and negotiating a purchase of a profitable target company. Another advantage of the SPAC is that it can unlock a strategic situation around a corporate asset such as a private company/subsidiary in need of capital, management expertise or generational change (e.g. family-owned business). It can also facilitate a public market listing for a complex asset: de-SPACings can be de-risked through raising a PIPE, where forecasts can be directly provided to investors (contrary to what happens in traditional IPOs), complex financial histories can be explained, and SPAC sponsors can lend credibility to an asset[17].

In addition, a SPAC can be instrumental in creating a "platform" through which the acquired company can further grow through "add-on" acquisitions. Finally, for corporate sponsors[18], setting up a SPAC allows to raise third party fund to finance an acquisition (typically resulting in a significant minority investment, thus avoiding line by line consolidation) of a target company at multiples usually higher than the ones at which the target company is trading (which otherwise would make such an "expensive" acquisition problematic if pursued solely by the corporate sponsor). A SPAC also enhances the ability to super-charge the growth of corporate-backed entity through R&D support, distribution capabilities and global presence and access.

4. Potential disadvantages and mitigants

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[17] A de-SPAC transaction can provide for the owner (i.e. a listed company) of the de-SPACed asset several benefits, including: (i) unlocking the hidden value of businesses that are overlooked by investors in the owner's Sum of the Parts valuation; (ii) retaining significant ownership while highlighting value to parent company shareholders; (iii) attracting low-priced capital; (iv) exploiting the potential to increase the profile of the underlying business for potential partners and customers; (v) allowing select business to be more competitive, accelerate growth and continue to fund business plan; (vi) marketing full potential of the business and validating transaction valuation with independent PIPE investors (source: Credit Suisse research, February 2021).

[18] Prominent corporate sponsors of SPAC IPOs have been in 2021 Post Holdings (U.S. consumer packaged goods holding company) and Liberty Media (U.S. mass media company) with a $400 million and a $500 million IPO respectively. Post's SPAC (Post Holdings Partnering corporation) listed on the NYSE while Liberty's (Liberty Media Acquisition Corporation) on NASDAQ. Corporate sponsors generally follow two routes: either acting as sole or joint sponsor of a SPAC or partnering with a SPAC sponsor team as a substantial financial backer.

It is worth noting that there are also some potential disadvantages associated with SPACs. SPACs are somehow a highly sophisticated investment and certainly not a mainstream one. They possess no assets other than the management's professed "know-how" and the investor in the SPAC is basically betting on the management to make a wise purchase decision and to negotiate a good deal. Presumably, the investor would not invest in a SPAC without confidence in knowing who the management is and their prior history of investment success, although track record does not provide full certainty of future performance. In addition, there are structural reasons why SPACs could run into problems.

The 18 or 24 months deadline imposed on the management to make an acquisition, while protecting investors by forcing a return of their investment if no deal is consummated during this time frame, puts SPAC management under severe time pressure to pursue a de-SPACing (i.e. they could be incentivized to acquire a target "at all costs"). As noted, the management of the SPAC receives a 20% interest in the SPAC as their compensation fee upfront. Unlike investors, however, they are not entitled to get any of this interest back if the acquiring transaction does not occur and furthermore they would lose entirely the sums needed for transaction expenses and working capital needs.

This creates an almost "do-or-die" situation for the SPAC management who needs to complete the de-SPACing within the 18 or 24 months period. Coupled with the important requirement that management must typically spend at least 80% of the SPAC's assets on a transaction, this could lead to the SPAC's management overpaying for the target company or attempting to convince investors to approve a poor or ill-conceived acquisition.

On the other hand, as discussed, SPAC investors have a powerful tool at their disposal: provided that a minimum quorum (usually 20%) rejects a proposed transaction, the investors are able to block any deal that they may not deem advantageous. Additionally, in the most recent U.S. style SPACs, any individual investor, if they decide that they do not favor the proposed transaction, can still leave the SPAC before closing of the business combination (usually until a few days prior to closing) and get their full initial investment returned, notwithstanding the de-SPACing has been approved by the majority of the investors.

This could seem unfair to the majority of investors who have voted for the business combination and are willing to support it. In that respect, these investors are "protected" (and so are the owners of the target company who have agreed to the de-SPACing) by the PIPE mechanism: as noted, new investors bringing in additional capital can essentially operate as a backstop to offset the impact of any SPAC's investor redemption.

It is clear that by not approving the de-SPACing or by exercising the redemption rights investors will end up with a very low return on their initial cash investment (namely, the initial cash plus the interest earned on the trust account minus incurred transaction expenses) so they might be tempted to approve the business combination and stay invested.

The potential disadvantages do not seem to outweigh the substantial advantages that SPACs provide to the target business, the managers, and the investors as outlined above. Further, the potential downsides to the SPAC managers and investors are mitigated as long as a profitable target company is acquired within 18 or 24

months. This is typical, as long as seasoned and competent management are running the SPAC allowing for potential profitable gains, thus making the SPAC a viable and attractive investment opportunity with a compelling risk-return profile.

5. History and recent trends

SPACs originated as a direct result of the development and emergence of the so called "blank check companies" in the 1980's. By the end of the 1980's, fraud and abuse were rampant in the so called "penny stock" market; penny stocks identified equity securities that were not registered and were not traded on a national securities exchange. Blank check companies (or as previously identified as "cash shells", or "blind pools") provided an avenue to perpetuate abuses[19].

The area drastically required regulation, which prompted U.S. Congress to pass the landmark Securities Enforcement Remedies and Penny Stock Reform Act of 1990. Although the 1990 Act significantly constrained blank check companies, they were not made illegal entirely. Then SEC Chairman Richard Breeden recognized that "blank check offerings could be and were used in legitimate business transactions outside the penny stock area." The provisions set by the Act created significant protection to investors, and the use of penny stock companies as a means of fraud effectively decreased. Due to the implications of the Penny Stock Reform Act of 1990, the burden of the requirements imposed by the Act made it nearly impossible for a blank check company to pursue an acquisition.

As a result, blank check companies almost disappeared, but resurfaced in the form of SPACs. Similar to the blank check companies of the 1980s, SPACs have no operating history, assets, revenue, or operations, and are designed to raise capital in the public equity markets. But, because SPACs seek admission to listing on a regulated exchange, they avoid the penny stock restrictions imposed by the Act and are exempt from the controls that Congress provided for blank check offerings and are thus no more regulated than conventional IPOs[20].

Due to the spike of the SPAC phenomenon in 2020 and 2021, the SEC has recently increased the scrutiny into the product[21].

However, the SEC has started a thorough investigation of communications between prospective SPAC and PIPE investors on one side and investment banks and sponsors on the other side. In addition, the SEC has issued a number of clarification statements on reporting requirements, especially when it comes to the disclosure of financial projections used by the operating companies that are merging with SPACs and the appropriate accounting treatment of warrants (to be discussed in the following chapters).

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[19] D. K. Heyman, *From Blank Check to SPAC: The Regulator's Response to the Market, and the Market's Response to the Regulation*, Entrepreneurial Business Law Journal, vol. 2, no. 1, 2007.

[20] Securities and Exchange Commission, *What you need to know about SPACs*, Investor Bulletin, December 10, 2020.

[21] The SEC focus has been widely reported by the financial press in the U.S. and internationally. See D. Michaels et al., *SPAC Hot Streak Put on Ice by Regulatory Warnings*, The Wall Street Journal, April 16, 2021; M. Valsania, *SEC in allerta, regole più severe. Blackout sulle SPAC americane*, Il Sole 24 Ore, April 18, 2021.

The term "SPAC" became common in the 1990s, with sponsors focusing on selected "hot" industry sectors such as technology, media, and healthcare. Since then, the number of SPAC offerings has increased or decreased, depending on macro-economic conditions, trends in capital flows, and the conditions IPO market. The number of SPAC IPOs has increased markedly since 2013, and 2020 has been a record year in volume and size of SPAC IPOs[22].

The proceeds raised last year have already more than doubled those raised in 2019. This trend has further accelerated during the first quarter of 2021 and the U.S. style (as defined below) SPAC IPO has now come to Europe with the first SPAC, EFIC1, that went public in March 2021 on Euronext Amsterdam[23].

The increase of SPAC IPOs as alternatives to conventional IPOs is the result of a of multiple and concurring factors. First, unspent committed capital, or "dry powder," held by private equity was estimated to be over $1.5 trillion at the end of 2020, which bolstered the supply of capital that had mostly been idle in the first part of year. Second, as noted above, while pricing for a traditional IPO is affected by market volatility and broader investor sentiment, which can vary significantly leading up to the time of pricing, SPAC combinations provide increased certainty due to the valuation exercise deriving from negotiations that generally take place several months before the de-SPACing closes (in line with an M&A transaction).

During the first half of 2020, the rise in market volatility, which was largely attributable to the coronavirus disease pandemic and the upcoming U.S. presidential election, prompted some companies to forego the traditional IPO route for the up-front price discovery and potential accelerated timeline offered by a SPAC transaction. In addition, SPAC combinations provide sponsors with the opportunity to raise extra capital through PIPEs to fund a significant portion of the target's purchase price and if, needed, its operating financing needs.

We may also argue that traveling restrictions imposed by the Covid pandemic prompted investors to adjust to new ways of assessing investments. Capital deployment in a SPAC is likely easier through video conference platforms as no company visits are necessary in a SPAC IPO. As the use of SPACs increased, several well-known professional investors (venture capital, private equity and hedge fund managers) entered the SPAC market, and some high-profile SPAC acquisitions gave credibility to the structure as a proper and viable investment vehicle.

In many cases, these sophisticated sponsors have remained involved with the target company mostly through board representation to provide ongoing support after the acquisition/merger was consummated. Empirical observation of SPAC activity in the last two year helps us to identify some key emerging themes[24]. In particular, we highlight three observations on recent SPAC activity. Firstly, high-growth and sizable SPACs have been "grabbing the headlines": many SPACs that have gone public recently have focused on high growth

[22] M. Corgatelli, *The Golden Year (so far) of the SPAC Phenomenon*, Fordham Journal of Corporate & Financial Law, February 7, 2021.

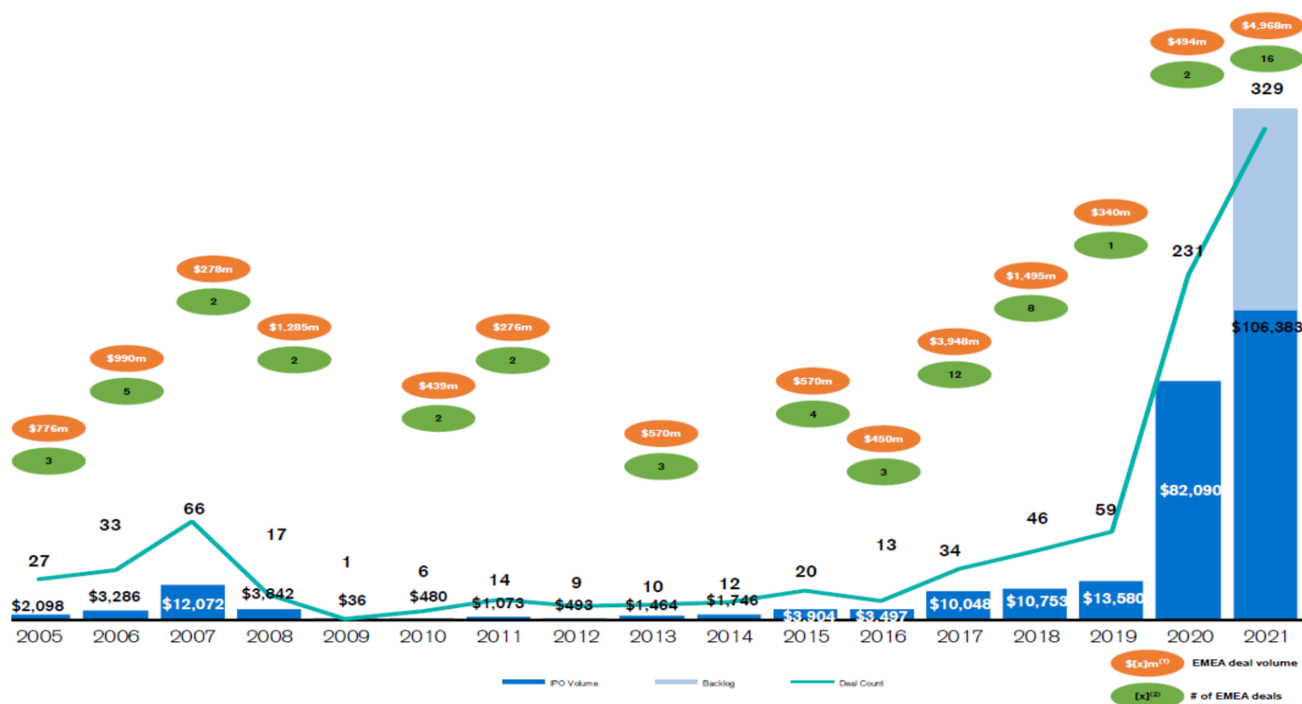
[23] Following the EFIC1 IPO, in the first half of 2021 there have been other 8 SPAC IPOs in Amsterdam, 3 in Paris, 3 in Frankfurt, 1 in Stockholm, and 1 in Milan.

[24] Credit Suisse, *Making Waves: the evolution of SPACs*, Fourth Quarter Corporate Insight, November 2020.

and disruptive technology equity stories that have caught high media attention. Secondly, on the other hand, not all SPACs are headline-grabbing: high quality businesses with lower growth prospects have also been going public via SPACs. Thirdly, there has been a significant increase of "mission-oriented" SPACs[25]: one example of a topical mission that SPACs are targeting is that of Environmental, Social and Governance ("ESG"), which has become a strategic priority for companies, financial institutions and investment firms[26].

Figure 2: SPAC Issuance 2005-1H 2021

($ in millions)



Source: Company filings (US-listed IPOs ≥ $50m), Dealogic as of June 30, 2021.

6. The emergence of "U.S. style" SPACs

The success of the private equity market in Europe have led to the emergence of SPAC investments in certain European countries. SPACs in Europe have developed as an attractive investment tool as they are subject to less regulatory measures than private equity.

The first IPOs of European SPACs took place back in 2005, two years after the first SPAC went public in the United States. However, during 2020 and 2021 so far, we have witnessed to the emergence of what we call the "U.S. style" SPAC. We define a U.S. style or American SPAC a SPAC listed on a regulated U.S. exchange and structured according to the prevailing practice in that market, as detailed below. It is also notable, as

[25] As of September 17, 2021, out of the 424 SPACs currently seeking acquisitions, 33% are focused on technology-media-telecoms, 17% are generalist, 11% are focused on healthcare, 7% on consumer, 6% on financial technology, 6% on industrials, 4% on international acquisitions, 4% on ESG, 1% on energy and 11% on other sectors. In terms of size, 40% of SPACs are less than $250 million, 42% between $250 and 400 million, and 18% greater than $400 million. Largest sectors by focus are technology, media, telecoms and financial technology ($49 billion combined), followed by generalist ($39 billion). Median SPAC IPO size is $262 million (source: Dealogic).

[26] As of February 2021, in the U.S. market there were $271 million of ESG announced de-SPACs and $259 million of ESG completed de-SPACs (source: Dealogic).

mentioned before, that EFIC1, the first SPAC that listed in Europe in 2021 (on the Euronext Amsterdam), was structured as a U.S. style SPAC, notwithstanding its non-U.S. listing[27].

At the same time, it is worth noting that many American SPACs are targeting European companies for a de-SPACing (although usually with operations in the U.S. or exports to the U.S. or M&A focus in the U.S.)[28]. A confluence of factors has led to the growth, evolution, and broader acceptance of the U.S. style SPAC.

Firstly, there is a general consensus among market participants that U.S. style SPACs have relevant shareholder-friendly features to better align the interests of sponsors and shareholders, thus offsetting the criticism that SPACs are primarily meant to enrich sponsors and founders. Such (widespread) criticism was mostly due to the fact that in earlier versions of SPACs, investors were less protected in the context of the proposed business combination and had little options other than approving it.

Table 2: Summary of Most Recent SPAC Features

	Improvements over earlier SPAC versions	Improved features of newer SPACs
Increased Investor Protections	• Ability to redeem shares post merger vote • No maximum redemption threshold • Amount in Trust at or above 100%	• Redemption option irrespective of vote • 100% downside protection
Reduced Sponsor Overhang	• Sponsor promote and at risk investment not issued as units • Private warrants struck out of the money	• Founder ownership and economics better aligned with public investors
Warrant Structure Enhancement	• Reduced warrant coverage (e.g. 1:1 now 1:2/1:5) • Warrants expire 5 years after acquisition	• Reduced overhang from warrant dilution in capital structure
Market Dynamics	• Higher quality operator / founders • Buying public-ready, attractive acquisition stories • Top tier sellers willing to consider SPACs	• Quality of acquisition targets has improved • SPACs becoming viable exit option

Source: Barclays research, November 2020.

Historically, there has been concern regarding excessive and lop-sided compensation for the SPAC sponsors and a misalignment of sponsor incentives vs investors. In that respect, in American SPACs, the "skin in the game" that sponsors leave in the venture (e.g. the risk they would lose the money deployed to cover expenses and working capital needs), and the voting rights and redemption rights granted to SPAC investors act as compelling investment catalysts.

[27] A SPAC targeting an acquisition in Europe could have advantages by listing in Europe vs. the U.S.: (i) more natural listing location for the de-SPACed company; (ii) avoids potential "orphan" status post de-SPACing; (iii) offers much greater scarcity value and can capture U.S. investor demand but also incremental European demand; (iv) standard U.S. features such redemption rights, shareholder votes, warrants etc. can be replicated in most jurisdictions. See Skadden Arps Slate Meagher & Flom LLP, *SPACs: reshaping M&A and IPO for European Companies*, February 2021.

[28] Notable U.S. listed SPACs with European focus include Pontem Corp., 2MX Organic, Dutch Star Two, Avanti, ScION, Investindustrial, Broadstone, Galileo Acquisition Corp., VG Acquisition Corp., Burgundy Technology. The size of these IPO ranged from a minimum of $130 million to a maximum of $ 690 million.

Secondly, the U.S. market has so far produced better known and prominent sponsors, including among others: Chamath Palihapitiya (venture capitalist), Kevin Hartz (Early-stage Silicon Valley investor), Bill Ackman (hedge fund manager), Billy Beane (Oakland Athletics executive), and Paul Ryan (Ex House Speaker). Thirdly, several high - profile companies have picked up the SPAC route to go public; examples include among others Nikola, Virgin Galactic, DraftKings, United Wholesale Mortgage.

U.S. style SPACs have also witnessed a diverse and broader institutional investor participation: long only and hedge funds have been playing a relevant role and have invested significant amounts in the product. Finally, the market has seen large SPAC IPOs that have met significant investor demand (i.e. the $4 billion Pershing Square Tontine Holdings, sponsored by Bill Ackman).

A notable difference between American SPACs and European SPACs is that the latter tend to have more flexible regulations and tend to not subject the management to as many stringent requirements. For example, according to the United States stock exchanges requirements, specifically the NASDAQ and New York Stock Exchange, the target company must have a minimal fair value representing 80% of the trust fund amount in order to represent an eligible and legitimate de-SPAC transaction. To the contrary, many European stock exchanges do not subject the management to these requirements, giving the European SPACs the opportunity to complete multiple smaller acquisitions instead of a single acquisition.

In addition, unlike the SPACs in the United States, SPACs in Europe are allowed to have a specific targeting company in mind during the SPAC's IPO. This provides SPAC management with the opportunity to incentivize investors to invest in the SPAC as SPAC managers have the option to discuss with potential investors the target companies they are considering acquiring. While this feature may benefit the investor, who has a clearer picture of the exact direction the SPAC is pursuing and, therefore, the risks they are assuming in making their investment, generalist SPACs or SPACs with a broad mission (i.e. one or more industry sectors or verticals within a sector) seem to have encountered significant investor interest. Investors are also showing preference for SPACs focused on a single acquisition as they see the SPAC as a proxy to an IPO of the operating company (that will possibly pursue M&A opportunities once it has become public) rather than a "serial" investment vehicle[29]. This is even more relevant for PIPE investors who see a de-SPACing as an alternative way to deploy capital in an IPO of a company, with the added benefit of being able to make a more thorough assessment of the target, thanks to the availability of financial projections and the opportunity of a discussion with the SPAC's sponsors as well as with the management team of the operating company.

This is a key and very important feature as it has proven to be a powerful and effective tool to attract PIPE investors into a de-SPAC transaction. PIPE investors are "brought in the deal" through a so called "wall crossing" procedure (i.e. as a result of the wall crossing, they cannot trade shares in the SPAC considering the acquisition and they have to keep confidential all the business and financial information regarding the target company, and even the potential deal itself).

[29] G. Gigante, A. Conso, E.M. Bocchino, *SPAC – from the US to Italy, An evolving phenomenon*, EGEA, September 2020.

Table 3: Key Terms of a Typical U.S. Style SPAC

Public Offering Structure	• Offering of public units, each consisting of: ○ One share of Class A common stock ○ Fraction of one warrant (**"Public Warrants"**) • Public units sold at IPO at $10 per unit
Founder Investment	• De minimis payment (e.g. $25,000) for 20% promote in form of Class B common stock (**"Founder Shares"**) • Purchase of Private Warrants at IPO (at-risk investment) ○ Funds IPO offering expenses and working capital • Capital commitment and ownership split of SPAC between management and other at-risk capital providers negotiated directly by parties involved
Warrants Structure	• Public Warrants ○ $11.50 / share exercise price ○ Exercisable 30 days after M&A or 1 year after IPO ○ Redeemable upon specific share price trigger (1) ○ Expire 5 years after M&A • Private Warrants ○ In line with Public Warrants terms ○ Not redeemable if held by sponsor
Founder Economics	• Management does not receive compensation from SPAC • Compensation via: ○ 20% promote in form of Founder Shares ○ Potential upside from Private Warrants
Acquisition Criteria	• Aggregate fair market value of acquisition must be at least 80% of total assets held in Trust • Acquisition must achieve effective control of target's voting securities
Acquisition Approval and Redemption Rights	• Acquisition typically subject to public shareholder vote ○ Generally requires simple majority • In connection with acquisition vote, shareholders may elect to redeem shares for pro rata share of funds in Trust ○ Redemption option irrespective of how they vote ○ Retain upside via Public Warrants

Source: Barclays research, February 2021.

It must be noted though that more recently we have witnessed to a growing level of appetite for European SPACs from investors. With many investors globally seeing SPACs as a way to participate to attractive growth themes alongside sponsors, U.S. investors currently consider a Europe focus to be a positive differentiating factor, and European investors who have so far missed out on the U.S. wave, want to access to the same high return optionality inherent with SPAC IPOs. Investors also expect more U.S. listed SPACs focused on European targets going forward. Empirical observation and investor surveys also confirm that investors generally want the structuring of a European listed SPAC as close as possible to U.S. style terms and process. Key focus is on the following features: (i) having redemption rights at par; (ii) no suspension of listing at de-SPACing announcement; (iii) ability to raise the PIPE confidentially; (iv) adequate flexibility on promote structures; (v) due to negative / low rate environment in Europe, no leakage from investing the trust account / escrow[30]; in government bonds (i.e. sponsors should fund the gap) [31]; (vi) sufficient market liquidity post de-SPACing. Notwithstanding the recently listed European SPACs are structured as U.S. style SPACs, there are

[30] European SPACs have an escrow structure rather than the U.S. trust structure. For Amsterdam listed SPACs this means that, under Dutch law, the escrowed funds are the company's property and not technically protected from third-party claims. This is legally different from the U.S. where the funds are held in a trust for the benefit of invesotrs.

[31] This applies to SPACs denominated in Euro. A European listed SPAC can also be denominated in U.S. dollars albeit less likely due to the fact that most European listed SPACs target European de-SPACings (no precedents in Europe so far of a $ denominated European SPAC).

some differences compared to the U.S. listed SPACs concerning trading and disclosure. As to trading, in the U.S. units trade as a single line for the first 52 days after which investors may split the units into shares and warrants and trade them separately (i.e. there are three securities trading 52 days after IPO). In Europe, units trade as a single line for the first up to 35 days, after which the units automatically split into shares and warrants (i.e. there are only two securities trading). As to disclosure, in the U.S., prospectus filings are public so investors have more time to review the offer documents. In Europe, prospectus filings are made confidentially. However, it is possible to provide sufficiently advanced draft of the prospectus to selected interested investors as part of the IPO process.

Eventually, the decision of the listing venue mostly depends on where the acquisition is being pursued. Although this is not an absolute rule, a SPAC targeting an acquisition in Europe might prefer to list in Europe versus the U.S. and might have several advantages. These would include having a more natural listing location for the de-SPACed company, avoiding a potential orphan status post de-SPACing (and also avoiding U.S. stock exchange compliance, U.S. litigation risks, etc.), and benefiting from greater scarcity value when marketing the deal with investors. In this respect, European SPACs can also capture U.S. investor demand in addition to incremental European demand.

7. Key structural and process features

A SPAC will undertake the traditional IPO procedure of filing a registration statement with the SEC or other stock exchange authority, clearing SEC (or other stock exchange authority) comments, and carrying out a road show (i.e. a marketing exercise whereby the SPAC's sponsors meet with prospective investors) followed by a firm commitment underwriting provided by one or more investment banks. The cash raised in the SPAC IPO will be kept in a trust fund account until it will be deployed in the business combination or in the redemption of the shares sold in the SPAC IPO should such business combination not occur within the predetermined time period. In particular, the trust account is funded with an amount typically equal to 100% of the gross proceeds of the IPO, with approximately 98% of the amount funded by the public investors and 2% or more funded by the sponsor. The funds in the trust account are typically invested in short-term government bonds or held as cash and are only released in the event of (i) a business combination involving the SPAC; (ii) the redemption of SPAC shares if shareholders elect to do so, with the redemption price being equal to the IPO price[32]; (iii) the payment of the deferred portion of the underwriting fees and other transaction expenses.

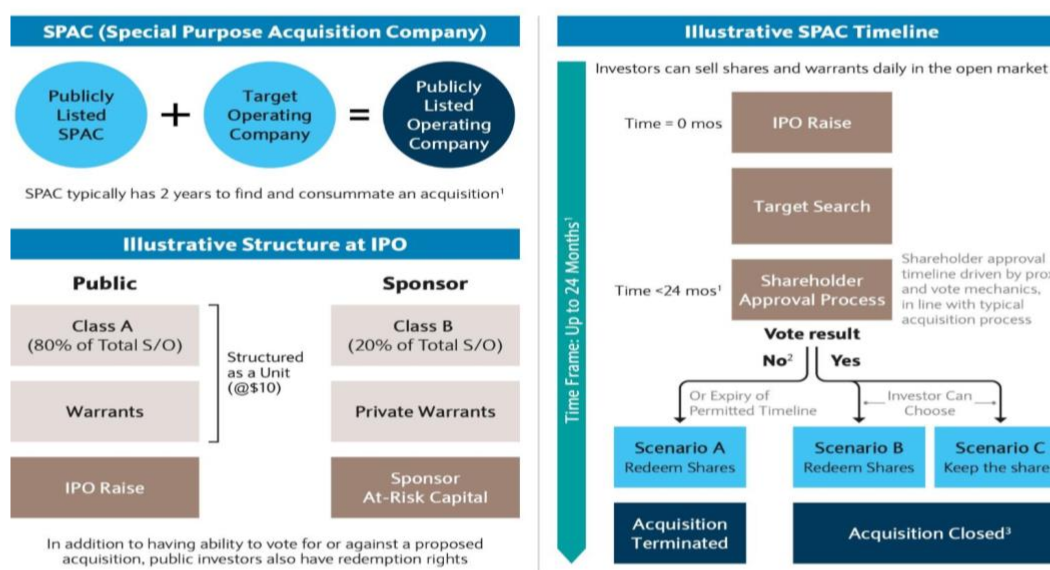
The trust agreement typically permits withdrawals of interest earned on the funds held in the trust account to fund franchise and income taxes and occasionally permits withdrawal of a limited amount of interest for working capital. Offering expenses, including the up-front portion of the underwriting fees (another portion will be paid to the underwriting bank(s) upon de-SPACing), and a modest amount of working capital will be

[32] The redemption right is as an important tool to scrutinize and challenge the ability of the sponsors to carry out the business combination. In practice, however, the sponsors usually only bring to SPAC shareholders business opportunities that are likely to receive shareholder support.

funded by the entity or management team that forms and sponsors the SPAC. Another important feature in respect of the trust account is that the SPAC generally must conduct an initial business combination valued at least at 80% of the value of the cash held in trust within 18 or 24 months, or the funds in trust must be returned to investors.

It must be noted that if an investor has purchased shares in a SPAC on the open market, such investor is only entitled to the pro rata share of the trust account and not the price at which the SPAC shares were bought on the market.If the SPAC needs additional capital to pursue the business combination or pay its other expenses, the sponsor may provide additional funds to the SPAC (sometimes the sponsor commits these funds at the time of the SPAC IPO, through the forward purchase agreement). Following the announcement of the proposed combination, the SPAC will undertake a shareholder vote or tender offer process, thus offering the public investors the right to return their shares to the SPAC in exchange for an amount of cash roughly equal to the IPO price paid (plus interests earned minus expenses incurred unless the latter are borne by the sponsors). If the business combination is approved by the shareholders and the financing and other conditions specified in the acquisition agreement are satisfied, the business combination will be executed and the SPAC and the target operating company will merge into a publicly traded operating entity.

Table 4: SPAC Structure and Timeline



Source: Barclays research, February 2021.

8. Comparison to operating company IPO process

As compared to operating company IPOs, SPAC IPOs can be considerably quicker[33]. SPAC financial statements in the IPO registration statement are very short and can be prepared in a matter of weeks (compared

[33] It must be noted that the timing comparison between a traditional IPO and a SPAC IPO is more meaningful if we compare the former to the de-SPACing processa s this is the way trough which an operating company goes public (via combination with a SPAC). In general terms, while a traditional IPO usually requires 17-19 weeks from start (kick off meetings and prospectus drafting) to finish (pricing and closing), a de-SPACing tends to be shorter, i.e. 13-16 weeks from the initial negotiations between the SPAC and the target company and the completion of the SPAC merger., or 10 weeks from initial proxy filing to completion.

to months for an operating business). There are no historical financial results to be disclosed or assets to be described, and business risk factors are minimal. In essence, the IPO registration statement is mostly customary legal language plus director and officer biographies. As a result, the SEC (or other stock exchange authority) comments are usually few and not particularly cumbersome. From the decision to undertake a SPAC IPO, the IPO process can be completed in approximately eight weeks.

After going public, the SPAC then has a set time frame to find and merge with a target business and, by doing so, take the target business public, thus representing an alternative way to a an IPO for a private company. In that respect, a SPAC merging with a target company can be considered as a type of IPO. The search for a suitable acquisition is similar to the process used in a typical M&A transaction, with sponsors vetting potential targets through an accelerated financial, legal, and tax due diligence process. SPACs can be an efficient alternative route for private companies to go public compared to an IPO or a direct listing.

The key reasons can be ascribed to speed of access to the market, greater control and visibility on the IPO pricing, as well as simpler disclosure requirements. From the perspective of the target company, the economic and practical effects of a de-SPAC transaction are in many ways similar to those reached by conducting a traditional IPO with a large primary component. The cash the SPAC can rely will be used to support the business of the combined company and/or to buy out existing shareholders of the target[34]. The de-SPACing involves most of the same requirements applicable to an IPO of the target business, including audited financial statements and other disclosure items which would not otherwise be applicable if the target business were acquired by an operating company rather than a SPAC. SPAC IPOs have an unusual structure for the underwriting fee paid to the banks in charge of the market placement.

In a traditional U.S. IPO, the underwriters typically receive a fee of 5%-7% of the gross IPO proceeds, which they withhold from the proceeds that are delivered at closing. In a SPAC IPO, the typical fee (or "discount") structure is for 2% of the gross proceeds to be paid at the closing of the IPO, with another 3.5% deposited into the trust account and payable to the underwriters on closing of the de-SPAC transaction. If no de-SPAC transaction occurs, the deferred 3.5% discount is never paid to the underwriters and is used with the rest of the trust account balance to redeem the public shares. In a traditional IPO, sponsors, directors and officers enter into a lock-up agreement usually for 180 days from the closing of the IPO. For a SPAC IPO, the typical lock-up is one year from the closing of the de-SPAC transaction, subject to early termination if the common shares trade above a fixed price (usually $12.00 per share) for 20 out of 30 trading days starting 150 days after closing of the de-SPACing. The pricing process of a de-SPACing tends favor high-growth targets for two main reasons. Firstly, these companies often need cash to grow organically or through acquisitions, and thus these targets benefit from a combination with a cash shell.

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[34] In the U.S. market, unlike an IPO, SPAC investors are more accepting of secondary transactions, although de-SPACings with high growth technology companies tend to require more primary, up to 100%.

Secondly, these companies often have to rely on their projections for a significant part of their valuation as they might be loss making and/or non-cash generative at the time of the de-SPACing and possibly in the (immediate) following years. Unlike a traditional IPO where forecasts are not given to prospective investors (except for some high-level guidance), as part of the PIPE, the SPAC and the target share projections with the new investors and subsequently publicly disclose such projections in the de-SPAC transaction documents. This can provide for a more accurate valuation for companies that base their high valuations on future projections rather than current profits or are in industries that are rapidly transforming. Although there may be cost savings in a de-SPACing, these savings can be offset or exceeded by the cost of capital related to the warrants and sponsors' shares in the SPAC. In order to address these costs and make themselves more appealing to potential targets, initially, some SPAC sponsors renegotiated the terms of their "promote" in the context of the actual de-SPACing transaction; now some SPACs have begun reshaping the terms around the promote and warrant structures from inception.

A de-SPACing also allows the target to largely de-risk the transaction. Since the SPAC IPO cash is already held in trust and the PIPE financing is usually subject to very limited conditions precedent at the time of the de-SPACing announcement, the success of a de-SPAC transaction is less dependent on the status of capital markets (except for severely adverse market conditions) compared to a traditional IPO.

As to financial disclosure, the SEC and other authorities treat companies that have gone public via a SPAC differently than the ones undertaking traditional IPO. As investigated further in the following chapters, this can have a variety of impacts on the combined entity resulting from the de-SPACing, including an inability to use Rule 144A[35] for 12 months following de-SPACing, to potentially requiring three years, rather than two, of audited financials in the business combination documentation filed with the regulator.

If the SPAC seeks shareholder approval of the initial business combination, it will provide shareholders with a proxy statement in advance of the shareholder vote[36].

Table 5: Comparison of Traditional IPO vs De-SPACing

	Traditional IPO	**De-SPACing IPO**
Exposure to more stable market / Less sensitive thematic sentiment	Higher	Lower
Receptivity for secondary vs. primary offerings	Lower (especially in the U.S.)	Higher (depending on sectors)
Certainty of execution and valuation before announcement	Lower	Higher
Possibility to disclose projections (3-5 years)	Lower	Higher

[35] Rule 144A of the 1934 Securities Exchange Act provides for certain procedures allowing companies to sell equity or fixed income securities to professional investors ("qualified institutional buyers").

[36] There are cases where the SPAC does not need the approval of public shareholders, because the sponsor and its affiliates, hold enough votes to approve the de-SPACing, in which case shareholders will be provided with an information statement prior to the closing of the initial business combination.

The proxy or information statement contains relevant information about the business that the SPAC intends to acquire, the financial statements of the target company, interests of the parties to the transaction, and the terms of the initial business combination transaction, including the capital structure of the combined entity.

Chapter II SPAC Disclosure and Reporting Requirements at IPO

1. Disclosure and reporting at IPO – Summary

In this chapter we analyze disclosure and reporting requirements for SPACs at the time of formation and IPO while the following chapter will cover requirements at the time of de-SPACing. Our analysis is primarily based on SEC requirements and thus referred to the U.S. market where most of the SPACs are listed or seeking listing. It must be noted that IPO prospectuses of recent European SPACs are structured along the lines of the U.S. standards. In conducting our analysis we have referred, whenever useful and appropriate, to actual IPO documents and we have taken the Liberty Media Acquisition Corporation's IPO of January 2021 as the reference example of a SPAC IPO prospectus[37].

As in all IPOs, there are several primary regulatory steps that a SPAC applicant is required to comply for: (i) prepare and file Form S-1 registration statement with the SEC[38]; (ii) select and filing listing application with a trading market (generally NASDAQ or NYSE); (iii) make filing with FINRA[39] regarding underwriting compensation and arrangements. The SEC review of the IPO process is focused on the disclosure provided in Form S-1. The review is a not-merit based evaluation of the offering. Form S-1 is assigned for such review to one of the Disclosure Operations section of the SEC's Division of Corporation Finance. Disclosure Operation is divided into 11 groups, organized by industry type. SEC practice is to provide comments within 30 days of filing of Form S-1 and within 5 days of filing subsequent pre-effective amendments.

It must be noted that a SPAC promoter can facilitate a smooth review: (i) no steps should be taken to search for or locate a target business before and during the IPO; (ii) no contacts should be held, even if at a preliminary stage, with potential target businesses before and during the IPO; (iii) potential conflict of interests and related party relationships or transactions should also be avoided or appropriate disclosure should be provided[40].

By contrast, if the SPAC had a specific target under consideration at the time of the IPO, detailed information regarding the target would be required to be included in the prospectus and the financial statements, thus delaying the IPO and rendering it similar in form and substance to a traditional IPO. In the event of an unsolicited approach from third parties, the SPAC team should abstain from engaging and should maintain that no discussion will be held with potential target until after completion of the IPO. Example disclosure may include the following: *"We have not, nor has anyone on our behalf, taken any measure, directly or indirectly, to identify or locate any suitable acquisition candidate for us, nor have we engaged or retained any agent or other representative to identify or locate any such acquisition candidate. Furthermore, we have not been approached by any candidates with respect to a possible acquisition transaction with us."*

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[37] We have not referred to a specific example for a deSPACing transaction as the content of the relevant documents are mostly influenced by the target of the business combination as in traditional IPOs.

[38] As required by the Securities Act of 1933. The Form S-1 must be compiled by any entity willing to register newly issued securities to be listed on a regulated US exchange.

[39] FINRA (acronym for Financial Industry Regulatory Authority) is the U.S. self-regulatory body that oversees brokers and dealers operating on a regulated exchange.

[40] C. M. Krus, H. S. Pangas, *A Primer on Special Purpose Acquisition Companies*, Sutherland Asbill & Brennan LLP, 2016.

2. Accounting for shares and warrants issued by a SPAC – An overview[41]

In its IPO, a SPAC typically issues units to third-party investors at $10.00 per unit. Each unit, as described in the previous chapter is composed of:

- One Class A ordinary share (hereinafter a "Class A Share").
- A fraction of a warrant to purchase one Class A Share at an exercise price of $11.50 (hereinafter a "Public Warrant").

As we know, the sponsors receives Class B shares ("Class B Shares"). They also have the right to purchase warrants (hereinafter "Private Placement Warrants") to acquire Class A Shares at a strike price of $11.50 per share. The Private Placement Warrants are typically paid for $1.00 or $1.50 per warrant, and the proceeds received by the SPAC are used to pay the underwriting fees related the SPAC's IPO. In most cases there are other arrangements that are provided for upon the formation of a SPAC or when the SPAC completes a merger. Those may include the following:

- Forward contracts that (i) obligate the SPAC to issue additional Class A Shares to a counterparty at a fixed price and (ii) are settled immediately before the SPAC completes a merger with a target.
- Warrants on Class A Shares or on Class B Shares that are issued to the sponsor, its affiliates, or third parties in return for providing financing to the SPAC.
- Classes of preferred stock issued to third-party investors, the sponsor, or the sponsor's affiliates.
- Class A Shares or Class B Shares (or warrants on such shares) that are issued to the SPAC's employees or third-party service providers as compensation for services provided.

Although initially issued as a unit, the Class A Shares and Public Warrants will start trading separately shortly after the IPO. Public Warrants do not alter the terms of the Class A Shares not even when they are exercised. As a results the Public Warrants are separately exercisable vis a vis the Class A Shares and as such can be considered as freestanding financial instrument. The fact that the Class A Shares and Public Warrants are separate instruments, this entails that the proceeds from the issuance of these instrument, net of any issuance costs, must be allocated between the two components. The allocation depends on the classification of the Public Warrants:

- Public Warrants classified as liabilities: the SPAC must use the with-and-without method to allocate the net proceeds among the Class A Shares and Public Warrants. According such method, a portion of the net proceeds from the issuance of the units equaling the Public Warrants' fair value at issuance date should first be allocated to the Public Warrants. The SPAC then allocates the residual net proceeds to Class A Shares.
- Public Warrants classified as equity instruments: the SPAC must use the relative fair value method to allocate the net proceeds among the Class A Shares and Public Warrants. According to this method,

[41] A comprehensive review of the relevant reporting requirement can be found in several papers published by accounting firms. We have primarily referred to Deloitte, *Accounting and SEC Reporting Considerations for SPAC Transactions*, October 2020, Updated as of March 2021.

the SPAC conducts separate estimates of the fair values of both Class A Shares and Public Warrants and then allocates the net proceeds on a pro rata basis to such fair value amounts.

Class B Shares and Private Placement Warrants also represent separate units of accounting. Consistently with the rules applying to Class A Shares and Public Warrants described above, if the Private Placement Warrants are classified as liabilities, the initial amount allocated to these warrants should equal their initial fair value.

To perform the allocations discussed above, entities must measure the fair value of the instruments. Although both the Public Warrants and the Private Placement Warrants when issued are not "in-the-money" (i.e. the exercise price is below market value), their fair value is nevertheless greater than zero. When measuring fair value, the SPAC should take into account the high probability that the SPAC will combine with a target and the warrants will become exercisable[42].

3. Classification of Class A Shares

Class A Shares issued by a SPAC can be considered equity from legal point of view. Therefore, these shares should only be classified as liabilities if they represent (i) mandatorily redeemable financial instruments or (ii) unconditional obligations to deliver a variable number of equity shares that are liabilities. Class A Shares typically include the following redemption clauses:

- If the SPAC does not consummate a business combination by a specified date after the IPO (e.g., two years after the IPO), the SPAC will liquidate and the Class A Shares will be redeemed at $10.00 per share or close to such amount;
- If the SPAC does consummate a business combination, all holders of the Class A Shares have the right to redeem their shares at approximately $10.00 per share immediately prior to the consummation.

Because it is certain that the Class A Shares will be redeemed or become redeemable, the shares must be classified within temporary equity in the SPAC's financial statements. A SPAC must then subsequently measure the shares to their redemption amount since, as a result of the allocation of net proceeds to the Public Warrants, the initial value of the Class A Shares will be below $10.00 per share. We note two alternative methods that can be applied by a SPAC when measuring Class A Shares over their life:

- Re-measure the Class A Shares to their redemption amount (i.e., $10.00 per share) immediately as if the end of the first reporting period after the IPO was the redemption date.
- Accrete changes in the difference between the initial carrying amount and the redemption amount from the IPO date to the redemption date. To apply such method, the SPAC should consider the likely date on which it expects a business combination to take place, rather than merely accreting to the automatic redemption date.

[42] The SEC has taken a specific position on the accounting treatment of warrants in SPAC IPOs – see J. Coates, P. Munter, Staff Statement on Accounting and Reporting Considerations for Warrants issued by Special Purpose Acquisition Companies, April 2021.

After the completion of a de-SPACing, the redemption rights on the Class A Shares lapse. Therefore, unless there are other redemption provisions, the temporary equity classification of the shares is no longer required.

4. Classification of Class B Shares

The Class B Shares issued by a SPAC should also be considered equity legally. However, Class B Shares should be classified as liabilities if they represent (i) mandatorily redeemable financial instruments or (ii) unconditional obligations to deliver a variable number of equity shares that are liabilities. There is no empirical evidence of liability classification of the Class B Shares thus far. Class B Shares are generally not redeemable by the sponsor, and a sponsor is not entitled to any proceeds if the SPAC liquidates because there is no business combination. In the absence of a combination of the SPAC with a target, the Class B Shares will be worthless. Since there are no redemption provisions, a SPAC is not required to classify Class B Shares in temporary equity.

5. Public Warrants

To determine the appropriate classification of the Public Warrants, SPACs must first consider the liability classification guidance in ASC 480-10[43].
An entity shall classify as a liability any financial instrument, other than an outstanding share, that, at inception, has the following features:

- It embodies an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation.
- It requires or may require the issuer to settle the obligation by transferring assets.

The assessment of whether Public Warrants are liabilities according to ASC 480-10 will depend on when the warrants become exercisable

- The Public Warrants may be exercised before a merger with a target. The Public Warrants are liabilities under ASC 480-10 because the Class A Shares received upon exercise of the warrants may be redeemed at the holder's option upon a merger of the SPAC.
- The Public Warrants may be exercised only after a merger with a target. The Public Warrants are not liabilities under ASC 480-10 because once the warrants are exercisable, the holder will receive Class A Shares that are not redeemable.

Public Warrants that are not considered liabilities under ASC 480 are classified as liabilities or equity according to ASC 815-40. To be classified as equity instrument according to ASC 815-40, Public Warrants should comply with two conditions:

- They are indexed to the SPAC's stock.

[43] ASC stands for Accounting Standard Codification. ASC 480-10 provides guidance on determining whether certain financial instruments with both equity-like and debt-like characteristics should be accounted for as equity or liabilities by the issuer and SEC registrants should present certain redeemable equity instruments as temporary equity. In U.S. accounting practices, the Accounting Standard Codification is the official source of the U.S. generally accepted accounting principles. The ASC is maintained by the Financial Accounting Standard Board.

- They meet the criteria for equity classification (i.e., the SPAC controls the ability to settle the warrants in shares; note that these criteria are relevant even if the contract requires settlement in shares).

ASC 815-40-15 provides for a two-step model that a SPAC should apply to determine if the Public Warrants are indexed to the SPAC's stock. The evaluation must consider the following:

- Step 1: The exercise or settlement of the contract.
- Step 2: The monetary value of the settlement amount (i.e., factors that affect the settlement amount, or "settlement provisions").

For each unit of account, a SPAC should assess the indexation requirements in ASC 815-40-15. If the SPAC assesses that there is no indexation to the company's stock, the contract should be considered as a liability. If the Public Warrants are considered indexed to the SPAC's stock, it must assess whether it controls the ability to settle the contract in its shares, which case equity classification is allowed.

6. Private Placement Warrants

The terms of Private Placement Warrants are similar to the terms of Public Warrants. However, there might be some differences:

- Public Warrants often have a redemption-for-stock feature or a feature that allows the SPAC to call such warrants for $0.01 in the event the holder does not exercise them. Private Placement Warrants instead do not have redemption rights allowing the SPAC to force early exercise of the warrants.
- Some exercise price adjustments are calculated differently for Private Placement Warrants and Public Warrants.
- The cashless (net share) settlement formulas for Private Placement Warrants differ from those that apply to Public Warrants.

The terms of Private Placement Warrants generally change if they are transferred to a non-permitted transferee (e.g., a party other than the sponsor or its affiliates). In such case, the Private Placement Warrants "migrate" to Public Warrants status. As noted in the discussion of indexation of Public Warrants, ASC 815-40-15 contains a model that an entity must apply to determine whether Private Placement Warrants are indexed to the SPAC's stock. Under this model, in addition to assessing contingent exercise provisions, a SPAC must ascertain if any potential adjustment to the exercise price or settlement amount is an input into the pricing of an option on equity securities.

If a Private Placement Warrant (i) does not contain any settlement provision (i.e., a provision other than a standard anti-dilution adjustment that affects the exercise price or number of shares) or (ii) could never become a Public Warrant, the Private Placement Warrant could then be classified as equity subject to the absence of any provision that could cause the warrant to not be considered indexed to the SPAC's stock or not meet the equity classification conditions in ASC 815-40-25. Warrant agreements generally have such provisions and, as result, Private Placement Warrants are not considered indexed to the SPAC's stock, thus requiring liability classification both before and after de-SPACing.

7. Accounting for issuance costs

Direct costs related to the equity issuance should be deducted from the raised proceeds, and the net amount recorded as shareholders' equity. Only issuance costs should be deducted from capital stock. Thus, there should be no allocation of officers' salaries or director's remuneration, and the SPAC must ensure that legal, tax and accounting fees do not include any fees that would have been incurred in the absence of such issuance. The underwriting fees are allocated only to the units since they are directly related to the number of units issued. Since the units contain two separate units of accounting (i.e., Class A Shares and Public Warrants), such costs will be further allocated to those separate units of accounting. Costs allocated to Class A Shares are classified as temporary equity since these shares are redeemable securities. Costs allocated to Public Warrants are classified as permanent equity if the Public Warrants are treated as equity instruments, while tare immediately expensed if the Public Warrants are treated as liabilities that are initially and subsequently measured at fair value.

8. Consolidation of SPACs

In the event that the sponsors of SPACs are businesses that produce consolidated financial statements, the sponsors should assess whether the SPAC must be consolidated

If a sponsor of a SPAC determines that it must consolidate the SPAC:

- Any instrument classified as equity in the SPAC's financial statements that is not owned by the sponsor will represent a noncontrolling interest in the sponsor's consolidated financial statements.
- Any instrument issued by the SPAC that is owned by the sponsor will be eliminated in the sponsor's consolidated financial statements.

9. Review and analysis of a SPAC IPO prospectus

In this section we focus on the most relevant reporting items and disclosure statements of an actual SPAC IPO: Liberty Media Acquisition Corporation, which was listed on NASDAQ in January 2021[44].

As described in the Summary – General section of the prospectus, *"Liberty Media Acquisition Corporation ("LMAC") is a newly incorporated blank check company, incorporated as a Delaware corporation, formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses, which we refer to throughout this prospectus as our "initial business combination." We have not selected any business combination target and we have not, nor has anyone on our behalf, engaged in any substantive discussions, directly or indirectly, with any business combination target with respect to an initial business combination with us. Although we may pursue an acquisition in any industry or geography, we intend to capitalize on the ability of our management team and our sponsor, to identify, acquire and operate a business that may provide opportunities for attractive risk-*

[44] Paragraphs in italic are taken from the LMAC prospectus.

adjusted returns in the media, digital media, music, entertainment, communications, telecommunications and technology industries.

In addition to the prospectus, SPAC's management relies on additional marketing material, typically called "roadshow presentation". According to Securities Act rules, any roadshow that is a "written communication" is a "free writing" prospectus, i.e. an unauthorized material, which SPACs are not allowed to use. However, the Securities Act provides that *"any communication that, at the time of the communication, originates live, in real-time to a live audience and does not originate in recorded form or otherwise as a graphic communication, although it is transmitted through graphic means does not constitute a written communication"*.

A live, real-time roadshow to a live audience will thus not be considered a written communication, and therefore not a free writing prospectus. This means that for a SPAC IPO: (i) traditional roadshow presentations where the SPAC's management and the underwriters meet in person with prospective investors are acceptable; live telephone conference calls are also permissible; (ii) roadshow presentation cannot be recorded; though broadcasts of live, real-time presentations at the time of transmission can be used; (iii) roadshow decks may be passed out to meeting attendees but must be collected at the end of the presentation and attendees may not take the slides with them; slides can also be broadcast if they are viewable only during the presentation; and (iv) roadshow decks may not be emailed to accounts or transmitted in any way that allows the recipient to keep the deck after the roadshow presentation is over[45].

The following table shows the cover page of the LMAC offering circular, focusing on the gross and net proceed of the IPO, a brief description of the issuing entity and its priority investment objectives. The cover page also indicates the deposit in the trust account and the conditions precedents to its release. Finally, it indicates the name of the investment banks in charge of the distribution of the SPAC's units. It is interesting to note that in the cover page of the prospectus the proposed SPAC defines itself as an "emerging growth company". This term has a legal meaning as the emerging growth company definition derives from the Securities Act of 1933, as modified by the Jumpstart Our Business Startups Act of 2012 (the so called "JOBS Act"). According to the LMAC prospectus, the SPAC *"is eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. In addition, the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in the Securities Act for complying with new or revised accounting*

[45] Mayer Brown, *Special Purpose Acquisition Companies*, August 2020.

standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies."

Table 6: Front page of Liberty Media Acquisition Corporation Prospectus

Filed Pursuant to Rule 424(b)(4)
Registration No.: 333-250188

PROSPECTUS

$500,000,000

Liberty Media Acquisition Corporation

50,000,000 Units

Liberty Media Acquisition Corporation, which we refer to as our "company" or "LMAC" throughout this prospectus, is a newly incorporated blank check company, incorporated as a Delaware corporation, formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses, which we refer to throughout this prospectus as our initial business combination. We have not selected any business combination target and we have not, nor has anyone on our behalf, engaged in any substantive discussions, directly or indirectly, with any business combination target with respect to an initial business combination with us. Although we may pursue an acquisition in any industry or geography, we intend to capitalize on the ability of our management team and our sponsor, to identify, acquire and operate a business that may provide opportunities for attractive risk-adjusted returns in the media, digital media, music, entertainment, communications, telecommunications and technology industries.

(Prospectus cover continued on the following page.)

We are an "emerging growth company" under applicable federal securities laws and will be subject to reduced public company reporting requirements. Investing in our securities involves risks. See "Risk Factors" on page 40. Investors will not be entitled to protections normally afforded to investors in Rule 419 blank check offerings.

	Price to Public	Underwriting Discounts and Commissions[1]	Proceeds, before expenses, to us
Per Unit	$ 10.00	$ 0.55	$ 9.45
Total	$500,000,000	$27,500,000	$472,500,000

(1) Includes $0.35 per unit, or $17,500,000 (or up to $20,125,000 if the underwriters' over-allotment option is exercised in full) in the aggregate, payable to the underwriters for deferred underwriting commissions to be placed in a trust account located in the United States as described herein. The deferred commissions will be released only on completion of an initial business combination, in an amount equal to $0.35 multiplied by the number of shares of Series A common stock sold as part of the units in this offering, as described in this prospectus. Does not include certain fees and expenses payable to the underwriters in connection with this offering. See also "Underwriting" for a description of compensation and other items of value payable to the underwriters.

Of the proceeds we receive from this offering and the sale of the private placement warrants described in this prospectus, $500.0 million, or $575.0 million if the underwriters' over-allotment option is exercised in full ($10.00 per unit), will be deposited into a U.S.-based trust account with Continental Stock Transfer & Trust Company acting as trustee. Except with respect to interest earned on the funds held in the trust account that may be released to us to pay our taxes, if any, the funds held in the trust account will not be released from the trust account until the earliest of: (1) the completion of our initial business combination; (2) the redemption of any public shares properly submitted in connection with a stockholder vote to amend our amended and restated certificate of incorporation (A) to modify the substance or timing of our obligation to allow redemptions in connection with our initial business combination or to redeem 100% of our public shares if we do not complete our initial business combination within 24 months from the closing of this offering (or 27 months from the closing of this offering if we have executed a letter of intent, agreement in principle or definitive agreement for an initial business combination within 24 months from the closing of this offering, which we refer to as an "agreement in principle event" throughout this prospectus) or (B) with respect to any other provision relating to stockholders' rights or pre-initial business combination activity; and (3) the redemption of all of our public shares if we have not completed our initial business combination within 24 months from the closing of this offering (or 27 months if an agreement in principle event has occurred), subject to applicable law. The proceeds deposited in the trust account could become subject to the claims of our creditors, if any, which could have priority over the claims of our public stockholders.

The underwriters have reserved up to 2,500,000, or 5% (or 4.3%, assuming full exercise of the underwriters' over-allotment option), of our units being offered for sale, at the initial public offering price, to directors, officers, business associates and related persons of LMAC. See "Underwriting — Directed Unit Program."

The underwriters are offering the units for sale on a firm commitment basis. Delivery of the units will be made on or about January 26, 2021.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Book-Running Managers

Citigroup **Morgan Stanley**
Credit Suisse **Goldman Sachs & Co. LLC**

Source: LMAC Prospectus.

Generally, a SPAC will remain an emerging growth company until de-SPACing. Most of the relevant features of the SPAC can be found in the extended Summary section of the prospectus. In particular, the Summary includes a description of LMAC's sponsor entity which in this case has been a corporate, as opposed to the most frequent case of financial sponsors or wealthy individuals: *"Our sponsor is a wholly owned subsidiary of Liberty Media Corporation ("LMC"). LMC owns interests in subsidiaries and other companies, which are engaged in the global media and entertainment industries. LMC's principal businesses and assets include its consolidated subsidiaries Sirius XM Holdings, Formula 1, Braves Holdings, and equity affiliate Live Nation."*

A specific focus is then dedicated to the SPAC's ownership structure with regard to the sponsor's ownership (at IPO and as result of the forward equity agreement), voting and economic rights and potential dilution as a result of a potential PIPE transaction at the time of de-SPACing: "*Immediately prior to this offering our sponsor owned 100% of our capital stock, consisting of Series F shares which will automatically convert at the time of our initial business combination, or earlier at the option of the holder, into shares of Series B common stock on a one-for-one basis. In connection with our initial business combination, our sponsor has agreed to purchase 25,000,000 forward purchase units consisting of one share of Series B common stock and one-fifth of a forward purchase warrant and has reserved the right to provide us with incremental funding by purchasing additional shares of Series B common stock. […] We anticipate that our sponsor's voting power and equity ownership may be substantially diluted in connection with our initial business combination, either from the issuance of new shares of common stock in exchange for the capital stock of the target, the issuance of our capital stock to third-party investors providing additional funding to our company in connection with the initial business combination[46], or both."*

The forward equity agreement between LMAC and LMC, a voluntary additional funding that could be provided by LMC, and the potential PIPE are better described in a subsequent section of the Summary, titled as Committed Capital. As to the forward equity agreement, this section states: *"We believe our ability to complete our initial business combination will be enhanced by our entry into a forward purchase agreement pursuant to which our sponsor will acquire forward purchase units for $250,000,000, in the aggregate, in connection with our initial business combination. Each forward purchase unit will consist of one share of Series B common stock, or a forward purchase share, and one-fifth of one warrant to purchase one share of Series A common stock, or a forward purchase warrant, at a purchase price of $10.00 per unit. Such forward purchase units will be sold in a private placement that will close substantially concurrently with the consummation of our initial business combination. The terms of the forward purchase warrants will generally be identical to the terms of the redeemable warrants included in the units being issued in this offering"*.

As to the additional funding that LMC could provide in the context of the de-SPACing, the section indicates: *"In addition, our sponsor will have the right, but is not required, to provide, or cause LMC or any of its wholly owned subsidiaries to provide, incremental funding to us in connection with our initial business combination by purchasing additional shares of Series B common stock at a purchase price of $10.00 per share, which shares would also be sold in a private placement substantially concurrently with the consummation of our initial business combination. We believe our committed capital will make us more attractive to a potential business combination target"*.

Finally, the PIPE terms are described as follows: *"In addition, we expect that third-party investors, including certain prior investors in the related companies who have experienced the strong returns provided by an investment in the related companies, may be interested in providing additional, incremental funding to our*

[46] It refers to the potential PIPE transaction.

company in connection with an initial business combination. Any such third-party investors would likely subscribe for shares of Series A common stock at a purchase price of $10.00 per share, which shares would be sold substantially concurrently with the consummation of our initial business combination." Another key section of the Summary includes a description of the sponsor's track record in investing in media, digital media, music, entertainment, communications, telecommunications and technology industries.

To support further the SPAC investment proposition, the Summary presents the management team that will be dedicated to the contemplated initiative, including biographies and relevant activities of the individuals assigned to each key function: Chief Executive Officer, the Chief Corporate Development Officer, the Chief Accounting and Financial Officer and the Chief Legal and Administrative Officer. Other relevant sections of the Summary include the presentation of the SPAC's business strategy, the intended acquisition criteria and the envisaged acquisition process. As to the business strategy, the sponsor and the management team indicate the following key features:

- *"Stockholder Centric: We think like owners and are focused on long-term gains rather than short-term results. At LMC, the compensation structure of the management team is closely tied to the long-term performance of the stock. In fact, the LMC executive leadership team has a significant portion of its respective net worth tied to LMC.*
- *Forward Looking: We are deeply familiar with the trends of the industries in which we plan to invest and can evaluate the opportunities and risks presented by ongoing secular changes and temporary market disruptions.*
- *Nimble: Our team is structured to allow it to move quickly when opportunities arise, and we can be creative in our deal structures.*
- *Financially Sophisticated: Our management team has extensive experience in mergers, capital restructuring, divestitures, investing, capital deployment, credit analysis and setting capital structures.*
- *Long-Term Focused: We take a long-term, strategic view in our various operating businesses and are less concerned with short-term bouts of volatility.*
- *Proprietary Sourcing Channels and Leading Industry Relationships: We believe the capabilities and connections associated with our management team, in combination with those of LMC, will provide us with a differentiated pipeline of acquisition opportunities that would be difficult for other participants in the market to replicate. We expect these sourcing capabilities will be further bolstered by our management team and LMC's reputation and deep industry relationships."*

As to the acquisition criteria, LMAC has identified the following general criteria and guidelines that will be adopted in evaluating prospective target businesses:

- *"Strong Growth Trajectory: We will seek to acquire a business with attractive growth aspects.*
- *Need for Scale: We will seek to acquire a business where the global network, scale and capabilities of our management and sponsor can be leveraged to improve reach and promote exponential growth of the target.*

- *Generate Stable Free Cash Flow: We will seek to acquire a business that has historically generated, or has the near-term potential to generate, strong and sustainable free cash flow.*
- *Potential Industry Consolidator: Industry leader with barriers to entry; well-positioned to participate.*
- *Drives Stockholder Return: Offer an attractive risk-adjusted return for our stockholders, weighing potential growth opportunities and operational improvements in the target business against any identified downside risks.*
- *Inefficient Capital Structure: Have inefficient capital structure or offer potential to improve the efficiency of the capital structure."*

As to the acquisition process, LMAC expects to conduct a due diligence review which may encompass, among other things, meetings with incumbent management and employees, document reviews, inspection of facilities, as well as a review of financial, operational, legal and other information. The Summary also includes a description of the process according to which a business combination will be consummated: *"Nasdaq listing rules require that our initial business combination must be with one or more target businesses that have an aggregate fair market value equal to at least 80% of the value of the trust account (excluding any deferred underwriting commissions and taxes payable on interest earned on the trust account) at the time of our signing a definitive agreement in connection with our initial business combination. We refer to this as the 80% of net assets test. If our board of directors is not able to independently determine the fair market value of the target business or businesses, we will obtain an opinion from an independent investment banking firm or another independent entity that commonly renders valuation opinions with respect to the satisfaction of such criteria. We do not currently intend to purchase multiple businesses in unrelated industries in conjunction with our initial business combination, although there is no assurance that will be the case. We anticipate structuring our initial business combination so that the post-transaction company in which our public stockholders own or acquire shares will own or acquire 100% of the outstanding equity interests or assets of the target business or businesses. We may, however, structure our initial business combination such that the post-transaction company owns or acquires less than 100% of such interests or assets of the target business in order to meet certain objectives of the target management team or stockholders or for other reasons, but we will only complete such business combination if the post- transaction company owns or acquires 50% or more of the outstanding voting power of the outstanding capital stock of the target. [...] Our stockholders prior to our initial business combination may collectively own a minority interest (economic and/or voting) in the post-business combination company, depending on, among other things, valuations ascribed to the target and us in our initial business combination transaction[47]. For example, we could pursue a transaction in which we issue a substantial number of new shares of common stock in exchange for all of the outstanding capital stock*

[47] We note that this is typically the case as SPAC's shareholders (including sponsors, public investors at IPO and subsequently, and PIPE investors) generally end up with a minority stake in the entity resulting from the merger between the SPAC and the target company.

of a target or issue a substantial number of new shares to third-parties in connection with financing our initial business combination."

In addition to the Summary, another key section of the prospectus is the description of the offering, in which the securities being offered are described. In particular, the following items are individually covered in the Offering section:

- Securities offered (i.e. 50 million units including one share of Class A common stake and one fifth of one warrant to purchase one share of common stock.
- NASDAQ symbols for the units, the shares and the warrants.
- Trading commencement and separation of Series A common stock and warrants.
- Exercise price of the warrants.
- Exercise period.
- Redemption conditions of the warrants.
- Forward purchase agreement.
- Voting rights.
- Description of founder shares, including transfer restrictions, conversion rights, preemptive rights.
- Description of private placement warrants.
- Use of proceeds and trust account.
- Anticipated expenses and funding needs.
- Conditions to completing the initial business combination.
- Redemption rights for public shareholders upon completion of the business combination.

One of the most relevant sections of the prospectus is the description of risk factors, which generally is 30-40 pages long. A brief summary is provided upfront. The LMAC example reads as follows: *"Some statements contained in this prospectus are forward-looking in nature. Our forward-looking statements include, but are not limited to, statements regarding our or our management team's expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. [...] These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, the following risks, uncertainties and other factors:*

- *our being a newly incorporated company with no operating history and no revenues;*
- *our ability to select an appropriate target business or businesses;*
- *our ability to complete our initial business combination;*
- *our expectations around the performance of a prospective target business or businesses;*
- *our success in retaining or recruiting, or changes required in, our officers, key employees or directors following our initial business combination;*

- *our directors and officers allocating their time to other businesses and potentially having conflicts of interest with our business or in approving our initial business combination;*
- *actual and potential conflicts of interest relating to LMC, our sponsor and other entities in which members of our management team are involved;*
- *our potential ability to obtain additional financing to complete our initial business combination including from our sponsor, LMC or other third parties;*
- *our pool of prospective target businesses, including the location and industry of such target businesses;*
- *our ability to consummate an initial business combination due to the uncertainty resulting from the recent COVID-19 pandemic and other events (such as terrorist attacks, natural disasters or a significant outbreak of other infectious diseases);*
- *the ability of our officers and directors to generate a number of potential business combination opportunities;*
- *the voting structure of our common stock, including any potential adverse effect on our ability to complete an initial business combination timely or cost effectively, and, following our initial business combination, our status as a controlled company and the ability of our sponsor and LMC to exercise control over our policies and operations, each as a result of the high vote feature of our Series B common stock;*
- *our public securities' potential liquidity and trading;*
- *the lack of a market for our securities;*
- *the use of proceeds not held in the trust account or available to us from interest income on the trust account balance;*
- *the trust account not being subject to claims of third parties;*
- *our financial performance following this offering; and*
- *the other risks and uncertainties discussed in "Risk Factors" and elsewhere in this prospectus."*

As to financial data, since the SPAC is a newly formed company, accounting statements provided in the prospectus are relatively simple as the company has no operating history. Most of the information is thus related to the capital structure before and following the IPO, the latter taking into account the proceeds raised through the offering and the sale of private warrants. The prospectus also shows the dilution to the public investors in the offering, being defined as the difference between (i) the public offering price per share of the class A common stock (assuming no value is attributed to the warrants included in the units being offered or to the private placement warrants), and (ii) the pro forma net tangible book value per share of the class A common stock after the offering.

Chapter III SPAC Disclosure and Reporting Requirements at Business Combination

1. Disclosure and reporting at business combination – Initial considerations

This chapter focuses on the reporting and disclosure requirements that are required at the time of the business combination between the SPAC and the identified target / operating company. As we will note in the following pages, the most relevant feature of such reporting and disclosure requirements is that contrary to traditional IPO prospectuses, de-SPACing prospectuses include detailed forecasts on the future business and financial performance of the operating company (generally three to five years forward).

The key reason why this is allowed is because the de-SPACing is not an initial public offering (which has occurred when the SPAC's shares have been sold to investors) but it is rather construed as an acquisition or a merger transaction which undergoes the vote of the SPAC's shareholders. In other words, the shareholders cast a vote not only on the economic terms of the proposed transaction but also on the business and financial information contained in the transaction materials (i.e the merger documents).

It must be noted that even in an IPO forward looking statements and projections can be disclosed. However, the U.S. Private Securities Litigation Reform Act ("PSLRA") protection provided to companies against liabilities in private litigation for forward looking statement (so called "safe harbor") is not available for private companies introducing themselves to the public market via an IPO[48]. The rationale of the safe harbor protection was to incentivize the disclosure of valuable investor information regarding a company's future outlook.

This lack of protection, which is common feature in other developed securities legislation has so far been limited to IPOs but not to de-SPACing transactions.

This explains why disclosure of forward looking statements and projections has been widely adopted in de-SPACing prospectuses. As we will analyze further in this chapter, this has come under SEC's scrutiny and a new draft legislation is being proposed by the U.S. Congress. An important element that we intend to underline is that reporting and disclosure requirements need to go in tandem with transparency, consistency and full alignment of information provided to existing and prospective investors.

This is better understood if we consider that the de-SPACing is often preceded by a PIPE transaction. In order to entice prospective PIPE investors, the SPAC promoters and their advisors, together with the management team and/or shareholders of the target (and their advisors), prepare and distribute a comprehensive information package on the target containing forecast and forward - looking statements.

This process require that the solicited PIPE investors sign a non-disclosure agreement ("NDA") and are "brought over the wall", i.e. they cannot trade in the SPAC securities for a certain period of time as they have been provided with material non-public information ("MNPI"), regarding the SPAC's intentions and the target itself. Usually, these investors are contacted through a minimum set of information on the proposed transaction

[48] A detailed review of the PSLRA can be found in T.K. Roake, G.K. Davidson, *The Private Securities Litigation Reform Act of 1995*, Fenwick & West LLP, January 1996.

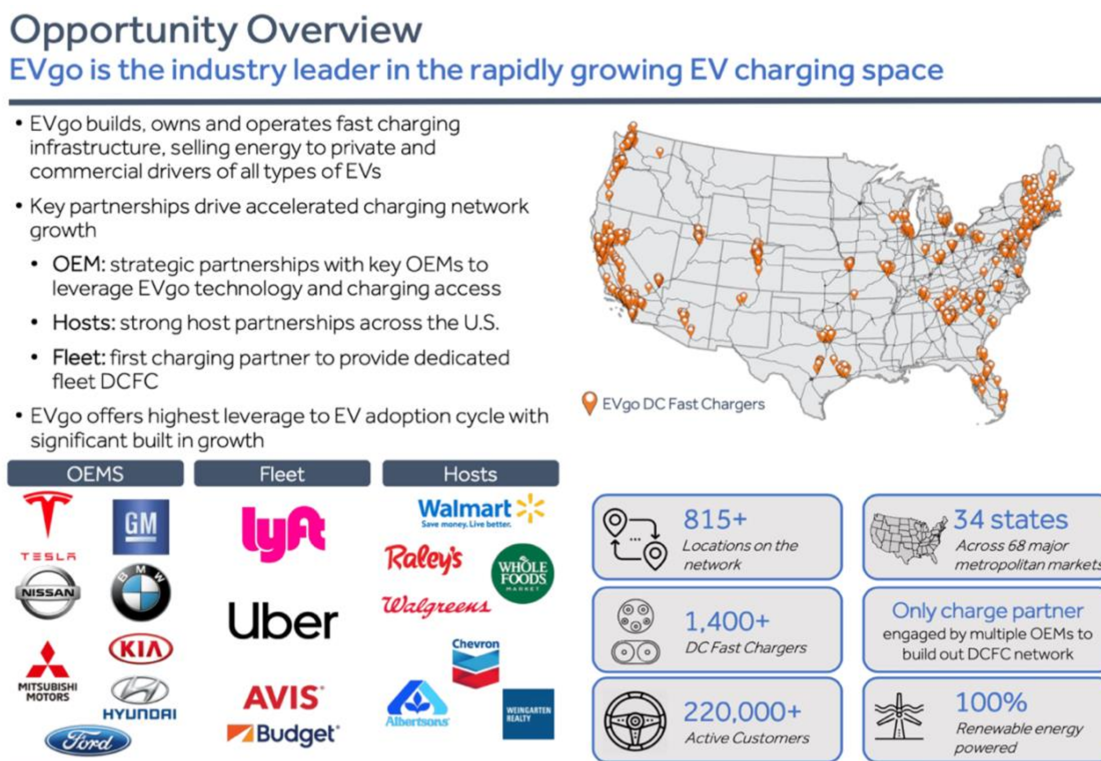
("teaser") following which, investors sign the NDA, receive the additional information and get access to the target's management team and to a data room in order to conduct their due diligence exercise[49].

It must also be noted that PIPE investor solicitation typically follows an initial interaction entertained between the SPAC and the target. Depending on the specific situation, such interaction can be initiated by the SPAC's team in the context of their scouting exercise for combination opportunities or, as it often occurs, by the operating company's management team and/or owners. In the latter case, the operating company undertakes its own marketing effort with selected SPAC candidates.

This process typically entails the distribution of a "teaser" with very limited information on the operating company, followed by the provision of additional detailed information and financial data (i.e. a more comprehensive teaser / company presentation), subject to signing a NDA, to a shortlist of SPACs. Eventually, there will be a bilateral negotiation between the operating company and the chosen SPAC (which will be granted an exclusivity right on negotiation for a certain period of time, generally four to eight weeks) leading to the involvement of potential PIPE investors and then to the business combination.

In order to support our analysis with concrete examples and empirical evidence, we have provided selected pages related to the business combination between EVgo (a U.S. based provider of fast charging infrastructures) and Climate Change Crisis Real Impact I Acquisition Corporation ("CRIS") a dedicated energy transition SPAC[50].

Table 7: Marketing to SPACs: EVgo "Teaser" (Summary Page)



Source: EVgo Investor Presentation.

[50] The EVgo/CRIS combination was announced in January 2021, with official filing submitted in May 2021. The IPO of CRIS was successfully completed in September 2020.

It is important to frame properly the requirement of full transparency and alignment of information provided to all interested parties. It is clear in what we described above that the de-SPACing prospectus and other official reporting and disclosure materials only come at the end of a relatively long process that can last several months (and is some case over a year) during which private and privileged information is provided to selected recipients (i.e. the SPAC's management team and their promoters, as well as the potential PIPE investors).

In order to ensure the appropriate "cleasing", the merger documents will have to reflect all the relevant information and data that might have been provided to third parties during the various steps of the de-SPACing process.

This is to ensure equal and fair treatment of all investors in the SPAC i.e. full alignment to PIPE investors and other recipients of MNPIs.

In the following sections we will analyze in detail the type and content of the merger documents and the most relevant information to be filed with the stock exchange authorities and then provided to the SPAC investors.

For the reasons indicated in chapter I, we have based our analysis on the U.S. practice and regulations.

It must be noted that official filings are typically accompanied or preceded by the issuance of transaction announcement through official press release statements.

The example below refers to the CRIS / EVgo business combination announced on January 22, 2021.

EVgo, an LS Power Company, and Leader in U.S. Electric Vehicle Fast Charging, to Publicly List through Business Combination with Climate Change Crisis Real Impact I Acquisition Corporation

- *EVgo, an industry-leading builder, owner and operator of DC fast charging for electric vehicles in the U.S., has entered into a definitive business combination agreement with Climate Change Crisis Real Impact I Acquisition Corporation ("CRIS"); upon closing, the combined entity is expected to be listed under the new ticker symbol "EVGO".*
- *Anticipated net proceeds of approximately $575 million will be used to fully fund and accelerate EVgo's growth strategy and network buildout. This includes a $400 million fully committed private placement of common stock in EVgo (the "PIPE"). The PIPE is anchored by institutional investors including private funds affiliated with Pacific Investment Management Company LLC (PIMCO), funds and accounts managed by BlackRock, Wellington Management, Neuberger Berman Funds and Van Eck Associates Corporation.*
- *CRIS is co-sponsored by private funds affiliated with PIMCO, which has more than $640 billion in sustainability investments across its portfolios.*
- *Commercial relationships with large automotive OEMs (including General Motors, Nissan and Tesla), rideshare operators (including Lyft and Uber), and major property owners for its host sites (including Albertsons, Wawa, and Kroger), underscore EVgo's market-leading position in the rapidly growing fast charging market.*

- *LS Power, a leading investment firm focused on power, energy infrastructure and energy innovation, along with EVgo management, who together own 100% of EVgo today, will be rolling 100% of their equity in the transaction and are expected to own approximately 74% of the company upon transaction close.*
- *Pro forma implied equity value of the combined company of $2.6 billion. The transaction is expected to close in the second quarter of 2021, subject to customary closing conditions.*

2. Filing requirements

Once the terms of the merger agreement between a SPAC and an operating company are finalized, the SPAC announces the transaction and files a current report on Form 8-K within four business days after such announcement. To solicit a shareholder vote on the merger, the SPAC will prepare a proxy statement on Schedule 14A, which may include additional proposals such as amendments to the SPAC's articles of incorporation, election of directors, and re-domiciling of the SPAC. If the SPAC registers securities in the context of a merger transaction (i.e. the issuance of SPAC shares to PIPE investors), it will file a joint registration and proxy statement on Form S-4 rather than a simple proxy statement.

Additional information that needs to be provided in the proxy or Form S-4/proxy statement includes financial statements of the SPAC and the target company (as well significant business acquisitions and equity investments), pro forma financial information to reflect the merger transaction, management's discussion and analysis ("MD&A") of the SPAC and the target company, comparative per share financial information of the SPAC and the target company, risk factors, background of the merger, and information about the target company (business section).

When preparing the proxy or Form S-4/proxy statement, the SPAC and the target company will have to take into account the following: (i) Emerging Growth Companies ("EGCs"): if the SPAC is an EGC and has not filed its first Form 10-K, and the target company would also qualify as an EGC if it were to conduct its own IPO, two years of annual audited financial statements would be required.

For a target to qualify as an EGC, its total annual gross revenues need to be less than $1.07 billion for the most recently completed fiscal year and it cannot have issued more than $1.0 billion of nonconvertible debt over the past three years; (ii) Smaller Reporting Companies ("SRCs"): the SEC staff has indicated it will not object if a target company includes two years of annual audited financial statements rather than three years if it qualifies as an SRC. To qualify as an SRC, the target company would need to have annual revenue lower than $100 million in the most recent fiscal year. If the first annual report on Form 10-K of the SPAC has been filed and the target does not qualify as an EGC or SRC, three years of audited annual financial statements of the target are required[51].

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[51] For further analysis refer to, among others, EY, *Navigating the requirements for merging with a special purpose acquisition company*, April 2021.

Table 9: Schedule 14 A Proxy Statement: CRIS / EVgo Business Combination (Front Page)

CLIMATE CHANGE CRISIS REAL IMPACT I ACQUISITION CORPORATION
300 Carnegie Center, Suite 150
Princeton, New Jersey 08540

PROXY STATEMENT FOR SPECIAL MEETING
IN LIEU OF THE 2021 ANNUAL MEETING OF STOCKHOLDERS OF
CLIMATE CHANGE CRISIS REAL IMPACT I ACQUISITION CORPORATION

Dear Stockholders of Climate Change Crisis Real Impact I Acquisition Corporation:

You are cordially invited to attend the special meeting in lieu of the 2021 annual meeting (the "special meeting") of stockholders of Climate Change Crisis Real Impact I Acquisition Corporation, a Delaware corporation ("CRIS," "we," "us" or "our"), which will be held at 10:00 AM, Eastern Time, on June 29, 2021, or such other date, time and place to which such meeting may be adjourned or postponed, for the purpose of considering and voting upon the proposals. The special meeting will be held entirely online to allow for greater participation in light of the public health impact of the coronavirus (COVID-19) pandemic. Stockholders may participate in the special meeting by visiting the following website: *https://www.cstproxy.com/climatechangecrisisrealimpacti/2021*.

On January 21, 2021, CRIS, and CRIS Thunder Merger LLC, a Delaware limited liability company and wholly -owned subsidiary of CRIS ("SPAC Sub"), entered into a business combination agreement (as the same may be amended from time to time, the "Business Combination Agreement") with EVgo Holdings, LLC, a Delaware limited liability company ("Holdings"), EVgo HoldCo, LLC, a Delaware limited liability company (the "Company") and EVGO OPCO, LLC, a Delaware limited liability company and wholly-owned subsidiary of Holdings ("OpCo" and, together with Holdings and the Company, the "EVgo Parties"). The transactions contemplated by the Business Combination Agreement are collectively referred to herein as the "business combination." **You are being asked to vote on the business combination and related matters as described below.**

To raise additional proceeds to fund the business combination, CRIS has entered into subscription agreements (containing commitments to funding that are subject only to conditions that generally align with the conditions set forth in the Business Combination Agreement), pursuant to which certain investors (the "PIPE Investors") have agreed to purchase (the "PIPE") an aggregate of 40,000,000 shares of Class A common stock (the "PIPE Shares") for a price of $10.00 per share for an aggregate commitment of $400,000,000.

We anticipate that, upon completion of the business combination, the voting interests in CRIS will be as set forth in the table below.

	Assuming No Redemptions of Public Shares	Assuming Maximum Redemption Condition[(1)]
CRIS's Public Stockholders	8.7%	4.8%
Initial Stockholders	2.2%	2.3%
PIPE Investors	15.1%	15.8%
Holdings (LS Power)[(2)]	74.0%	77.1%

(1) Assumes that holders of 10,695,000 shares of Class A common stock, the maximum number of shares that may be redeemed by public stockholders before the minimum cash condition in the Business Combination Agreement would need to be waived prior to closing of the business combination, exercise their redemption rights in full.

(2) LS Power (as defined below) owns all of the outstanding voting interests in Holdings and as a result, will control the vote with respect to all matters presented to stockholders following the business combination. See "*Summary of the Proxy Statement — Organizational Structure*."

Source: CRIS / EVgo Proxy Statement.

Once the transaction has been approved by the SPAC shareholders and the closing has successfully taken place, investors are provided with updated information on the deal through ad hoc press releases and investor / analyst presentations. Below we provide an abstract from the official press release regarding the final completion of the CRIS /EVgo de-SPACing, announced on July 2, 2021.

EVgo Completes Business Combination with Climate Change Crisis Real Impact I Acquisition Corporation

EVgo Services, LLC ("EVgo"), the nation's largest public fast charging network for electric vehicles (EVs) and first powered by 100% renewable electricity, today announced that it has completed its previously announced business combination with Climate Change Crisis Real Impact I Acquisition Corporation ("CLII"). The transaction was unanimously approved by CLII's Board of Directors and was approved at a special meeting of CLII stockholders on June 29, 2021. More than 99% of the votes cast at the Special Meeting were in favor of the approval of the business combination. CLII stockholders also voted overwhelmingly to approve all other proposals presented at the Special Meeting. Concurrent with the completion of its business combination, CLII has changed its name from "Climate Change Crisis Real Impact I Acquisition Corporation" to "EVgo Inc." Commencing at the open of trading on July 2, 2021, EVgo Inc.'s Class A

common stock and EVgo Inc.'s warrants are expected to commence trading on The Nasdaq Global Select Market LLC ("Nasdaq") under the symbols "EVGO" and "EVGOW," respectively [...]. The transaction is primarily comprised of approximately $230.0 million of cash from CLII's former trust account and $400.0 million of cash from a private investment in public equity (PIPE), not including redemptions and transaction fees. The PIPE is anchored by institutional investors including private funds affiliated with Pacific Investment Management Company LLC (PIMCO), funds and accounts managed by BlackRock, Wellington Management, Neuberger Berman Funds and Van Eck Associates Corporation. EVgo Inc. will use the proceeds to fuel its growth strategy, including the buildout of its charging infrastructure network, while enhancing its position as the market leader in the transition to clean mobility. LS Power and EVgo management, who together owned 100% of EVgo prior to the business combination, have rolled 100% of their equity, and own approximately 74% of the combined company.

3. Financial statements considerations

The financial statements of the target company need to be compliant with Regulation S-X[52] and SEC Staff Accounting Bulletins (SABs)[53].

Other key reminders for private companies preparing Regulation S-X compliant financial statements include, but are not limited to, the following: (i) stating separately product, service, rental, and other revenue (if applicable) on the face of the income statement; (ii) disclosure of an income tax rate reconciliation; (iii) identifying related party transactions on the face of the financial statements; and (iv) disclosure of required balance sheet line items. The target company also needs to consider if it has completed significant business acquisitions or has significant equity method investments that would require the inclusion of financial statements.

4. Audit requirements

Typically, private companies are audited in accordance with auditing standards generally accepted in the United States ("GAAS") issued by the Auditing Standards Board of the American Institute of Certified Public Accountants ("AICPA"). In a SPAC merger, the target's financial statements included in the SEC filing are required to be audited in accordance with the Public Accounting Oversight Board ("PCAOB") standards by a firm that is registered with the PCAOB[54]. The audit will be under dual standards, both PCAOB and AICPA, which generally implies additional audit procedures by the accounting firm[55].

5. Age of financial statements

Generally, the most recent financial statements provided in the filing should not be dated more than 134 days before the date the filing is made. Registrants must comply with such requirement at the initial filing date and at the date of any amendment. If a proxy or Form S-4/proxy statement filing is made 45 days or less after the

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[52] Regulation S-X is a SEC rule that prescribes specific form and content of financial reports of U.S. public companies.

[53] A SAB summarizes the view of the SEC's staff regarding how generally accepted accounting principles ("GAAPs") are to be applied.

[54] The PCAOB is nonprofit corporation created by the Sarbanes-Oxley Act of 2002 to supervise the audits of public companies.

[55] Most of the audits are undertaken by the "Big Four" professional services firms: PWC, Deloitte, EY, and KMPG.

most recently completed fiscal year, the SPAC and the target company are not required to provide audited financial statements for that recently completed fiscal year unless those audited financial statements are available.

6. Determination of the accounting acquirer

In a SPAC merger transaction, an important element which is relevant for accounting purposes is the determination of which entity is the so called "accounting acquirer" [56]. The identification of the accounting acquirer is key in order to determine form and content of pro forma financial information. The accounting acquirer is defined as the corporate entity that obtains control of the reporting entity and thus it may be different from the legal acquirer. If the SPAC merger is effectuated primarily by transferring cash or other assets or by incurring liabilities, and as a result the SPAC obtains control of the target, then the SPAC is the accounting acquirer, in which case it will recognize in the pro forma presentation the assets and liabilities of the target company at fair value in accordance with ASC 805, Business Combinations[57].
The pro forma financial information included in the proxy or Form S-4/proxy statement on Form S-4 would reflect the acquisition accounting, including the recognition of goodwill (difference between the purchase price and the fair value of the net assets acquired) if applicable, and transaction costs would be expensed. If the target company is the entity acquiring control (i.e. the accounting acquirer), which is typically the case, the transaction is considered a reverse merger from an accounting perspective. This is because generally the SPAC's only pre-merger asset is cash received from investors at IPO or in the context of the PIPE transaction and the SPAC generally does not meet the definition of a business. As a result, these types of reverse mergers are considered capital raising transactions undertaken by the target company and are equivalent to the issuance of shares by the target company for the net monetary assets of the SPAC (accompanied in some cases by a partial distribution of cash to the owners of the target company). With the exception of shareholder's equity, presentation of the financial statements in a reverse merger represents a continuation of the legal acquiree (target company).
The pro forma financial information in the proxy or Form S-4/proxy statement will thus primarily reflect the effects of the capital injection received from the SPAC entity, and if applicable, any capital to be received from PIPE investors while assets and liabilities of the target company will be recognized at historical cost with no goodwill or other intangible assets recorded in the financial statements.
Transaction costs incurred by the target company are charged directly to equity. If the business combination is between entities under common control (for example, the same entity or individual controls the target

[56] A comprehensive analysis on how to determine the accounting acquirer has been provided by PWC, *Domestic SPAC mergers – financial reporting and accounting considerations*, January 2021 (updated April 2021). Also refer to Deloitte, *Accounting and SEC Reporting Considerations for SPAC Transactions*, April 2021.
[57] In 2007 the Financial Accounting Standards Board addressed the accounting rules for business combination issuing Accounting Standard Codification 805. The underlying premise of ASC 805 is that when an entity obtains control of a business (i.e. 100% or less, provided control is acquired), it becomes accountable for all of its assets and liabilities and therefore should recognize these at the fair value as of the acquisition date.

company and the combined entity after the transaction), acquisition accounting would also not apply and assets and liabilities will be recorded at historical cost. It must be noted that due to the uncertainty as to the number of publicly held shares that will be exchanged in the de-SPAC transaction (i.e. some shareholders may elect redeem their shares for cash prior to the closing of the transaction), the pro forma information generally presents a minimum and maximum redemption scenario related to the public shareholders.

7. Ongoing reporting requirements

After a de-SPACing transaction, the financial statements of the target company as accounting acquirer become those of the registrant (i.e. the entity filing the financial statements). Therefore, the target company's financial statements will replace those of the SPAC from the time of the filing of the financial statements that reflect the transaction for the first time.
For a transaction in which the target is identified as the accounting acquirer and reverse merger accounting applies, no separation of the periods before and after the transaction is required since there is no change in the target's assets and liabilities. If the SPAC is determined to be the accounting acquirer, there will be a lack of comparability for the periods before and after the de-SPACing, due to the new basis established for the target company's assets and liabilities as a result of the acquisition. Therefore, the pre- and post-transaction periods must be separated, typically by a black line, to emphasize the change in the basis of accounting in the post-transaction periods.

8. Managing ongoing operations

Following the closing date of the business combination, the formerly private operating company must be able to meet public company reporting obligations.
At that stage, the newly listed company needs to ensure that human resources, processes, and technology are fit to support the reporting schedule of a public company[58].
In particular, the following functions should be implemented:

- Budgeting, forecasting, and investor relations. Financial planning, accounting and investor relations functions should be a key focus point in order to ensure that appropriate guidance and accurate and transparent forecasts and projections are communicated to investors and research analysts.
- Financial reporting. Finance and accounting professionals should possess a strong skill set in SEC reporting and make sure that monthly and quarterly close and reporting deadlines are met.
- Internal controls. Finance and accounting personnel should maintaining effective disclosure processes and controls, including effective internal controls over financial reporting.

[58] For further analysis refer to Deloitte, *Private Company CFO Considerations for SPAC Transactions*, September 2020.

- Tax planning and strategy. Tax planning and strategy are key features of cash management and budgeting. In addition, SPAC transactions are typically accompanied by a specific tax structure and a tax agreement to allow the former target's shareholders to receive certain tax benefits.
- Governance. The board of directors and related committees are required to comply with the governance requirements of NYSE or Nasdaq, both of which require a majority of independent directors, an independent audit committee, and an independent compensation committee, and may also require an independent nominating or corporate governance committee.
- Information technology. A well-structured IT function is needed to sustain all of the business objectives indicated above. In addition, the board and the Chief Information Officer should have an enhanced focus on cybersecurity and the protection of sensitive information.

Other key processes and functions include treasury, executive compensation, internal audit, legal and compliance, and human resources.

9. Recent Developments – Proposals to Eliminate "Safe Harbor" for SPACs

In a business combination transaction, including de-SPACings, projections of the target company's future financial performance often are relevant in analyzing and negotiating the transaction (and generally support valuation and price determination). These projections are generally disclosed in disclosure documents provided to shareholders in the context of the transaction (e.g., the proxy statement or registration statement). In the U.S., the determination or obligation to disclose projections in connection with a transaction also depends on the requirements of state laws.

In particular, several U.S. state laws require the board of directors to disclose fully and fairly all material information when seeking shareholder action, and information is generally considered material if from the perspective of a reasonable stockholder, there is a substantial likelihood that it significantly alters the information made available.

Accordingly, if the board of directors relies on projections in the context of transaction approvals, these projections are considered potentially "material" and consequently they are disclosed to shareholders. Similarly, in de-SPAC transactions, as previously noted, the projections of the private company target shared with the SPAC are often included in S-4 filings and proxy statements provided to the SPAC's shareholders in connection with their approval of the proposed business combination transaction.

These projections are usually considered by the SPAC's board of directors in assessing the proposed de-SPAC transaction, as the target company's projections generally provide insight into its future financial performance, including its perceived potential for growth, and represent a key element to assign the appropriate valuation to the target company[59].

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[59] It must be noted that such valuation is generally not exclusively in the hands of the board and senior management of the SPAC, who are supported by financial advisors and the due diligence team. More importantly, the PIPE investors are the ones who play a

Table 10: Projections Provided in the Proxy Statement: CRIS / EVgo Business Combination

Neither CRIS nor EVgo or any of their respective affiliates intends to, and, except to the extent required by applicable law, each of them expressly disclaims any obligation to, update, revise or correct the Projections to reflect circumstances existing or arising after the date such Projections were generated or to reflect the occurrence of future events, even in the event that any or all of the assumptions underlying the Projections are shown to be in error or any of the Projections otherwise would not be realized.

The key elements of the Projections provided to the Company are summarized below:

($ in millions)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Total EVgo GWh Throughput	15	24	69	245	578	1,117	1,731	2,478
Revenue[1]	$ 14	$ 20	$ 54	$ 166	$ 326	$ 596	$ 905	$ 1,289
Growth (%)		*49%*	*164%*	*207%*	*97%*	*83%*	*52%*	*42%*
Adj. EBITDA[1]	$ (29)	$ (58)	$ (43)	$ 5	$ 60	$ 193	$ 331	$ 507
Adj. EBITDA Margin (%)	*NM*	*NM*	*NM*	*3%*	*19%*	*32%*	*37%*	*39%*
Contractual OEM Payments[1]	—	20	24	31	9	5	—	—
Net Growth CapEx	(12)	(70)	(82)	(126)	(151)	(160)	(230)	(255)
Free Cash Flow	$ (36)	$ (112)	$ (126)	$ (129)	$ (107)	$ (4)	$ 48	$ 185

Note: Engineering & Construction salaries and third-party tech costs are fully expensed; GAAP generally capitalizes a portion of these costs and would otherwise result in an increase to earnings.

(1) Certain contractual OEM payments to be received from 2021-2025 have been excluded from Revenue and Adjusted EBITDA in these projections pending determination of appropriate accounting treatment of those payments. To the extent that these payments are excluded from revenue for accounting purposes in those years, those revenues will be deferred and recognized in full in future years. Adjusted EBITDA shown excludes D&A included in cost of sales.

Source: CRIS / EVgo Proxy Statement.

The U.S. House Financial Services Committee in May 2021 released a draft legislation expressly prohibiting SPACs from using the "safe harbor" provisions of the 1995 PSLRA to protect themselves against liability for inaccuracies in projections and other forward-looking statements.

If the draft legislation becomes law, parties to a SPAC business combination, as well as directors and officers, may be exposed to additional liability for incorrect projections and other forward-looking statements used in the transaction.[60]. The draft House legislation clarifies that all SPACs are no longer entitled to rely on the safe harbor. Currently, the safe harbor is subject to a number of exceptions, notably that its protection does not extend to "blank check companies."

The proposal before Congress effectively seeks to deem SPACs "blank check companies" for purposes of the PSLRA. The House Financial Services Committee's draft legislation follows an official statement made in April 2021 by John Coates, Acting Director of the Division of Corporation Finance of the SEC, issued a public statement[61] questioning *"whether projections, a key component of the disclosures made in connection with taking a company public through the SPAC structure, are covered by the safe harbor under the federal securities laws for forward-looking statements."* As noted in the Coates statement, *"the safe harbor for*

key role is assigning the appropriate market valuation to the target. As a result, the SPAC's board approves the economic terms of the de-SPACing also based on the outcome of such market testing exercise.

[60] Baker Botts, *SPAC Update: Congress's Proposal to Eliminate Forward-Looking Statement Safe Harbor for SPACs*, June 2021. R. Ben-Tzur, J. Pomerantz, *House Releases Draft Legislation Eliminating SPAC Safe Harbor for Forward Looking Statements*, Fenwick & West LLP, May 2021.

[61] J. Coates, *SPACs, IPOs and Liability Risk under the Securities Law*, SEC Public Statement, April 8, 2021. Also refer to P. Munster, *Financial Reporting and Auditing Considerations of Companies Merging with SPACs*, SEC Public Statement, March 31, 2021. Recent analyses can be found in G. Casey, A. Hakki, R. Morscheiser, *SEC Considering Heightened Scrutiny of Projections in De-SPAC Transactions*, Harvard Law School on Corporate Governance, May 2021. L.R. Mejia, J. Bailey, G.K. Eiben, A.C. Handy, *SEC Speaks Out on SPAC*s, Perkins Coie LLP, May 2021.

forward-looking statements currently excludes statements in an offering by a blank check company. The federal securities law defines a "blank check company" as (i) a development stage company that has no specific business plan or purpose or has indicated that its business plan is to engage in a merger or acquisition with an unidentified company or companies, or other entity or person, and (ii) is issuing penny stock. Because most SPACs do not issue penny stock, the safe harbor for forward-looking statements applied to projections and other forward-looking statements used in connection with going public through a SPAC."
The statement from Acting Director Coates focuses on a significant point regarding potential liability for misstatements in the forward-looking information included in S disclosure documents relating to a de-SPAC transaction. Coates notes that *"some have claimed that an advantage of SPACs over conventional IPOs is lesser securities law liability exposure for targets and the public company itself."* Coates further explains that *"in some ways, liability risks for those involved are higher, not lower, than in conventional IPOs, due to the potential conflicts of interest in the SPAC structure."* In particular, he suggests that *"the PSLRA safe harbor for forward-looking statements should not be available for private companies introducing themselves to the public markets, whether that introduction is via a conventional IPO or a de-SPAC transaction."*
Whether or not the PSLRA safe harbor is applicable to de-SPACings is important since a well-known advantage of a SPAC compared to a traditional IPO is that a combination with a SPAC allows for the use of financial projections in marketing the deal, which would not be used in the context of a conventional IPO. In the SEC statement, Coates suggests that *"although the IPO exemption from the PSLRA has commonly been considered to apply only to a conventional IPO, the underlying legislative history and circumstances point toward a conclusion that the PSLRA safe harbor should not be available for any unknown private company introducing itself to the public markets through a de-SPAC transaction."* In short, Coates argues that *"a de-SPAC transaction is, in substance, an initial public offering and should be treated that way under the PSLRA, even if the form is different from a conventional IPO."* It must be noted that even with the protections of the PSLRA, many public companies prefer not to provide explicit projections in their SEC filings (such projections being entitled to safe harbor) to avoid that these projections are incorporated by reference into prospectuses for securities offerings (in which case no safe harbor applies).
Many companies thus prefer to provide projections, such as earnings guidance, in earnings releases. In disclosure documents regarding M&A transactions (including de-SPAC transactions), however, companies are typically required under state law to disclose to shareholders projections relied on by the board in approving the transaction. The key implication is that even if the parties in a de-SPACing would prefer not to disclose projections, they might be required to do so if the SPAC board relied on such projections. Coates points out that *"although these projection disclosures may be required, participants should recognize that, even if the safe harbor covers a de-SPAC transaction, the safe harbor only protects against liability to private litigants and does not prevent the SEC from taking appropriate action to enforce the securities laws. The safe harbor also does not protect against false or misleading statements made with actual knowledge that the statement was false or misleading."*

It could be argued that the actual impact of eliminating the safe harbor may be less relevant than expected or emphasized by the media[62]. The applicability of the PSLRA safe harbor has never been a prerequisite to include forward-looking projections in registration statements for IPOs or otherwise. Many traditional IPOs, have historically included projections in their registration statements (although generally only one year projections). It is also important to clarify that safe harbor does not protect against false or misleading statements made with actual knowledge that the statement was false or misleading. Additionally, distinct from the PSLRA safe harbor, the common law remains a potential shield against disclosure liability for forward-looking statements that are later found to be incorrect if they were sufficiently tempered with meaningful cautionary language. In practical terms, if the PSLRA's safe harbor expressly became unavailable to SPACs, it could be expected that SPACs, their targets and underwriting banks may become more hesitant to share financial projections (or they might at least prefer to reduce the projection period) and other forward-looking statements with investors even if and when that information is valuable to investors.

As a result, according to several authors, categorically excluding SPACs from the safe harbor liability protections may lead to increased litigation and reduced investor information (as well as increased insurance premiums for director and officer liability insurance policies) while providing marginal incremental protection to investors[63]. It can also be expected that in order to establish a more robust due diligence defense in connection with any securities litigation associated with missed projections, the board of directors of companies contemplating a SPAC transaction should consider spending more time with management to discuss and review any projections to be used in the transaction and documenting those meetings with management.

Empirical observation of the effects associated with the proposed elimination of safe harbor protection for SPACs can be drawn by the slowdown of SPAC issuances since April 2021[64]. However, it would be incorrect to associate the sharp reduction of SPAC IPOs to one single factor. We could consider that several other elements might have impacted the slower IPO activity, including expected rise in inflation and thus interest rates (which makes cash shells less attractive in terms of opportunity cost compared to other investments), poor stock market performance of several companies that went public through a de-SPACing (due to excessive

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[62] As an example see Reuters, *Regulators will kill the SPAC frenzy*, April 20, 2021. It is also interesting to read S. Davidoff Solomon, *In Defense of SPACs*, New York Times, June 12, 2021. The author also mentions the new requirement on warrants accounting (i.e. treated as liability and no longer as equity instruments according to new SEC guidance) as another key factor that has contributed to the slow down of SPAC issuance and de-SPACing transactions (since several SPACs will have to alter and re-state their accounts before entering into a business combination). The author points out that *"more disclosure should be required about the compensation that SPAC sponsors receive. And some SPACs are too aggressive or make companies public too soon or with faulty (or even fraudulent) business plans. But the same can happen with traditional I.P.O.s. That is not a reason to kill the only thing that has revived the market for I.P.O.s of small and emerging growth companies in 20 years."*

[63] The litigation risk attached to SPACs has been analyzed by several authors, including J. Montgomery, *SPAC Investor Sues in Chancery Over MultiPlan's Stock Drop*, Law360, March 2021; J. Bennett, *Canoo Faces Investor Suits Over Post-SPAC Deal Focus Changes*, Bloomberg Law, April 2021; P. Cherian Huskins, *Why More SPACs Could Lead to More Litigation (and How to Prepare)*, A.B.A. Business Law Today, June 2020; E. Ward Merkel et. Al., *Litigation Risk in the SPAC World*, Quinn Emanuel Trial Laws, September 2020.

[64] In April 2021 the Coates' SEC statement and the SEC guidance on accounting treatment for warrants came out. There were 108 SPAC IPOs above $100 million in March 2021 and only 10 in April, 18 in May, 26 in June, 24 in July and 21 in August.

valuations and/or financial or operating underperformance compared to disclosed projections at the time of the de-SPACing), investors' concern over supply-demand imbalances in the SPAC market (due to the existence of c. $130 billion of cash sitting on SPACs balance sheet and looking for business combinations as of August 2021 based on Dealogic data).

Table 11: Cautionary Language in Proxy Statements: CRIS / EVgo Business Combination

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this proxy statement may constitute "forward-looking statements." Our forward-looking statements include, but are not limited to, statements regarding our or our management team's expectations, hopes, beliefs, intentions or strategies regarding the future. The information included in this proxy statement in relation to EVgo has been provided by EVgo and its management team, and forward-looking statements include statements relating to EVgo's management team's expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "possible," "potential," "predict," "project," "should," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward -looking. Forward-looking statements in this proxy statement may include, for example, statements about:

- trends in the climate sector, transportation sector or electric mobility sector and trends specific to clean energy, renewables and carbon removal;
- our ability to complete the business combination, or, if we do not consummate the business combination, any other initial business combination, amidst the uncertainty resulting from the ongoing COVID-19 pandemic, and the effect of the ongoing pandemic on the climate sector, the economy and any business or businesses with which we consummate our initial business combination;
- the benefits of the business combination;
- the future financial performance of the combined company following the business combination;
- expansion plans and opportunities;
- our potential ability to obtain financing to complete the business combination;
- our public securities' potential liquidity and trading;
- the lack of a market for our securities;
- the Trust Account not being subject to claims of third parties; and
- our financial performance following the business combination.

Source: CRIS / EVgo Proxy Statement.

Chapter IV Measurements of SPAC Performance

1. Definitions and approach

In this chapter, we provide an overview of selected approaches to SPAC performance measurement.
Firstly, we need to define the term "performance" when applied to SPACs. The term generally indicates the observation of investors' returns over a certain period, such returns being calculated based on the difference between the price at which a SPAC was IPOed and the price at the end of the observation period. Obviously, the same methodology can be applied to a universe of a number of selected SPACs, in which case an average or median is calculated.
However, as we will show in this chapter, share price performance analysis should be complemented on one hand by taking into account the warrants issued in the context of the SPAC IPO and on the other hand, the so called dilution analysis since dilution, as later defined, is inherent to the SPAC structure. Secondly, we must consider that SPAC performance applies strictly speaking to the period between the SPAC's IPO and the announcement or closing of the business combination with an operating company. Performance measurements have also been undertaken for de-SPACed companies, thus observing the stock price movements of the operating company which came to the market via de-SPACing. It should be noted that after de-SPACing performance can be influenced by several factors, typically applying to listed companies, such as general market sentiment, macroeconomic environment, sector specific trends, supply/demand dynamics, scarcity value, company specific catalysts, valuation approaches and trading multiples evolution, as well as company business performance.
It is also clear that valuation recognized at de-SPACing can greatly impact the future share price performance of the (listed) company: an excessive valuation (resulting in a favorable exchange ratio recognized to the owners of the operating company as most de-SPACs are mergers) can determine a negative share price performance in the aftermarket[65].
Our analysis has been carried out through a comprehensive review of academic literature covering the topic, as well as brokers' research reports, in order to complement academic analysis with the point of view of market participants. In the following and final chapter we provide additional empirical observation and analysis of recent market data.

2. Academic literature on SPAC performance: early contributions

The early literature has generally found that overall, SPACs underperform post-acquisition as a financial asset, as summarized below.

[65] As indicated in chapter I, there are several protections in favor of SPAC shareholders from excessive valuations such as redemption rights, shareholders' approval to the de-SPACing, and price validation provided by PIPE investors. As of now, fairness opinions provided by independent valuation advisors are note legally required in the U.S. and other key international markets. We understand though that some stock exchange authorities (including Consob) are considering requiring such fairness opinions.

The first academic research on SPACs dates back to 2007 and covers both legal and financial aspects[66].

Jog and Sun[67] as well as Boyer and Baigent[68] are the first to assemble market as well as structural data on SPACs and empirically examine their market performance. Jog and Sun use a sample of 62 SPACs over the period 2003-2006 to support their analysis and their emphasis on potential conflict of interest between founders and investors. They then focus on a subset of 24 companies and the related initial investments and returns to SPAC founders, they calculate annualized returns of 1,900% to the founders. The performance for SPAC investors shows instead an annual return of -3%, based on a sample of 42 SPACs.

Lewellen[69]also analyzes the performance of SPACs, suggesting that SPACs should be considered a separate asset class. Examining a sample of 158 SPACs that conducted the IPO in the period 2003-2008, Lewellen divides the life cycle of a SPAC into sub-periods and reports that returns to investors are different depending on when the observation is carried out within the SPAC lifecycle: while nvestors experience a positive 2% return post acquisition announcement, their returns are -2% at the acquisition date.

Kim[70] provides extensive analysis of SPACs, mostly focusing on managerial quality. Using a sample of 158 SPACs that went public in the period 2003-2008, he finds that SPACs generally have managers with longer industry experience compared to the ones involved in traditional IPOs. Additionally, he observes that within the SPACs, the ones with comparably higher managerial experience and quality characteristics have higher market valuations and have a positive impact on interest level and quality of institutional investors.

Jenkinson and Sousa[71] focus on a sample of 161 SPAC for the period 2003 until 2009 analyzing a subsample of 58 SPACs that undertook a business combination. They divide SPACs into a "bad group" and a "good group", depending on share price movements. They find that more than half of the SPAC acquisitions are "value destroying" and that six months and twelve months after the business combination, SPAC investors obtain an average return of -24% and -55%, respectively. Jenkinson and Sousa calculate that these returns are explained by the "bad group" SPACs with -39% six months and -79% twelve months return, while the "good group" has close to zero six months return and -6.2% twelve months return. An interpretation of these results, according to these authors, is that SPAC managers tend to purchase as many shares as needed in order to approve a proposed acquisition.

Floros and Sapp[72] also work on a sample of SPACs (111) conducting IPO until 2008 and show that they have significant post acquisition negative return, performing worse than typical reverse mergers[73].

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[66] A comprehensive review of academic literature regarding SPACs is provided by Y. Shachumore, M. Vulanovic, *SPAC IPOs*, EDHEC Business School, Working Paper Series, September 2018.

[67] V. M. Jog, C Sun, *Blank Check IPOs: A Home Run for Management*, Carleton University, August 2007..

[68] C. Boyer, G. G Baigent, *SPACs as Alternative Investments – An Examination of Performance and Factors that Drive Prices*, The Journal of Private Equity, Summer 2008.

[69] S. Llewellen, *SPACs as an Asset Class*, Yale University, March 2009.

[70] H. Kim, *Essays on management quality, IPO characteristics and the success of business combinations*, LSU Doctoral Dissertations, 2009.

[71] T. Jenkinson, M. Sousa, *Why SPAC Investors Should Listen to the Market*, EFA 2009 Bergen Meetings Paper, February 2009.

[72] J. Floros, T. Sapp, *Shell Games: On the Value of Shell Companies*, Journal of Corporate Finance, Vol 17, March 2011.

[73] It must be noted that reverse mergers are typically undertaken between two operating companies (one of which already being listed) which could explain a better post deal share price performance due to merger benefits (i.e. synergies).

Datar, Emm and Ince[74] study SPAC performance for the period 2003-2008 based on a sample of 156 SPACs. They compare SPACs to 794 companies that went public through conventional IPOs during the same period. Overall, they find that the operational performance of SPACs is inferior to industry peers and conventional IPOs in the same period. In addition, SPACs carry more debt, have smaller size, invest less and have lower growth opportunities than the benchmark firms.

Lakicevic and Vulanovic[75] work on a sample of 161 companies for the period 2003-2009. They report that SPACs tend to show positive merger announcement returns and that positive performance is the highest for warrant holders. Based on subsample of 66 SPACs that completed acquisition, they calculate a -28% return to unit holders.

Howe and O'Brien[76] discuss how the structure of ownership and corporate governance characteristics impact both short and long term performances of SPACs. They work on a sample of 158 SPACs for the period 2003-2008 and calculate for the short term (up to 3 months) positive performance between 2% and 3%, while for the long term the average half year return is -14%, the average one year return is -33%, and the average three years return is -54%.

Dimitrova[77] works on a sample consisting of 73 SPACs reporting a -51.9% four year return post the IPO date. She compares this result to performance of traditional IPOs that went public in the same period, reporting positive average annual return of 8.5%. Dimitrova also suggests that SPAC performance is mostly related to the degree of managerial pressure for the completion of the deal as sponsors' incentives (linked to deal completion) are not aligned with the rest of investors. Furthermore, she presents evidence on operating performance. Based on observations of operating margins and return on sales, she confirms that SPAC acquisitions materially under-perform compared to traditional IPOs.

The SPAC literature has also focused on acquisition announcement and merger completion returns. As we know, a typical SPAC spends about two years in the stage between the IPO and acquisition or liquidation. Given the existence of the trust account, the share price of a SPAC should be close to the pro-rata value of the trust. However, academics have calculated "abnormal" returns at deal announcement dates.

Howe and O'Brien report a positive 1.7% return on the announcement date. Lakicevic and Vulanovic analyze acquisition announcement returns for units (shares + warrants), shares and warrants. They find that units experience 2.42% return, shares 1.2% return, and warrants 10.4% return.

Tran[78] and Dimitrova both report returns around 1% on the announcement date. Lakicevic and Vulanovic also calculate returns for SPACs in their post-announcement stage during 2007-2009. They report positive 9.6%

[74] V. Datar, E, Emme, U. Ince, *A Comparative Analysis of SPACs and IPOs*, Banking and Finance Review, November 2012.
[75] M. Lakicevic, M. Vulanovic, *A Story on SPACs*, Managerial Finance, Vol. 39, Issue 4, March 2013.
[76] J.S. Howe, S. W. O'Brien, *SPAC Performance, Ownership and Corporate Governance*, University of Missouri, November 2012.
[77] L. Dimitrova, *Perverse Incentives of Special Purpose Acquisition Companies*, Journal of Accounting & Economics, Vol. 63, No. 1, 2017.
[78] A. Tran, *Blank Check Acquisitions*, Cass Business School, City University London, November 2010.

buy-and-hold return. Dimitrova finds that return of her sample between the announcement and the completion of the merger is 4.4%.
Lakicevic and Vulanovic also calculate that SPAC investors experience a -3.81% return on the day of merger completion and a -9.59% after seven days. They also create a portfolio of SPACs which completed an acquisition in the period 2004-2009 and calculate the return for an investor who purchases one unit at the IPO date and holds that unit until the end of June 2009. They report portfolio return of -26.9%.
Datar, Emme and Ince calculate returns for SPACs which completed an acquisition for the period 2003-2008. They calculate one-month post-acquisition return of -5.4%, six month return of -20.9% and one- year post-acquisition return of -38.3%.

3. Academic literature on SPAC performance: recent contributions

Gahng, Ritter and Zhang in their recent analysis[79] document investor returns on SPACs by dividing the lifecycle of SPACs into two periods: the SPAC period (i.e from SPAC's IPO to completion of the business combination or liquidation), and the de-SPAC period (starting the day after the completion of the business combination). To measure investor returns in the SPAC period, the first half of the life cycle of SPACs, they implement an "optimal redemption strategy". This strategy calculates an annual return for an investor who purchases a SPAC unit at the IPO offer price. The investor sells each component of the SPAC unit if market prices are above redemption values, or exercise redemption if market prices are below redemption values, five trading days prior to the close of a business combination or liquidation. For 114 SPAC IPOs between January 2010 and May 2018, investors have experienced average annual return of 9.3%.
Gahng, Ritter and Zhang find that large size SPACs achieve higher returns, albeit modestly (10.6%). Although SPAC investors earn most of their returns when SPACs undertake their business combination (10.6% per year), liquidated SPACs also provide positive returns (2% per year, equally weighted). This is due to the "money-back guarantee" feature provided to investors. Since 2010, this is typically gross of fees; accordingly, from 2010, even the worst performing SPAC provided a positive return of 0.51% per year.
The authors additionally compare a SPAC IPO to a default-free convertible bond with extra warrants due to the downside protection provided by the trust account. Under such perspective, they suggest that the 9.3% return indicated above appears to be attractive. For the second half of the life cycle of SPACs, the deSPAC period for SPACs that consummated business combinations, the three authors implement a simple buy and hold strategy in which an investor purchases a share in a de-SPACed company on the first day of trading as a de-SPACed company and holds it for one year. They find that the average one-year buy-and-hold return of the merged companies' shares is -15.6%.
Klausner, Ohlrogge, and Ruan[80], using a sample of 47 SPACs, document that the median SPAC only delivers \$6.67 in cash per share, not \$10 (the IPO price) even after new investments from PIPE investors, because of

[79] M. Gahng, J.R. Ritter, D.Zhang, *SPACs*, Warrington College of Business, University of Florida, July 2021.
[80] M. Klausner, M. Ohlrogge, E, Ruan, *A Sober Look at SPACs*, ECGI Finance Working Papers, April 2021.

high redemptions, underwriting fees, and the promote. Furthermore, the outstanding warrants represent a cap to the potential upside returns to shareholders.

Gahng, Ritter and Zhang also calculate the return on warrants as well and, surprisingly, find that the average one-year buy-and-hold return of the merged companies' warrants is 44.3%. They find that warrant investors have persistently outperformed common share investors, increasing the gap even more in 2020. They also research the dilutive nature of warrants and other rights, and provide evidence that shares of de-SPACed companies perform worse when there are more warrants and rights outstanding.

Furthermore, using SPAC shareholders' redemption decisions as a proxy for the quality of the proposed merger and the timing of a business combination as a proxy for the SPAC sponsors' time pressure the authors find that higher redemption ratios and the late timing of the deals (i.e., toward the deadline) predict both lower SPAC and deSPAC period returns.

Lastly, Gahng, Ritter and Zhang document that the sponsors frequently take haircuts in order to ensure that the SPAC has enough cash to consummate the merger. Sponsors frequently give some of their shares (34% on average) and/or warrants (42% on average) to some existing shareholders to induce them not to redeem, or to PIPE investors to induce them to inject cash. Furthermore, the IPO underwriters frequently agree to forego some of their deferred compensation (24% on average) to ensure the completion of a merger. Importantly, these haircuts are state-contingent: sponsors take larger haircuts and provide even more inducements, and underwriters surrender commissions more, for weaker deals.

The SPAC market has experienced rapid changes recently. In January 2021, 91 SPACs went public with an average first-day return of 6.1%. This is a significant jump from the 1.6% average in 2020, which is already higher compared to prior years. Until the end of 2020, the SPAC period return was mostly realized upon announcement of the business combination. However, the average first-day return of 6.1% in 2021 shows that the market has started to reprice the SPAC units immediately, reducing the abnormal returns for investors who purchase SPACs in the market, similar to what Gahng, Ritter and Zhang find for operating company IPOs. Taking advantage of the strong demand for SPAC IPOs, their sponsors have started to make deal structures less attractive to investors and more attractive to the shareholders of the operating company by offering fewer warrants per unit. Gahng, Ritter and Zhang believe that despite de-SPAC period returns may be still disappointing going forward, SPACs may continue to represent an alternative to traditional IPOs. However, according to the authors, the 248 SPACs that went public in 2020 and in 2021 year to date, increase the likelihood that too many SPACs are pursuing business combinations, increasing the valuations that operating companies' shareholders manage to obtain. The high prices paid will reduce subsequent de-SPAC period returns. On the other hand, the terms of SPAC IPOs are being adjusted, with a downtrend in the fraction of shares that each warrant will buy, implying less dilution for the operating company shareholders when a business combination is consummated.

Some SPACs have also started to offer contingent sponsor compensations and contingent warrants, incentivizing sponsors to find better deals and SPAC period investors not to redeem. The authors thus view the market as adjusting toward a more sustainable equilibrium.

Other authors, such as Klausner, Ohlrogge and Ruan[81] have recently questioned whether SPACs should be considered a clever financial innovation that provide a cheaper, faster, and more certain path to becoming a public company than does an IPO. In their analysis, these authors have performed a study of all 47 SPACs that merged between January 2019 and June 2020 and have reached the following conclusions:

- Although SPACs issue shares for roughly $10 and value their shares at $10 when they merge, by the time of the merger the median SPAC holds cash of just $6.67 per share.
- The dilution embedded in SPACs constitutes a cost roughly twice as high as the cost generally attributed to SPACs, even by SPAC skeptics.
- When commentators say SPACs are a cheap way to go public, they are right, but only because SPAC investors are bearing the cost, which is an unsustainable situation.
- Although some SPACs with high-quality sponsors do better than others, SPAC investors that hold shares at the time of a SPAC's merger see post-merger share prices drop on average by a third or more.

Klausner, Ohlrogge and Ruan suggest that the main source of SPACs' high cost and poor post business combination performance is dilution. During its life cycle ahead of the business combination, SPACs give shares, warrants, and other rights to parties that do not contribute cash to such business combination and therefore dilute the value of shares that SPAC investors purchase.

In particular, three sources of dilution inherent in the SPAC structure are identified by the authors. Firstly, SPAC sponsors give themselves the promote, represented by shares equal to 25% of the SPAC's IPO proceeds, or 20% of post-IPO equity.

Secondly, in order to attract IPO investors, SPACs promise a very attractive return for simply allowing the SPAC to hold their cash for two years. SPAC shareholders that elect to redeem their shares receive the full price of the units purchased in the IPO, plus accrued interest, plus the right to keep the free warrants included in the units. For SPACs considered in their analysis, that has amounted to an average annualized return of 11.6% for redeeming investors, with essentially no downside risk.

Thirdly, at the time of their IPO, SPACs pay an underwriting fee to the investment bank(s) in charge of the IPO calculated as a percentage of IPO proceeds, despite the fact shares sold in the IPO might be redeemed at the time of the business combination. These three elements of SPACs dilute share value at the time of the SPAC's business combination, and impose a steep cost on either the shareholders of the SPAC or the shareholders of the company the SPAC takes public. Redemptions also increase the dilution initially caused by the promote and the warrants. The authors assume a SPAC that issues for cash 80 shares to the public and issues 20 shares to the sponsor for a nominal fee. This means that 80% of the shares are backed by cash while

[81] M. Klausner, M. Ohlrogge, E. Ruan, cit.

20% are not. If 50% of the SPAC's 80 public shares are redeemed, the sponsor's 20-share promote, initially equal to 25% of publicly owned shares, will equal 50% of the 40 remaining publicly owned shares. In other terms, out of 60 shares remaining after redemptions, 67% are backed by cash while 33% are not. They also perform a calculation of the cost of dilution.

When a SPAC pursues a combination, the value of a SPAC share for the purpose of the combination is $10. This is supported by the fact that the redemption price of a SPAC share is (approximately) $10 and therefore the pre-merger value of a SPAC share should not be below $10. However, because of the dilution outlined above, SPACs do not have $10 of cash for each share outstanding.

Based on the example above, for each SPAC share worth $10 in the context of the business combination (i.e. for merger's exchange ratio purposes), there is $6.67 in cash and $3.33 in dilution overhanging the business combination. When a SPAC combines with an operating company, SPAC shareholders assume they will receive approximately $10 per share in value option to redeem at about $10. Target's shareholders, however, will not agree to a merger with a SPAC unless they receive shares in the post-merger company based on an exchange ratio that factors in their estimation of the pre-merger value of their shares. Therefore, if target's shareholders value SPAC shares only at their cash value, and negotiate a deal based on that value[82], SPAC shareholders may see the price of their shares following the merger.

In the example above SPAC with $6.67 in cash per share before the merger will have their shares falling to to $6.67 after the merger. This would mean the target's shareholders had a fair deal and that the SPAC shareholders have borne the cost of the SPAC's dilution. If the shareholders of the target company and the SPAC have both to benefit from the combination, the merger must create sufficient surplus to offset the SPAC's dilution. That surplus would be represented by the "value" of the target becoming a public company plus the value the SPAC sponsors may create by remaining engaged with the de-SPACed company.

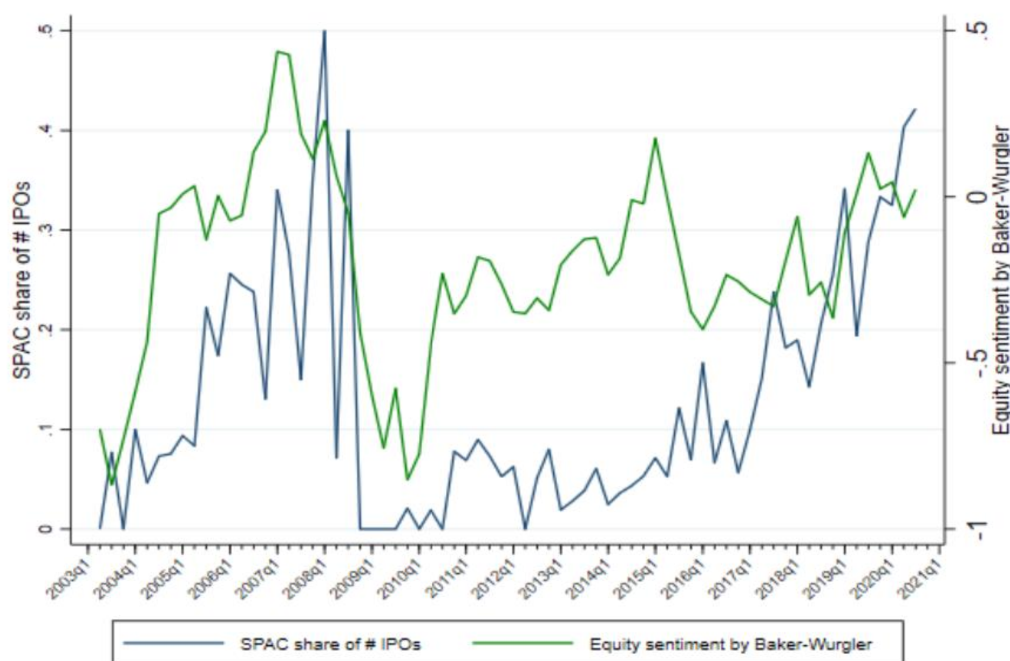
In order to analyze who bears the cost of SPAC dilution, Klausner, Ohlrogge and Ruan look at post-merger price performance. They calculate three, six, and twelve-month post combination returns for SPACs that merged between January 2019 and June 2020. Three months following a SPAC's merger, median returns were -14.5%. Six-month returns were worse and twelve-month returns were even worse. A reasonable explanation based on the considerations above is that targets negotiated prices or share exchanges based on the cash value of SPAC shares, and that SPAC shareholders bore the cost of SPACs' dilution. The authors find further support for this interpretation based on the high correlation calculated between stock drops and the amount of dilution in a SPAC at the time of its merger. SPACs with low cash per share see large post-merger price declines from the roughly $10 pre-merger share price.

This relationship strongly implies that poor post-merger SPAC performance reflects the cost of the dilution embedded in SPACs, and that SPAC shareholders have generally borne that cost. To explore the possibility

[82] In practical terms, if the nominal value of the SPAC share is $10 for the purpose of the merger, this will result in an implied higher valuation of the operating company to factor in the dilution effect.

that there is an identifiable subset of SPACs that have consistently done well, the authors identified and labelled as high quality sponsored SPACs those with sponsors that are (a) private equity funds with assets under management of $1 billion or more or (b) former CEOs or senior officers of Fortune 500 companies.
SPACs with high quality sponsors tend to perform better than other SPACs. Firstly, their dilution is lower, although most still had $7 or less in cash per $10 share. Secondly, they produced higher six-month post-merger returns for SPAC shareholders. The lower dilution is mostly due to lower redemption levels. The higher returns are due to the value the sponsors are expected to create by remaining engaged in the post-merger company, and/or perhaps their ability to negotiate a good deal with the target's shareholders.
Another interesting analysis has been performed by Bai, Ma and Zheng in a working paper that formally examines the economic role of the SPAC market and draw certain conclusions as to drivers of SPAC performance and its market structure[83]. Firstly, the authors point out the fact that the market share of SPACs is strongly and positively correlated with equity market sentiment, as evidenced by the clear co-movement between equity market sentiment and SPAC activity. Secondly, these authors maintain that compared to companies undertaking a traditional IPO, the ones who go public via a de-SPACing are generally smaller and riskier at the time of going public. Specifically, at the going-public year, SPACed companies are notably smaller and have significantly less revenue than traditional IPOed companies.

Figure 3: SPAC Activity and Equity Market Sentiment



Source: Bai, Ma, Zheng, Segmented Going-Public Markets and the Demand for SPACs.

Moreover, they have significantly higher cash flow volatility over the first four years of being a publicly traded company and are also more cash-constrained than IPOed companies, as measured by cash-to-assets and payout ratios. SPAC operating firms are smaller and have more volatile cash flows and lower payout ratios. These are

[83] J. Bai, A. Ma, M. Zheng, *Segmented Going-Public Markets and the Demand for SPACs*, Harvard University, May 2021.

features suggesting that these firms are more speculative investments and therefore more sensitive to investor sentiment.

Bai, Ma and Zheng also suggest that SPACed companies grow at similar or even higher rates compared to IPOed companies after going public. They also find that, in the years immediately after going public, SPACed companies have similar or even higher growth rates of revenue, market capitalization, and assets when compared to IPOed companies. Companies that choose the SPAC method of going public may be speculative and risky investments that are more difficult to value but that also have the potential to execute higher growth. The authors also provide evidence against the hypothesis that the SPAC market is purely a market for low-quality firms and instead suggest that SPACed companies may be of comparable quality on average to IPOed companies. Next, the authors build a theoretical framework of the SPAC market based on the observed segmentation in the going-public markets.

The main point is the asymmetric information between companies merging with a SPAC and public investors in the SPAC as to quality and riskiness. Quality of the business is private information known to the company and unknown to public investors, while company's riskiness and size are public information. Public investors differ in their preferences for project riskiness: safety-seeking investors prefer safe projects, while yield-seeking investors prefer riskier projects. The main implication of the theory is the segmented going-public market: larger and safer companies go public in the IPO market, while smaller and riskier companies go public in the SPAC market. Both SPAC IPO volume and the market share of SPACs in the going-public market increase with the propensity of investors to seek yield.

Bai, Ma and Zheng suggest one possible bright side of the SPAC market: a well-functioning SPAC market can open a door for value-creating, but smaller and riskier companies to go public. Given that the ability to become a publicly listed firm provides an increase in opportunities for liquidity and exit for both founders and initial investors, the existence of such a mechanism may stimulate entrepreneurial activity ex ante. A growing market share of SPACs also implies an increasing impact of SPAC firms on the economy. Thus, mitigating the potential short-termism of SPAC sponsors is important for protecting public investors and maintaining financial stability. In that respect, the authors suggest that an improved SPAC sponsor compensation structure through a long-term phase-in structure, earn-out provisions, and optimized stock-warrant mixture may help alleviate agency issues by better aligning the incentives of SPAC sponsors with those of long-term investors. If implemented, they predict a healthier SPAC market with potential to attract broader participation from investors.

Bodewes[84] also examines the merger announcement and post-announcement value effects of SPACs transactions in the United States, from January 2010 up to March 2021. His study finds positive cumulative abnormal merger announcement returns and negative long-term buy-and-hold abnormal returns post-

[84] K. Bodewes, *Flipping the coin: are SPACs post-merger value-creating or value-destroying?*, Erasmus University Rotterdam, June 2021.

announcement, consistently with several previous research efforts. The short-term effect is considerably larger (10.5%) for SPACs that went public after the Covid breakout, which has been characterized by high market volatility, low cost of debt, faster deals, fewer redemptions (until 1Q 2021), and more frequent PIPE involvement. The long term buy and hold abnormal returns are on average positive up until 15 months after merger announcement and negative afterwards.

The study shows how the effect of long-term performance is influenced by several SPAC characteristics. Firstly, the post-merger performance is better for SPACs with management with strong and executive level operational experience. Surprisingly though, prior experience of managers with SPAC transactions is not indicative of future results, as serial sponsors consistently underperform first-time sponsors. Secondly, SPAC deals with a higher proportion of PIPE financing show superior long-term performance, due to external deal validation leading to fewer redemptions.

4. Selected brokers' analysis

In this section we have focused on a more pragmatic and market practitioner's point of view when it comes to SPAC performance measurements. In particular, we have analyzed two examples: Barclay's research report published on November 2020 and CIBC's research report published in June 2021[85] Our main purpose is to describe how research analysts tend to assess the SPAC market and which tools and observations are typically utilized.

Barclay's report observed the rapid growth in the SPAC market during 2020 and the resulting concerns about investor exuberance and saturation. With typical SPAC acquisitions being significantly larger than the amount raised in the SPAC IPO (in the 2-5x range), Barclays highlights the risk that demand for acquisition targets bids up prices. On the flip side, the bank points out that larger acquisition sizes lead to less dilution from SPAC sponsor's unfunded promote equity stake. The key insights and considerations Barclays has drawn (as of the date of the report) from the life cycle of a typical SPAC include:

- There is typically a spike in the share price when a SPAC announces the company it intends to acquire. On average SPACs see a return of 3.5% on the day they announce their intent to acquire a company. In general, this return is consistently positive, with over 90% of SPACs seeing non-negative returns on their acquisition announcement dates.
- SPAC unit returns tend to remain strong between the announcement spike and the closing of the acquisition. Although the day of announcement for SPACs provides consistent strong returns, most SPACs tend to continue to perform well up until the acquisition is completed.
- SPAC returns tend to be volatile on the day of the acquisition's closing. In general, around 50% of SPACs had positive returns on the closing date of the acquisition, while 50% had negative returns.

[85] V. Krishna, *SPAC Metamorphosis*, Barclays Equity Research, November 2, 2020. S. Price, S. Fletcher, N. Zhang, *SPAC Mania Cools Off – Bits and Bytes Weekly*, CIBC Equity Research, June 3, 2021.

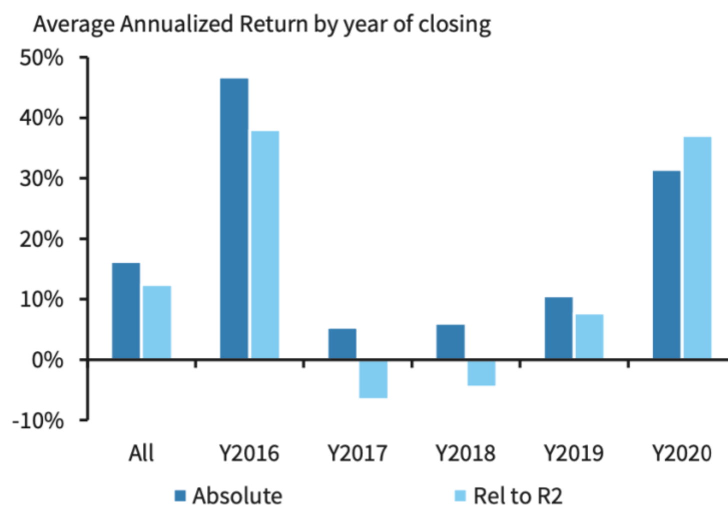
- Companies acquired by SPACs tend to underperform following the acquisition. Barclay's analysis shows that in general, companies acquired by SPACs underperform in the subsequent year. The bank's research report notes that the average returns for SPAC acquired companies in the six months following the acquisition is -8.3%, although these returns are heavily dependent on the size of the SPAC.
- SPAC warrant returns tend to be much higher but more volatile. This is common for SPAC warrants, although due to the inherit leverage in the warrant the risk is much higher as well.

The research report also emphasizes that it may appear counter-intuitive that SPACs can have negative returns, but once a SPAC has made an acquisition announcement it takes on equity properties. After the acquisition is completed, it transitions fully to a stock and reflects the valuation and prospects of the acquired company. By the acquisition closing date the redemption option would also have expired since the redemption vote typically coincides with the shareholder vote prior to the acquisition.

Thus by close of an acquisition, it is not uncommon for SPAC prices to dip below their initial $10 as also highlighted by academic analysis in the previous sections. In recent years as the SPAC market has gained in prominence there have been fewer trust liquidations for lack of acquisition completions. This is borne out by the fact that as of the date of the report less than 10% of SPACs that IPOed in 2018 failed to find a target (4 out of 46) with most of those SPACs (3 out of 4) are still active. It should be noted that most of the recent SPACs that have failed to do an acquisition have been concentrated in the energy space, indicating that a lack of acquisition for SPACs may have more to do with their target industry than market dynamics.

In terms of performance, Barclays calculate that U.S. SPACs since 2015 and until November 2020 on average achieved annualized returns of c. 17.5% (or c. 16% when accounting for SPACs that have not closed an acquisition). Barclays then turns to examine the consistency of these returns. Figure 4 shows that while there have been variations in yearly average SPAC returns, they have been positive over this time frame.

Figure 4: SPAC Return by Year of Deal Closing

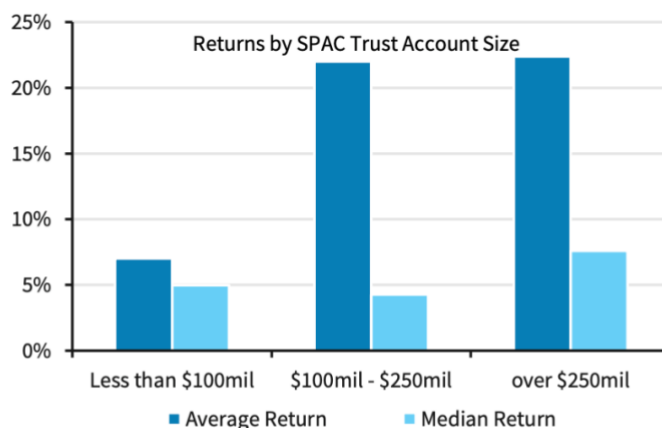


Source: Barclays research, November 2020.

While there are no direct comparable peers to compare SPAC returns, for illustrative purpose Barclays uses the Russell 2000 index, finding that in years with strong equity returns (2017) SPACs underperform the Russell 2000 albeit modestly, while in years with lower equity returns (2020) SPACs outperformed.

In addition, Barclays also explores if the SPAC size (proxied by trust account values) offers any insight into their performance. Larger SPACs are often a reflection of the quality of a sponsor (i.e., investor faith in the sponsor's ability to execute an attractive acquisition), as also noted by academics in the previous sections, though it might also reflect exuberant investor expectations. Figure 5 shows that SPACs with higher trust account values perform better than those with low trust account values.

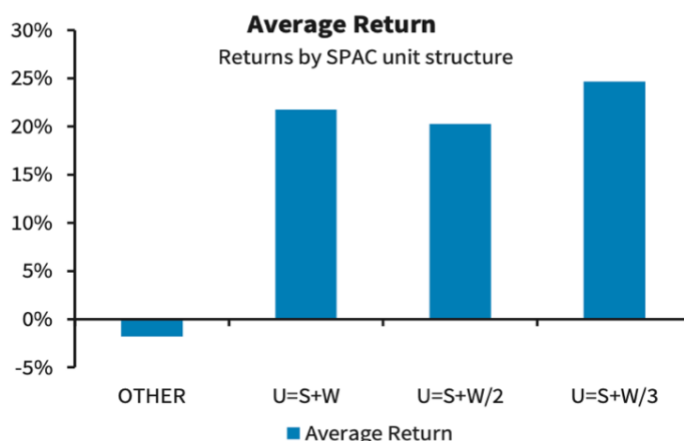
Figure 5: SPAC and Trust Account Values



Source: Barclays Research, November 2020.

Similar to size, Barclays also looks at SPAC returns by warrant structure. Typically, fewer warrants per SPAC unit suggests less concern around dilution and the ability of the sponsor to offer less incentives to attract investors. The reports finds that SPACs with more "standard" unit structures (stock plus either one half, one third, or a whole warrant) tend to outperform those with less standard structures which commonly include rights instead of warrants. It should also be noted that SPACs with the lowest number of warrants (S + W/3) and hence least dilutive, have performed the best as shown in figure 6.

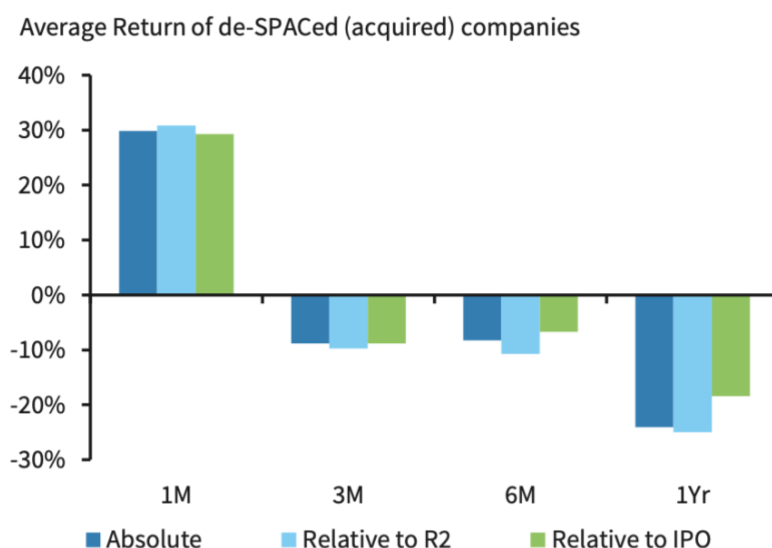
Figure 6: SPAC and Warrant Structure



Source: Barclays research, November 2020.

While, as of the date of the report, SPAC returns from IPO to acquisition closing have seen consistently healthy since 2015, the companies that have been acquired by SPACs have not trades so well. As we know, following the completion of an acquisition by a SPAC, the SPAC transforms into the stock of the acquired company and the forward returns of the stock reflects the valuation and prospects of the acquired company. Barclays' analysis of the forward returns of the public company post its acquisition by the SPAC examines both absolute and relative returns. For relative returns of the de-SPACed companies, the bank uses the Russell 2000 and traditional IPOs since at the post-acquisition stage this would be a reasonable gauge from an investor's standpoint. Figure 7 shows the average returns of de-SPACed companies in the one, three, six and twelve months period following acquisition.

Figure 7: SPAC Returns Post Acquisition



Source: Barclays research, November 2020.

The immediate takeaway is that on average de-SPACed companies underperform not only on an absolute basis, but also relative to the Rusell 2000 and the average IPO from 2015 to the present. Barclays has also explored if outperforming SPACs lead to outperformance of the de-SPACed companies. In other words, an interesting question is whether SPACs that outperform through the close date of an acquisition result in the subsequent outperformance of the acquired company (that is now public). The answer is yes, but only for a certain subset of companies.

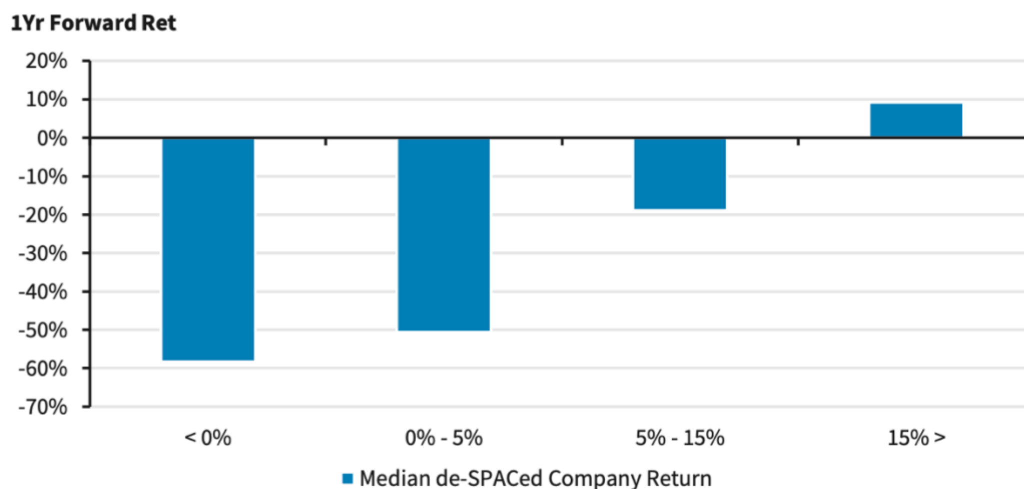
Figure 8 shows the relationship of SPAC returns from IPO to closing versus the returns of their acquired companies one year after closing. In general, when SPACs have low annualized returns (less than 5%) the relevant de-SPACed companies tend to trade poorly. However, as SPAC annualized returns exceed 15%, the returns become much stronger. In other words, investors' confidence in higher quality sponsors (proxied by higher SPAC returns) has borne out in the performance of the acquired companies.

So while for most SPACs their de-SPACed companies tend to perform poorly, the outliers have proved to be better investments. Finally, Barclays focuses on the shifting trends in the business of companies that SPACs are acquiring and the sectors in which they operate. While historically, the bulk of SPAC capital was deployed

into traditional industries like industrials, technology, consumer discretionary, and energy, it is now being increasingly channelled into areas like disruptive autotech, finech, and online gaming sectors. This shift does reduce the comparability of historical returns as a yardstick to gauge future returns. In fact, the fundamentals of acquired companies are also very different as SPAC acquisitions have moved from companies with a reasonable operating history to ones that are essentially late stage venture capital type of companies.

For example, while only 17% of companies acquired by SPACs since 2015 reported no sales (as of their first annual reporting date post acquisition), that number increased significantly recently. In 2019, 21% of de-SPACed companies reported no sales, while in 2020 that number increased to over 50%. Even as this shift has occurred, Barclays finds that de-SPACed companies with no sales saw average returns in 2020 (35.0%) that are significantly higher than those of the broader SPAC universe. While the market has clearly rewarded this shift in focus, it raises concerns of effervescence in investor expectations. The pull back in some higher profile SPACs post acquisition announcement clearly pointed to signs of investor disappointment with potential acquisitions targets relative to expectations baked into the SPACs.

Figure 8: SPAC Pre and Post Acquisition Returns



Source: Barclays research, November 2020.

Overall, several factors and recent trends are deemed by Barclays as helping to support positive performance dynamics by SPACs. Firstly, SPAC IPO sizes have increased and so have the size of acquisitions. SPAC IPO sizes went up from an average size of $184 million in 2015 to $385 million in 2020. At the same time, the size of acquisition has also increased significantly.

As noted earlier, large acquisition sizes do reduce dilution concerns of founders of private companies taking the SPAC route to go public. Secondly, SPAC terms have also been improving to better align sponsor incentives with investors. These changes seek to address prior investor concerns and we expect a continuation of experimentation with feature adjustments and an eventual standardization of some features. We will address this topic further in the following chapter. In this respect, an interesting trend has been the increase of SPACs offering fewer warrants per unit in order to reduce the dilution overhang from warrants. Thirdly, the de-linking of investor redemption option from their vote option (on an announced acquisition) in an acquisition strengthens the downside protection for SPAC investors. It also increases the probability that a business

combination completes. Another feature aimed at aligning sponsor interest with investors that is gaining some level traction is earn-outs. Earn-outs aim to tie the vesting schedule of the sponsor's promote shares to the performance of the acquired company's shares. Lastly, velocity of de-SPACing has increased. In recent years there has been a clear trend of faster times to announcement of the acquisitions following the SPAC IPO. This development has obvious implications for returns as well given the consistency of the spike in SPAC prices following acquisition announcement.

This trend of faster acquisition announcements also points to a pickup in time value that has returns implications for investors, especially those considering a more systematic approach to SPAC investing (i.e. from SPAC IPO to deal announcement or deal closing).

Coming now to the more recent (June 2021) CIBC research report, its title SPAC Mania is Cooling Off is self-explanatory as it focuses on SPAC's performance during the first half of 2021.After the initial rush early in the year, since March 2021 many SPACs have seen lackluster share performance post-acquisitions, and the market started to digest the sheer volume of SPAC transactions, which as of June 2021 had already surpassed full-year 2020 volumes[86].

That said, CIBC believes that continued post-deal SPAC performance and the ability to carry out combinations could bring investors back to the SPACs. The report notes that through March 2021, the market was generally welcoming to SPACs, with SPAC IPOs and acquisitions being completed at a record pace.

However, the index of SPAC returns versus the S&P 500 was down from March peaks, with many SPACs seeing weak share performance post-transaction. The weaker share performance puts pressure on the blank check companies to find a merger candidate, however, competition is fierce given the sheer number of SPACs searching for a target within the two-year timeline. While SPACs still comprised 68% of total U.S. IPOs as of June 2021, the May SPAC IPO volume of US$3.7 billion is only one-tenth of March issuance. CIBC believes that the slowdown in listings may depend by the performance of the sectors SPACs are active in, including the tech sector. If public market valuations re-rate higher in these key industries, the SPAC space could see a rebound. While SPACs with completed deals (SPCX Equity Index) bucked the trend and posted positive returns during first half of 2021, SPAC returns saw a nofigure decline versus the S&P 500 since March 2021, according to SPACInsider.com, which tracks the returns for trading SPACs that have not entered into a combination.

Historically, over 90% of SPACs without an announced deal carry positive yields for investors. However, the median yield for SPACs reached negative territory (-1.3%, as tracked by SpacAlpha.com) during the peak in February and March 2021. This meant the buyers of SPAC common equity were taking principal risks for the first time. Given the recent cool-off, SPAC yield widened to 1.75% in May (up from 1.13% in April), creating opportunity for yield investors, according to CIBC.

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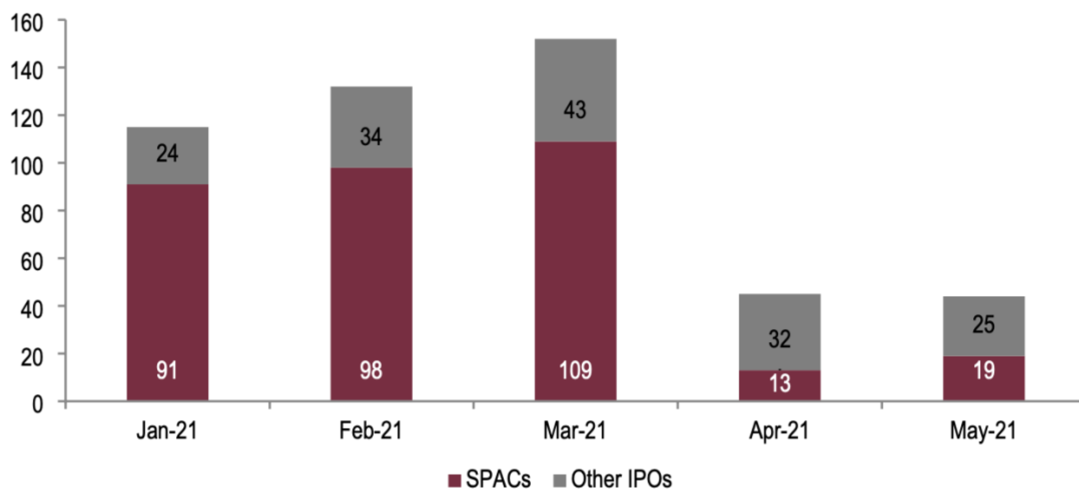
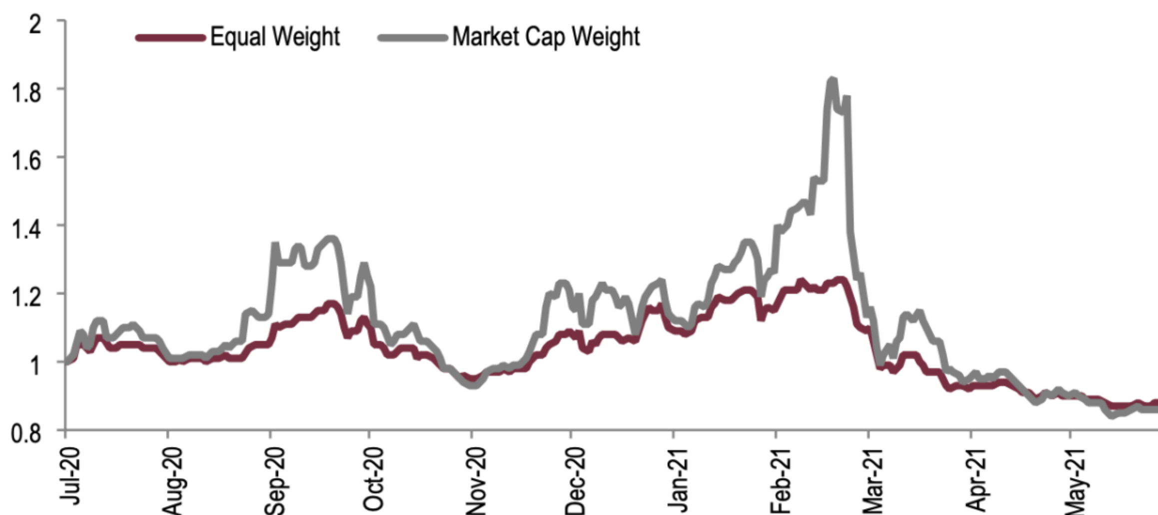
[86] The report notes that as of June 2021, 330 SPACs have raised nearly $105 billion, according to SPAC Research, a significant increase from the $83 billion raised by 248 SPACs in 2020.

Figure 9: SPAC Market vs. IPO Market – January to May 2021



Source: CIBC research, June 2021.

Figure 10: SPAC Performance Relative to S&P 500



Source: CIBC research, June 2021.

5. Additional considerations

At the end of this chapter we think it can be useful to draw some conclusion on the topic of SPAC performance measurement.

Firstly, it appears not to be possible to take an absolute view on SPAC performance as it depends on the selected universe and the period of observation. In addition, most SPACs before de-SPACing tend to trade around their $10 redemption value. However, especially academics, have found an interest in focusing on the determinants and the impact of dilution inherent to SPACs as described in this chapter. Market participants such as equity research analyst tend to have, so far, a somehow more benign view but, again, conclusions on SPAC performance can vary significantly depending on selection criteria and reference period.

Secondly, it is questionable whether SPACs can be considered a separate asset class for public investors.

On one hand, until de-SPACing, the instrument does not offer any significant yield and as said before and it is structurally conceived not to offer significant share price appreciation. On the other hand, its nature can be

both considered as an equity security (as it gives the opportunity to be exposed after de-SPACing to an operating company) and a fixed income security (as the shareholders can elect to be redeemed at par).

Thirdly, when it comes to performance measurement of de-SPACed companies, we believe that it is even more difficult to draw conclusions since performance, as indicated before, largely depends on multiple factors which are not inherent to the SPAC or, to put it differently, they should be considered for any IPO of an operating company.

One may argue that the risk of underperformance is higher with de-SPACings than traditional IPO but again we think that a proper comparison could me made only between de-SPACed companied and IPOed companies pertaining to the same sector and even, within a sector, to a specific vertical or business segment. Maybe one identifiable risk can be found in the fact that the need for a SPAC to consummate a business combination within the two year time period and the competitive tension that operating companies can generate among deal seeking SPACs can lead to excessive valuations of the operating companies being de-SPACed. Also, the fact that most de-SPACed companies operate in "new" sectors and/or are quite early in their business life cycle (start ups or early stages) expose these companies to high share price volatility and investors' views and observations as to whether such companies deliver on promises.

In traditional IPOs of established businesses investors tend to value companies based on multiples of current operating results or one / two years forward. Several de-SPACed companies, due to the negative or relatively low operating results at time of de-SPACing are typically valued with a longer term view which takes into account the expected (high) growth rate of operating results. This generally translates into three-five years forward multiples being applied in the context of de-SPACing valuations (thus resulting in relatively higher implied multiples of current or one year forward earnings as we will show in the following chapter).

Chapter V Recent Empirical Observations

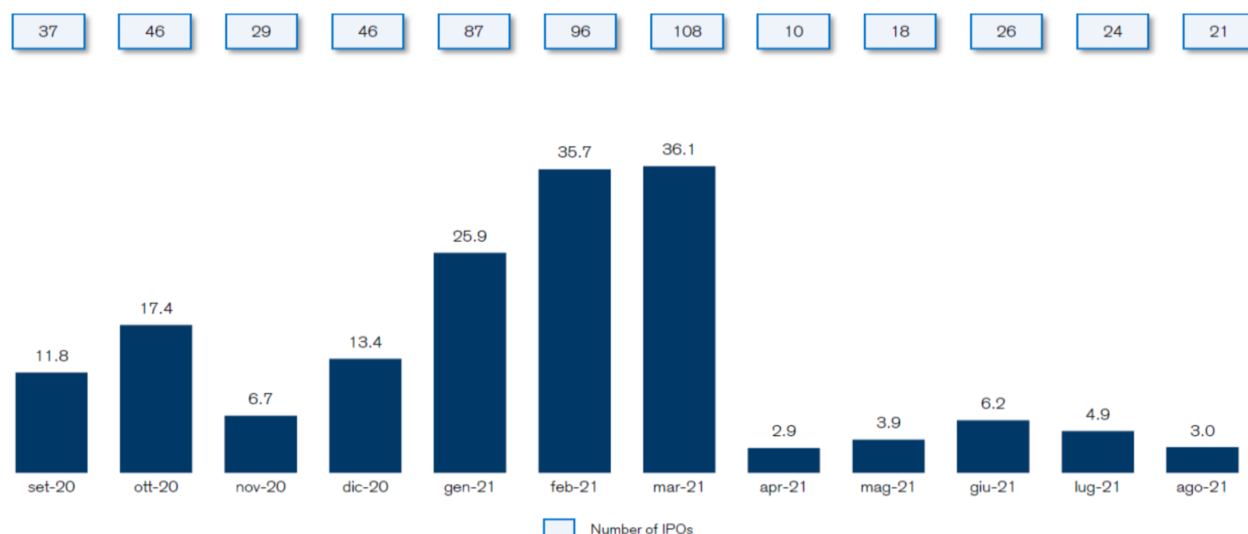
1. Overview of current market dynamics

In this chapter we provide some recent observation of the SPAC market. Our objective is to offer an updated overview of the market environment, as well as to draw some conclusions on whether the instrument is expected to represent a viable investment (for SPAC shareholders) and monetization or funding (for the shareholders of the operating companies and/or the companies themselves) tool.

Firstly, we focus on the evolving size of the market. After a robust start to 2021, SPAC issuance has slowed materially since April, as shown in figure 11.

Figure 11: SPAC IPO Issuance September 2020 – August 2021

Volume in $ billion



Source: Dealogic as of August 20, 2021. All SPACs with an IPO size over $100 million.

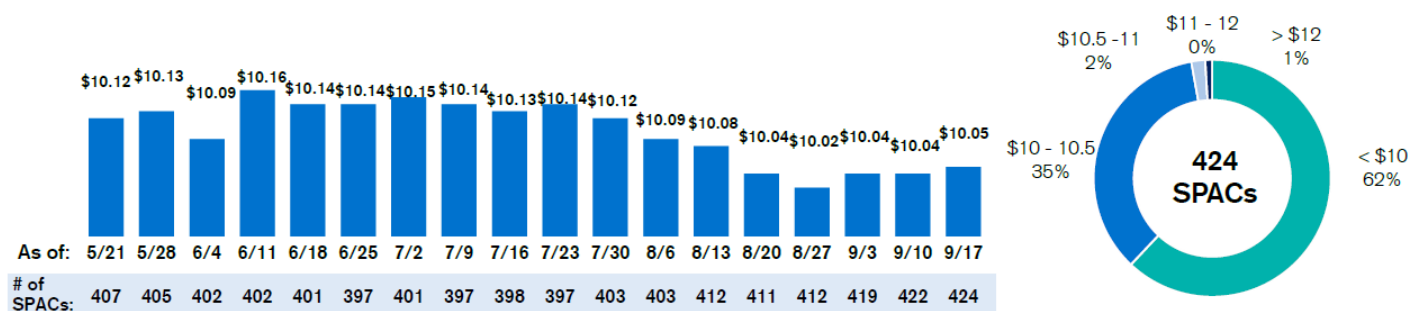
As we discussed in the previous chapters, a number of factors can be considered as the determinants of this reduced activity. On one hand, there has been increased scrutiny by regulators and resulting more stringent disclosure requirements and/or new accounting policies. This had an impact on the time to market due to IPO documents preparation.

The potential removal of "safe harbor" protection in the U.S. has also created some delays in IPO and de-SPACing activity. More importantly, we think that the reduced activity is a consequence of a sort of "deal fatigue" due to the high IPO volumes and the record number of IPOs achieved during 1Q 2021, leading to some supply/demand imbalance in the IPO and the secondary market.

In this respect, and even more importantly, coming now to performance observations, we note that the market environment for SPACs have materially deteriorated since April.

If we look (figure 12) at the evolution of the average unit price for all outstanding SPACs on a weekly basis since May 2021, we note that this metric has somehow deteriorated over the period getting closer to the $10 mark. If we then look at the share price of all the outstanding SPACs seeking acquisitions (424), only 38% are trading at or above the redemption value.

Figure 12: Average Unit Price of SPAC IPOs – Weekly Evolution since May 2021



Source: Dealogic, Factset as of September 17, 2021.

SPAC share prices trading below the $10 redemption value could obviously not be observed in a perfect market environment as investors would prefer to wait until redemption rather than selling at a discount.

Market participants tend to explain these trading patterns with oversupply in the market and the preference for certain investors to reallocate resources into more lucrative opportunities rather than waiting for a redemption which could materialize one or two years later.

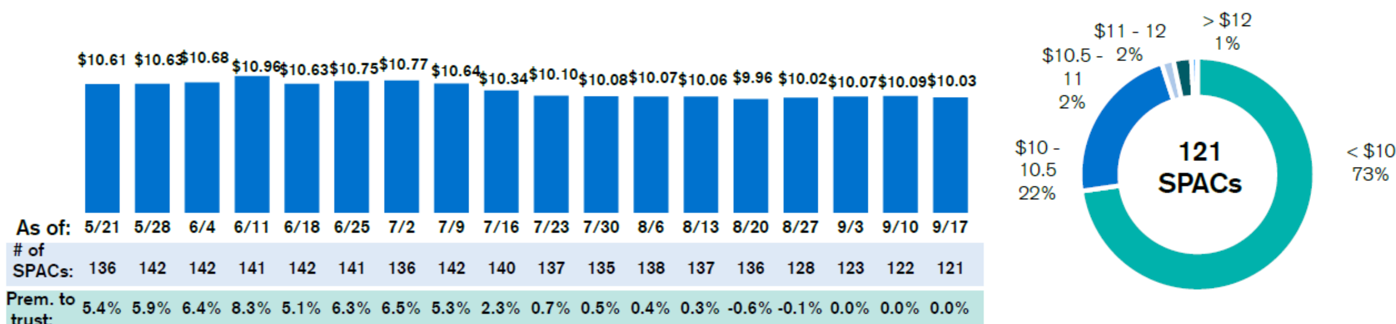
Clearly, this might also depend on the consideration that the large number of SPACs seeking acquisitions and the resulting fierce competitive environment to close a business combination may lead to inflated valuation of target companies.

This would in turn result in an increased redemption activity and/or in negative performance of de-SPACed companies.

Similarly to what we have done for outstanding SPAC IPOs, we have tracked the evolution of the average share price of SPACs that have announced an acquisition or merger on a weekly basis since May.

We get the same results in terms of a downward trajectory towards $10 and even below for the week of August 20 as shown in figure 13.

Figure 13: Avg. Share Price of Announced De-SPACings – Weekly Evolution since End of April

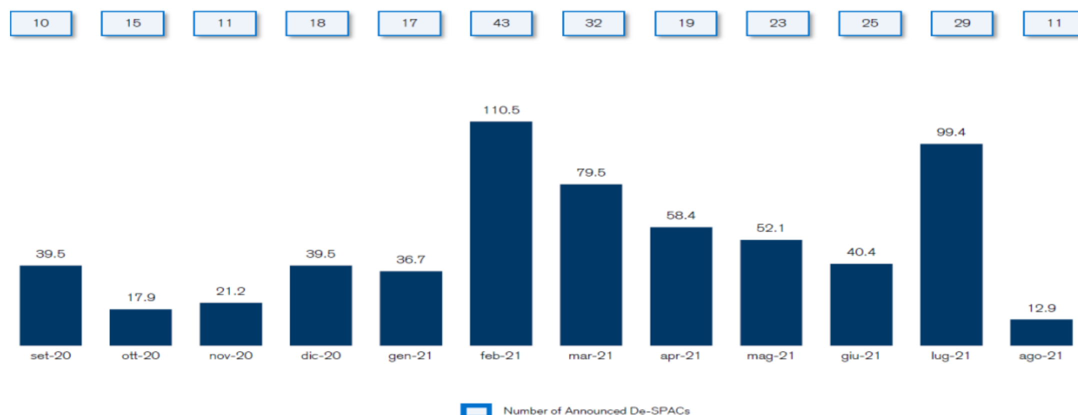


Source: Dealogic, Factset as of September 17, 2021.

On the other hand, it is interesting to note in figure 14 that de-SPAC volumes have continued to be sustained in recent months, signaling sufficient deal velocity and thus removing some pressure on the market, with investors seeing that deals get done in the current environment.

Figure 14: Announced De-SPACings

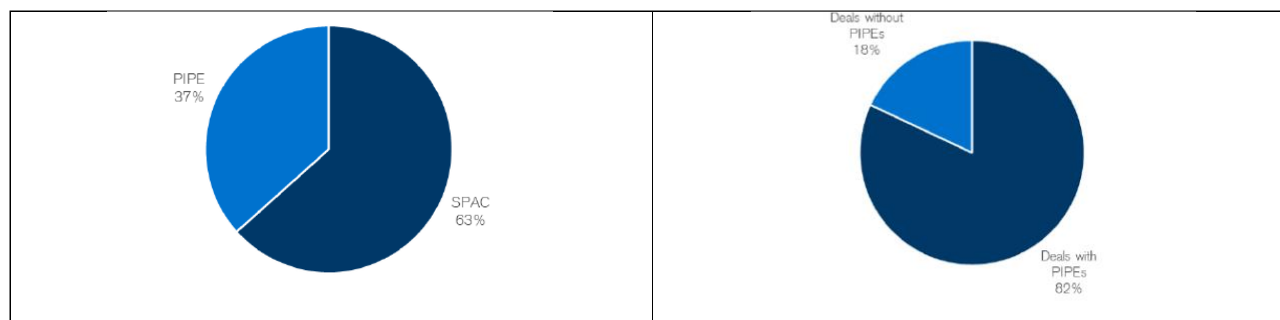
Volume in $ billion



Source: Dealogic, Factset as August 20, 2021. SPACs above $100 million.

The following figure provide additional statistics, evidencing the large contribution of PIPEs to de-SPACings. We would also add that only 12% of transaction proceeds pertaining to recently announced de-SPACings (last 50 deals) went to the operating companies' shareholders. The largest component (56%) was represented by cash on balance sheet (i.e. primary equity) while 12%went to debt repayment and 10% to fees and commissions.

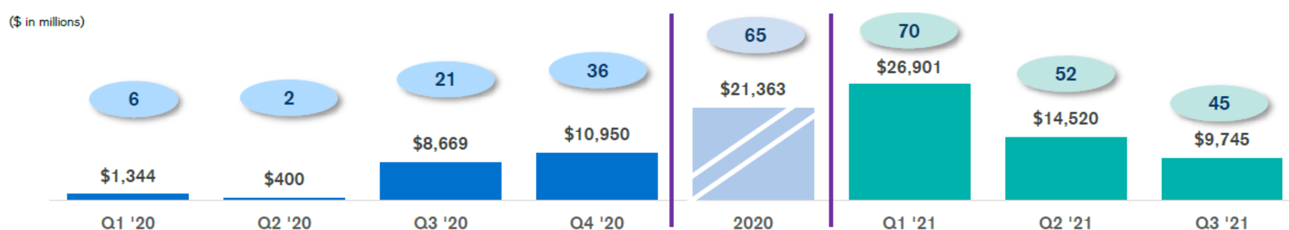
Figure 15: SPAC vs PIPE Proceeds and Deals with PIPE / No PIPE



Source: Dealogic, Bloomberg as of September 17, 2021. SPACs above $100 million. Most recent announced 50 SPACs.

Figure 16 shows that despite a significant decrease, PIPEs executed continue to be an important component of De-SPACings, both in terms of deal count and volumes.

Figure 16: PIPE Activity 2020 – 2021 YTD



Source: Dealogic, FactSet as of September 17, 2021.

Trading performance in the last months, with many SPACs trading below $10 as noted above, has led to a significant increase of monthly average redemptions both on a per deal and aggregate basis since March 2021. This has increased the relative importance of PIPEs as a larger proportion of the trust account had to be allocated by SPACs to pay for redemptions. Monthly average redemptions per deal has increased from 5.1%

in March 2021 to 24.6% in June, 43.1% in July and 56% in August. Monthly average aggregate redemptions has increased from 4.8% in March 2021 to 26.4% in June, 32.6% in July and 57% in August. Of the last 50 closed de-SPACs, the average redemptions per deal of the most recently completed 50 de-SPACs is 44.6%. Based on Dealogic data as of September 17, 2021:

- Minimal redemptions (0-10%) were achieved in 9 deals, with average stock price and warrant price (7 days prior to close) of $14.09 and $4.18 respectively and average current stock price of $14.98.
- Moderate redemptions (10-33%) were recorded in 5 deals, with average stock price and warrant price (7 days prior to close) of $9.97 and $1.96 respectively and average current stock price of $12.58.
- Significant redemptions (33%+) were recorded in 36 deals, with average stock price and warrant price (7 days prior to close) of $9.94 and $1.51respectively and average current stock price of $10.44.

2. Transaction valuation considerations

As mentioned previously, one of the main issues impacting investor appetite for SPACs that have been considered by academics and market participants relates to de-SPACing valuations. An interesting analysis has been performed by FTI Consulting who collected data from 216 SPACs that have announced an acquisition or merger between 2016 and 1Q 2021[87].

As shown in figure 17, over 50% of announced de-SPACings over the last five years have been for pre-revenue, pre-EBITDA companies. FTI Consulting highlights that this percentage increases to 67% if we look at the last year, compared with 25% in the period between 2016 and early 2020.

Figure 17: Announced 2016-1Q 2021 De-SPACings Financial Metrics

Source: FTI Consulting.

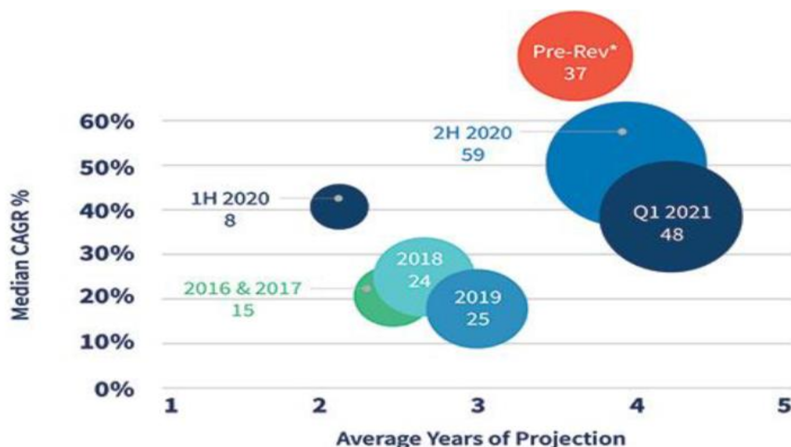
As shown in figure 18, the less mature companies accessing the SPAC market used very high growth rates in projections and longer projection periods.

During 2016 and 2017, 71% of de-SPAC mergers included projections. By 2021, that percentage grew to 94%. As projections become a critical tool for communicating prospects for a target company, the median length of the forward-looking period has grown from two and a half years in 2016 to over four years in Q1 2021.

[87] S. Gleichenhaus et al. *Why Have SPAC Valuations Skyrocketed*, FTI Journal, FTI Consulting, August 2021.

Meanwhile, the median compounded average growth rate ("CAGR") of projected revenues in the earlier period averaged 21% as compared to over twice that rate, 40 to 50%, in the latest periods. The highest growth rates pertain to aerospace, energy, clean technology / electric vehicles and biotech sectors. The lowest rates are in the healthcare, financial technology, real estate services, industrial and consumer sectors.

Figure 18: 2016-1Q 2021 De-SPACings Projected Revenues and CAGRs



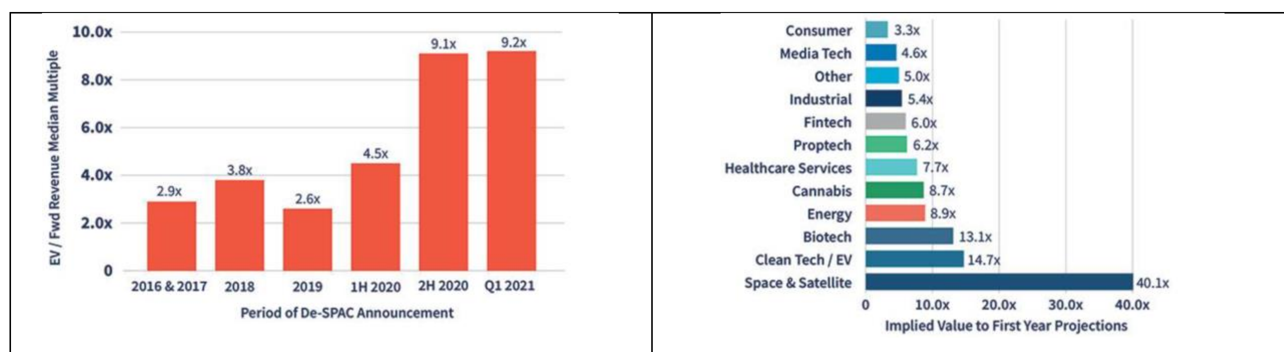
Source: FTI Consulting.

Figure 19 demonstrates the significant upward shift of projected acquisition multiples of Enterprise Value to revenues from 2016 to 2019 ranging from 2.6x to 3.8x, increasing to 4.5x in early 2020, and then increasing to 9.2x in late 2020 and the first quarter of 2021.

These reflect company valuations similar to late-stage venture investments, although they come with the risk associated with such companies[88].

It must be noted though that a more accurate assessment of de-SPACing implied acquisition multiples should be carried out taking into account not only the one year forward revenues but also, when applicable, profitability / cash flow generation measures such as EBITDA as well as a longer term horizon for both revenue and EBITDA projections[89].

Figure 19: EV/ 1 year Forward Revenues in Announced De-SPACings 2016-Q1 2021



Source: FTI Consulting.

[88] The lower acquisition multiples are seen in the consumer, media tech and healthcare services sectors, with the highest multiples recorded space, satellite, clean tech / electric vehicles, and biotech sectors.

[89] This is the approach generally followed by SPAC sponsors, PIPE investors and research analysts, in addition to fundamental valuations such as discounted cash flow analysis.

The table below shows for a sample of 25 de-SPACings announced during August 2021 the relevant valuation methodologies applied to each transaction. It is worth noting that only 4 SPACs traded above $10 following transaction announcement and that the most frequent valuation methodology is Enterprise Value / Revenues one and two years forward.

In that respect, we highlight the significant multiple contraction if we compare EV / Revenues for 2022 and 2023, due to expected high growth rate of estimated revenues year on year. EV / EBITDA multiples are less frequently adopted and mostly (except for two transactions) in conjunction with EV / Revenues. Due to the expected low profitability / cash generation, EV / EBITDA multiples tend to significantly high in most cases.

Table 12: Announced De-SPACings Valuation Methodologies

			Valuation methodology											Current price	
			EV / Revenue					EV / EBITDA							
Announced date	SPAC	Acquisition target	2022E	2023E	2024E	2025E	2026E	2021E	2022E	2023E	2024E	2025E	2026E	Stock	Warrant
8/18/2021	Aldel Financial Inc	Hagerty		2.8x						18.3x				10.03	1.53
8/18/2021	InterPrivate III Financial Partners Inc	Aspiration	7.7x	3.8x										9.82	0.98
8/17/2021	M3-Brigade Acquisition II Corp	Syniverse Technologies							12.1x					9.85	0.93
8/16/2021	Silver Crest Acquisition Corp	Tim Hortons China		3.9x										9.83	0.59
8/13/2021	MedTech Acquisition Corp	Memic			7.9x									9.85	1.02
8/12/2021	First Reserve Sustainable Growth Corp	EO Charging		3.1x	1.8x									9.83	0.85
8/11/2021	European Sustainable Growth Acquisition Corp	ADS-TEC Energy		1.5x	0.9x									9.90	0.92
8/10/2021	Environmental Impact Acquisition Corp	GreenLight BioSciences	[14.4x EV / 2026E Revenue (Ag & Food); 8.4x EV / 2024E (Healthcare)]											**9.87**	**0.90**
8/10/2021	Astrea Acquisition Corp	HotelPlanner + Reservations.com	3.3x											9.83	0.55
8/9/2021	Merida Merger Corp I	Leafly	5.9x	3.8x										9.95	1.18
8/6/2021	CM Life Sciences III Inc	EQRx												9.85	1.62
8/5/2021	Growth Capital Acquisition Corp	Cepton Technologies				1.8x						4.6x		9.94	0.75
8/4/2021	FTAC Athena Acquisition Corp	Pico	5.7x											9.85	1.16
8/3/2021	Yellowstone Acquisition Co	Sky Harbour												10.07	0.78
8/2/2021	VPC Impact Acquisition Holdings II	Kredivo	6.3x											9.82	1.15
7/29/2021	TPG Pace Solutions Corp	Vacasa	3.7x	2.9x										9.97	
7/28/2021	Queen's Gambit Growth Capital	Swvl		2.8x										9.87	1.00
7/28/2021	Spartan Acquisition Corp III	Allego			4.8x						14.9x			9.84	1.19
7/27/2021	MCAP Acquisition Corp	AdTheorent							21.2x					9.82	0.96
7/23/2021	Bridgetown 2 Holdings Ltd	Property Guru	12.4x											9.87	
7/23/2021	Dragoneer Growth Opportunities Corp II	Cvent	8.5x	6.9x										9.87	
7/22/2021	MDH Acquisition Corp	Olive.com		2.3x						6.4x				9.83	0.56
7/21/2021	Power & Digital Infrastructure Acquisition Corp	Core Scientific						21.4x						10.61	1.97
7/20/2021	Velocity Acquisition Corp	BBQGuys							17.0x	12.8x				10.07	0.94
7/19/2021	Capstar Special Purpose Acquisition Corp	Gelesis	5.6x	2.2x										9.84	0.90

Source: Dealogic, Bloomberg, company filings as of August 20, 2021.

A more cautious investor approach to SPAC IPOs and PIPEs is forcing SPAC sponsors and management teams of operating companies to consider more careful, detailed financial modeling and more rigorous testing of assumptions for achievability, and are creating more robust financial planning and analysis capabilities as part of their IPO readiness preparation.

As a result, market participants suggest that successful de-SPAC mergers will be those that deliver on three key factors: (i) reasonable financial projections supported by a robust and resilient operating plan; (ii) management operating model that supports the public company requirements across finance, technology, commercial and operations functions; (iii) timely and complete communications to all stakeholders, including investors, lenders, analysts and public shareholders.

These are all factors that apply to traditional IPOs of operating companies. It means that in the current environment an operating company opting for a de-SPACing should be in any case IPO-eligible (in terms of solid business case and projections) if it wants to meet adequate investor interest and demand.

3. Selected case studies

With specific reference to valuation approaches undertaken in the context or recent de-SPACings, we have focused on two recently announced transactions.

The first one, announced on July 28, 2021, is the combination between Allego Holding, a leading pan-European electric vehicle charging network, and Spartan Acquisition Corp. III a SPAC listed on the NYSE in November 2021 and backed by Apollo Global Management, a leading private equity group.

The transaction is expected to create a leading publicly traded pan-European electric vehicle charging company.

As described in Allego's official press release, the company *"is a leading electric vehicle charging company in Europe and has deployed over 26,000 charging ports across 12,000 public and private locations, spanning 12 European countries. In 2018, the Company was acquired by Meridiam, a global long-term sustainable infrastructure developer and investor, which provided necessary capital to enable the expansion of Allego's existing global network, services and technologies. Meridiam is currently the sole owner of Allego. The company's charging network includes fast, ultra-fast, and AC charging equipment. The company takes a two-pronged approach to delivering charging solutions, providing an owned and operated public charging network with 100% renewable energy in addition to charging solutions for business to business customers, including leading retail and auto brands. The business combination values Allego at an implied $3.14 billion pro forma equity value. The combined company is expected to receive approximately $702 million of gross proceeds from a combination of a fully committed common stock PIPE offering of $150 million at $10.00 per share, along with approximately $552 million of cash held in trust, assuming no redemptions. The proceeds from the business combination will be used to fund EV station capex and for general corporate purposes. Fisker, a designer of advanced sustainable electric vehicles and mobility solutions, will make a $10 million private investment in the PIPE. Fisker is the exclusive electric vehicle automaker in the PIPE and, in parallel, has agreed to terms on a strategic partnership to deliver a range of charging options for its customers in Europe."*

The PIPE is anchored by additional strategic partners, including Landis+Gyr, as well as institutional investors, including funds and accounts managed by Hedosophia and ECP. Investment funds managed by affiliates of Apollo and by Meridiam, as long-term owner of Allego, also participated in the PIPE.

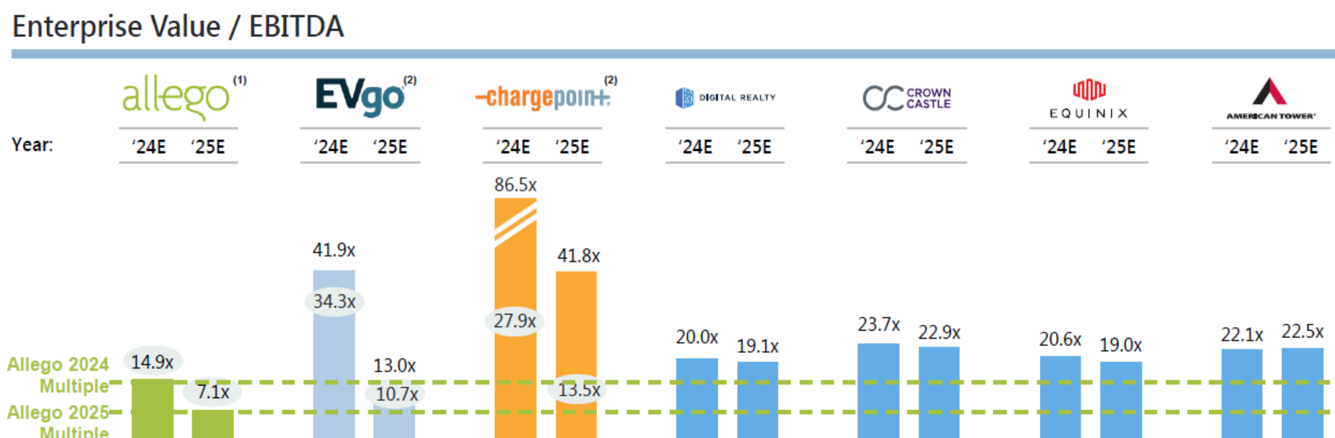
In marketing the PIPE, Allego and Spartan highlighted that the valuation of Allego implies a 42% discount to peers based on projected 2025E EBITDA of $377 million.

The boards of directors of Allego and Spartan III have approved the business combination, to be completed in the fourth quarter of 2021 subject to the approval by Spartan shareholders.

Meridiam, the existing shareholder of Allego, will roll 100% of its equity and, together with management and former advisors, will retain 75% of the combined entity.

Spartan III is currently trading at $9.88 per share, as of September 30, 2021, a slight discount (1.2%) to its IPO price. Allego is not trading yet as it has not been merged into Spartan III yet.

Figure 20: Valuation Comparison – Allego and Selected Peers



Source: Spartan III / Allego investor presentation.

The second transaction has recently completed following the final approval of the proposed de-SPACing. We refer to the merger of FREYR with Alussa Energy Acquisition Corp. The combination agreement was signed and announced on January 2021 and the deal was closed on July 9, 2021. Alussa Energy and FREYR combined with a goal to accelerate the development of FREYR's battery cell production in Norway.

Alussa Energy is a NYSE listed SPAC which completed its IPO in November 2019. FREYR is a developer of clean, next-generation battery cells targeting ~43 GWh of capacity by 2025.

FREYR plans to position the company as one of Europe's largest battery cell suppliers.

FREYR has a partnership with 24M, a battery technology producer. FREYR will trade on the NYSE and equity capital retained for the execution of planned development of battery cell production capacity.

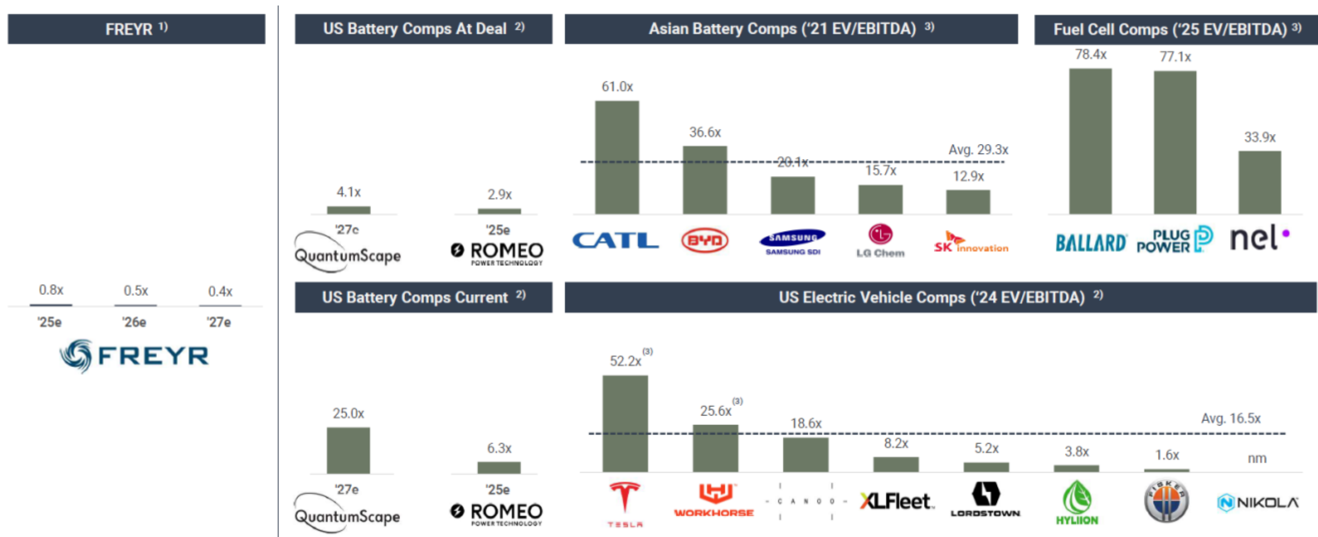
The transaction was inclusive of a fully committed PIEP of $600 million, including strategic investors (Koch Strategic Platforms, Glencore) and institutional investors (Encompass Capital, Fidelity, Franklin Templeton, Sylebra Capital, Van Eck).

100% of FREYR's existing shares will roll over into the combined company and a potential listing on the Oslo stock exchange is envisaged within 12-24 months.

In terms of valuation, FREYR and Alussa Energy indicated that the combination has been agreed based on a post-transaction enterprise value of $529 million and an equity value of $1.4 billion, implying a multiple of 10x 2025E EBITDA of $703 million or 0.8x 2025E EBITDA on a post transaction basis (i.e. including the cash contributed via the de-SPACing and the PIPE).

FREYR is currently trading at $9.12 per share (as of September 2021), a discount of 8.8% compared to the Alussa $10.00 IPO price.

Figure 21: Valuation Comparison – FREYR and Selected Peers



Source: Alussa Energy / FREYR investor presentation.

4. Latest SPAC structure developments

As previously noted, we are currently witnessing to a progressive adaption of some key SPAC features to investor preferences. As typically occurs in financial markets, there is an interaction between supply and demand sides that brings along an evolution of the instrument. While the SPAC is relatively new instrument, it has already undertaken several modifications in slightly more than a decade. As discussed in chapter I, the prevailing features of the U.S. style SPAC have become mainstream during 2020.

We could say that especially during the second half of last year and the first half of 2021, a flexible structure and an incentivizing set up for SPAC sponsors / promoters have been instrumental to the success of the instrument, measured in terms of number of SPAC IPOs and de-SPACings, as well as in terms of market performance (i.e. in simple metrics, based on the number of SPACs trading above $10 post IPO and de-SPACings).

On the other hand, diminished investor appetite since April has also demonstrated that flexibility of the instrument and its structure is still the key to preserve a functioning market. In that respect, we highlight below the main features that are being developed by SPACs coming to market in the current environment and meet investor preferences:

- Size of the team: no real market norm, from 2 to 8 with an average between 3 to 4. A combination of financial institutions (e.g. private equity funds) and experienced operational managers are seen as a strong set of competencies.
- Board size and composition: relatively tight with, on average, between 6 to 8 members. An international, diverse board, with a majority of independent directors is becoming critical and an important marketing tool.

- Sponsor investment at IPO: investors are increasingly focused on a good alignment of interest with the sponsor team, which can be done either via (i) a cornerstone investment in the IPO[90]; (ii) a "waterfall" of the promote where part of the promote is granted subject to share price performance.
- Board remuneration: often times equal to zero, or alternatively a lump sum or founder shares / warrants. Best in class structures are when remuneration starts only post business combination and subject to share price performance.
- Target: important to be wide enough (but not too generic) to maximize likelihood of de-SPACing. Clear focus on sectors / verticals offering growth.
- Time to de-SPACing: 24 months is still very standard and market practice currently. However, there is a possibility to add a 6-month extension if a letter of intent between SPAC and target is signed.
- SPAC size: $200–300 million (or Euro) size remains the preferred size for investors.
- Other features, including (i) warrant ratio: 1/3rd for each SPAC share is still the market standard, although the market has recently shifted towards more investor-friendly warrant structures; (ii) negative rates: recent SPACs have covered the negative rates; and (iii) forward purchase agreements: they are becoming more frequent as a powerful marketing tool given more difficult access to the PIPE market.

We believe that flexible and adapting features as the ones described above should support the SPAC market, together with a more cautious approach on the investment thesis and the business prospects of operating companies being targeted for de-SPACing.

In this respect, both the U.S. and European authorities are showing an increased level of attention on public disclosures and representations. At the same time, setting rules for SPAC listings contributes to widen the SPAC market beyond the U.S. boundaries, thus allowing for more distributed supply / demand dynamics. As previously noted, European exchanges are supporting SPAC listings.

So far, we have seen Amsterdam as the prevailing listing venue although Paris, Frankfurt and Luxembourg are also becoming active markets. In the, United Kingdom the Financial Conduct Authority has recently published its final rules to provide more flexibility to larger SPACs and at the same time ensure investor protection and smooth operation of the market[91]. In Italy, we understand that Consob is also reviewing the current framework for SPACs and conducting a market analysis in coordination with other European regulators[92]. It is also worth noting that the Singapore Exchange has launched in September 2021 new rules allowing SPACs to list on its mainboard, a move that has made the SGX the first major bourse in Asia to offer

[90] A cornerstone investor in an IPO is defined as an investor who has committed to subscribe to a predetermined number of shares (or SPAC units in our case) ahead of the roadshow / bookbuilding process. Typically, cornerstone investors agree to subscribe a certain amount of shares / units at the IPO price. The identity of cornerstone investors is disclosed in the IPO prospectus. Their presence of "captive demand" ahead of IPO launch is currently a common (and, most frequently, necessary) feature in SPAC IPOs to support the equity story and minimize execution risk.

[91] The FCA rules came into force on August 10, 2021.

[92] In particular, key areas of focus include disclosure and accounting treatment of warrants, representation of projections and potential liabilities, and validation of de-SPACing valuation.

such listings. Overall, we are witnessing an evolution of SPAC structural features, as well an increasing number of listing venues and relevant rules, which tend to be relatively homogeneous across jurisdictions and are currently showing a balanced approach in terms of investor protection and preservation of flexible and attractive features of the SPAC instrument.

Summary

Definition and nature of the instrument

Special Purpose Acquisition Companies or SPACs can be defined as investment vehicles established as corporate entities to raise capital in an initial public offering , with the specific and exclusive purpose of using the proceeds to acquire or merge with one or (less frequently) more unspecified (at the time of the IPO) operating company or business or assett be identified after the IPO. Unlike an operating company that becomes public through a traditional IPO, a SPAC is a “cash-shell company” or “blind pool” when it becomes public. This means that it does not have an underlying operating business and does not have assets other than cash, i.e. the proceeds from the IPO, or the securities in which such cash is invested until the business combination with the operating company is completed.
Being an investment vehicle aimed at acquiring an operating business, we may assimilate a SPAC to a private equity fund. However, we highlight three important differences: firstly, private equity funds undertake their fundraising privately i.e. without carrying out an IPO; secondly, private equity funds deploy the proceeds from the fundraising in multiple acquisitions while SPACs generally acquire or merge with one single target; thirdly, private equity firms generally rely on a substantial amount of acquisition debt to carry out their investments (Leveraged Buy Outs or LBOs) while SPAC are mostly financed by virtue of equity securities rather than by debt. Another important difference vis a vis private equity funds and other investment vehicles (including open ended funds) is that in a SPAC the higher risk associated with equity securities in terms of a winding up / bankruptcy perspective is basically irrelevant. Indeed, as previously outlined, SPACs are usually not financed by debt securities in the same way as private equity funds that rely on significant leverage. Hence, the shareholders of a SPAC can be entitled to a full reimbursement of their original investment (technically speaking, a redemption right) before the commencement of a possible distribution procedure under a winding up / bankruptcy scheme.

The U.S. style SPAC

Our dissertation focuses on the most recent phenomenon and the most recent structure, which has been designed in the U.S. capital markets. In the previous decade, there has been a co-existence of structures but only recently we can recognize homogeneous structural features, mostly driven by widespread market acceptance. In our analysis we will refer, unless otherwise indicated, to the “U.S. style” structure as this is currently the prevailing structure that obtains interest and recognition from investors worldwide.
Although SPACs can and have listed on many stock exchanges around the world, most SPACs nowadays list in the United States through an Initial Public Offering. This applies to U.S. - sponsored and/or focused SPACs but also to SPACs sponsored by European or Asian investors and/or with a European or Asian focus.

SPAC as a financial instrument

The SPAC security or unit can be defined a bond plus a warrant until an acquisition is announced. The bond-like nature comes from the fact that the SPAC IPO proceeds are invested in risk free government bonds that can be redeemed by investors prior to an acquisition for their proportional share of the trust account's assets, rendering the bond portion effectively risk-free. As a result, SPACs generally trade like a fixed income instrument until a combination is announced and like a stock after the combination is successfully closed. In other words, SPACs provide downside protection to investors until an acquisition is completed after which it trades like a stock in an operating company (in which the SPAC has merged or reverse merged). However, such protection is full only if the investor has purchased the SPAC shares at IPO (i.e. at the issue price) or subsequently if the stock has traded in line with the issue price.
A SPAC can be considered as a financial or investment product with a specific and well-defined life cycle: initial formation, IPO, search for a target, shareholder merger vote, and closing of an acquisition (or the return of the SPAC's proceeds to investors in case there is no business combination within the 18-24 months period or if notwithstanding the business combination is agreed upon, investors elect to be redeemed before the closing date of the proposed combination).

Key structural features

As previously indicated, a SPAC is a publicly traded company created for the sole purpose of acquiring or merging with an existing operating company, often providing such target company with an alternate route to a traditional IPO. This transaction is typically structured as a reverse merger in which the operating company is incorporated into the SPAC or a subsidiary of the SPAC. The cash raised by the SPAC at the time of the IPO (or subsequently) is thus (i) "combined" with an operating company improving its financial position (increase of cash balance or reduction of debt) and accelerate its growth path (i.e. through higher capital expenditures or acquisitions); and/or (ii) distributed to the owners of the operating company who are willing to monetize part of their investment in the target.
While there are various ways to structure the initial business combination, the combined company following the transaction is a publicly traded company and carries on the target operating company's business.
SPACs raise capital via an IPO with the express mandate to acquire a private company within, generally, 18-24 months, subject to certain expectations. Investors in the SPAC IPO are essentially investing based on the capability of the SPAC sponsors (also known as founders - usually seasoned executives with industry expertise who often partner with financial backers, i.e. private equity firms) to execute on an acquisition. Although at the time of the SPAC IPO an acquisition target is generally not known, investors rely on the sponsors' skills to identify the right target and create value for their investment through the business combination. Prior to an acquisition being completed, investors do have the option to redeem their initial investment, which is held in a trust account. This is a very important feature as it ultimately meant to protect investors who deployed their capital in the SPAC IPO or have subsequently invested in SPAC shares in the secondary market.

The public investors and the sponsor(s) in a SPAC IPO acquire "units" including of 1 share of stock and a fraction of 1 warrant to acquire stock in the SPAC. The warrants "compensate" the IPO investors for investing in a blind pool. In the U.S. market, the units are generally priced at $10.00 per unit, with the strike (conversion) price of the warrants typically set at $11.50 per share (i.e. a 15% premium to the unit price). After the IPO (typically 52 days), warrants are split from the stock and each security starts to trade individually.

The common stock included in the units sold to the public is sometimes classified as "Class A" common stock, with the sponsor / founder purchasing "Class B" or "Class F" common stock. The public shares and founder shares vote together as a single class and are usually identical except for certain governance rights (i.e. the right to elect the entire board of directors of the SPAC prior to the business combination) and anti-dilution adjustments (i.e. in case of a capital increase, a stock split, a stock or cash dividend or other corporate reorganizations).

The sponsors invest in shares of the SPAC, which are denominated as "founder shares" or "promote" and are typically convertible, upon de-SPACing, into 20% of the SPAC's share capital. The promote is intentionally designed to provide the sponsors with a significant return in the event of a successful business combination, while on the other hand it becomes worthless in case there is no business combination within a certain period of time.

Key structural features: the "PIPE"

SPACs generally pursue acquisitions of targets whose enterprise value (equity + net financial debt) is 2-5x the size of the SPAC's market capitalization. This is facilitated by bringing in additional investors immediately prior to the acquisition through additional fundraising structured as a private placement with institutional investors, generally referred to a "PIPE" (acronym for private investment in public equity). Investors in the PIPE may comprise of existing or new investors who commit to invest additional equity subject to the closing of the business combination. The PIPE structure can provide a "safety net": cash raised in the PIPE is a sort of a backstop allowing the business combination between the SPAC and the target to be completed notwithstanding a large number of redemptions by the SPAC investors.

The PIPE provides comfort to the owners of the target company as they see a higher chance that the de-SPACing will go through, as well as to the investors in the SPAC since the PIPE investors are the ones who conduct a detailed valuation exercise on the target. The PIPE process can be considered similar to the pre-marketing and book-building processes of traditional IPOs. As a result, the lack of sufficient PIPE investors' interest in a proposed de-SPACing can jeopardize the positive outcome of the contemplated combination, similarly to what we would have in the event of a traditional IPO with low demand from investors. The cash raised through the PIPE allows the SPAC to target operating companies whose size can be a multiple of the SPAC's size, thus materially increasing its buying power. Another way to ensure the combination is through the forward purchase agreements entered into between the SPAC and the sponsors. In several recent SPAC IPOs, affiliates of the sponsor or institutional investors (generally private equity funds) have entered into a

forward purchase agreement with the SPAC, committing to purchase equity (stock or units) in connection with the de-SPAC transaction to the extent the additional funds are necessary to complete the transaction.

SPAC advantages

From the point of view of the investors in the SPAC's IPO, acquiring units (shares and warrants) in a SPAC represent a diversification of their investment portfolio or, in other words, an allocation of a fraction of available liquidity in a cash-equivalent redeemable financial instruments for 18-24 months, provided with an "equity kicker" feature. Investors in the PIPE are looking at the SPAC investment in a way similar to what they would do in a traditional IPO as they have to analyze the target company that will eventually be acquired by the SPAC (they do conduct a due diligence exercise). Owners and managers of the target company also look at the SPAC as an alternative way to carry out a public market sale of the company they own or work for. SPACs can be helpful to achieve several objectives and have a considerable number of advantages for all of the parties involved: the target company and its owners, the SPAC IPO investors, and the SPAC managers. In the view of the target business and its owners, a SPAC may be an advantageous way for a company to raise cash without having to conduct an IPO of its own. Should a small company desire growth, the method is an effective way to acquire exposure to well-established investment firms and get multiple funding sources.
In contrast to a traditional IPO, there is no strict time limit to make a deal when using a SPAC. SPACs have more recently been used by as experienced investors and management teams to reduce the market volatility and execution risk of traditional IPOs, especially for small and mid-sized companies. There is generally less interest in the public market for small company IPOs, which effectively leaves smaller companies with fewer options to raise cash: a de-SPACing can thus represent a viable alternative. Additionally, many owners or management teams of operating companies do not wish to give up full control or a portion of control to private equity investors. Since the vast majority of SPACs are looking for minority investments, they leave owners and management of the operating company as majority shareholder of the operating company post combination with the chosen SPAC. Finally, especially in the U.S. market, a standard initial public offering raises money that must go to help finance the company, while secondary IPOs (i.e. cash proceeds go to the selling shareholders) are rarely accepted by investors.
However, as the present owners often want to cash-out from the deal, then allowing the company to be purchased by a SPAC means that their own shares can be among those purchased by the SPAC. The main benefits of SPACs for investors include the right for their investments to be returned if a target company is not acquired within 18 or 24 months or if investors decide to reject the proposed transaction. In other words, through such redemption right (which is in essence a put option), investors until de-SPACing are exposed to a (low return) fixed income investment with upside potential. Such upside potential is represented by the fact that investors have the opportunity to make a substantial profit from their initial investment if the de-SPACing is approved by them, and the acquired company is perceived to be a profitable company (and the stock price rises as a result).

From a different perspective, SPACs provide an opportunity for all investors, regardless of the amount of capital they have, to get a "piece of the action" in a private equity investment. In the view of the SPAC management team, the instrument offers a powerful tool to raise cash and acquire a company. Although managers receive no salary, a fraction of the IPO proceeds that are not held in escrow will be used to pay for directors' and officers' insurance, legal, and accounting expenses. Due diligence costs incurred to assess potential targets, as well as the costs of negotiation, structuring, and obtaining shareholder approval for the merger, will also be paid from this money.

The funds that will go to pay for these expenses are considered the working capital of the company. It is convenient for the SPAC's management team to have such working capital available as it searches for a business acquisition. Additionally, the managers typically receive the 20% interest in the SPAC's shares as compensation for locating and negotiating a purchase of a profitable target company. Another advantage of the SPAC is that it can unlock a strategic situation around a corporate asset such as a private company/subsidiary in need of capital, management expertise or generational change (e.g. family-owned business). It can also facilitate a public market listing for a complex asset: de-SPACings can be de-risked through raising a PIPE, where forecasts can be directly provided to investors (contrary to what happens in traditional IPOs), complex financial histories can be explained, and SPAC sponsors can lend credibility to an asset.

In addition, a SPAC can be instrumental in creating a "platform" through which the acquired company can further grow through "add-on" acquisitions. Finally, for corporate sponsors, setting up a SPAC allows to raise third party fund to finance an acquisition (typically resulting in a significant minority investment, thus avoiding line by line consolidation) of a target company at multiples usually higher than the ones at which the target company is trading (which otherwise would make such an "expensive" acquisition problematic if pursued solely by the corporate sponsor). A SPAC also enhances the ability to super-charge the growth of corporate-backed entity through R&D support, distribution capabilities and global presence and access.

Potential disadvantages

It is worth noting that there are also some potential disadvantages associated with SPACs. SPACs are somehow a highly sophisticated investment and certainly not a mainstream one. They possess no assets other than the management's professed "know-how" and the investor in the SPAC is basically betting on the management to make a wise purchase decision and to negotiate a good deal. Presumably, the investor would not invest in a SPAC without confidence in knowing who the management is and their prior history of investment success, although track record does not provide full certainty of future performance. In addition, there are structural reasons why SPACs could run into problems.

The 18 or 24 months deadline imposed on the management to make an acquisition, while protecting investors by forcing a return of their investment if no deal is consummated during this time frame, puts SPAC management under severe time pressure to pursue a de-SPACing (i.e. they could be incentivized to acquire a

target "at all costs"). As noted, the management of the SPAC receives a 20% interest in the SPAC as their compensation fee upfront. Unlike investors, however, they are not entitled to get any of this interest back if the acquiring transaction does not occur and furthermore they would lose entirely the sums needed for transaction expenses and working capital needs.

This creates an almost "do-or-die" situation for the SPAC management who needs to complete the de-SPACing within the 18 or 24 months period. Coupled with the important requirement that management must typically spend at least 80% of the SPAC's assets on a transaction, this could lead to the SPAC's management overpaying for the target company or attempting to convince investors to approve a poor or ill-conceived acquisition.

On the other hand, SPAC investors have a powerful tool at their disposal: provided that a minimum quorum (usually 20%) rejects a proposed transaction, the investors are able to block any deal that they may not deem advantageous. Additionally, in the most recent U.S. style SPACs, any individual investor, if they decide that they do not favor the proposed transaction, can still leave the SPAC before closing of the business combination (usually until a few days prior to closing) and get their full initial investment returned, notwithstanding the de-SPACing has been approved by the majority of the investors.

This could seem unfair to the majority of investors who have voted for the business combination and are willing to support it. In that respect, these investors are "protected" (and so are the owners of the target company who have agreed to the de-SPACing) by the PIPE mechanism: as noted, new investors bringing in additional capital can essentially operate as a backstop to offset the impact of any SPAC's investor redemption.

It is clear that by not approving the de-SPACing or by exercising the redemption rights investors will end up with a very low return on their initial cash investment (namely, the initial cash plus the interest earned on the trust account minus incurred transaction expenses) so they might be tempted to approve the business combination and stay invested.

SPACs vs. IPOs

As compared to operating company IPOs, SPAC IPOs can be considerably quicker. SPAC financial statements in the IPO registration statement are very short and can be prepared in a matter of weeks (compared to months for an operating business). There are no historical financial results to be disclosed or assets to be described, and business risk factors are minimal. In essence, the IPO registration statement is mostly customary legal language plus director and officer biographies. As a result, the SEC (or other stock exchange authority) comments are usually few and not particularly cumbersome. From the decision to undertake a SPAC IPO, the IPO process can be completed in approximately eight weeks.

After going public, the SPAC then has a set time frame to find and merge with a target business and, by doing so, take the target business public, thus representing an alternative way to a an IPO for a private company. In that respect, a SPAC merging with a target company can be considered as a type of IPO. The search for a suitable acquisition is similar to the process used in a typical M&A transaction, with sponsors vetting potential

targets through an accelerated financial, legal, and tax due diligence process. SPACs can be an efficient alternative route for private companies to go public compared to an IPO or a direct listing.
The key reasons can be ascribed to speed of access to the market, greater control and visibility on the IPO pricing, as well as simpler disclosure requirements. From the perspective of the target company, the economic and practical effects of a de-SPAC transaction are in many ways similar to those reached by conducting a traditional IPO with a large primary component. The cash the SPAC can rely will be used to support the business of the combined company and/or to buy out existing shareholders of the target. The de-SPACing involves most of the same requirements applicable to an IPO of the target business, including audited financial statements and other disclosure items which would not otherwise be applicable if the target business were acquired by an operating company rather than a SPAC.

Disclosure and reporting

We have analyzed disclosure and reporting requirements for SPACs at the time of formation and IPO as well as requirements at the time of de-SPACing. Our analysis is primarily based on SEC requirements and thus referred to the U.S. market where most of the SPACs are listed or seeking listing. It must be noted that IPO prospectuses of recent European SPACs are structured along the lines of the U.S. standards. In conducting our analysis we have referred, whenever useful and appropriate, to actual IPO documents and we have taken the Liberty Media Acquisition Corporation's IPO of January 2021 as the reference example of a SPAC IPO prospectus.
As in all IPOs, there are several primary regulatory steps that a SPAC applicant is required to comply for: (i) prepare and file Form S-1 registration statement with the SEC; (ii) select and filing listing application with a trading market (generally NASDAQ or NYSE); (iii) make filing with FINRA regarding underwriting compensation and arrangements.
As to the reporting and disclosure requirements that are required at the time of the business combination between the SPAC and the identified target / operating company. As we will note in the following pages, the most relevant feature of such reporting and disclosure requirements is that contrary to traditional IPO prospectuses, de-SPACing prospectuses include detailed forecasts on the future business and financial performance of the operating company (generally three to five years forward).
The key reason why this is allowed is because the de-SPACing is not an initial public offering (which has occurred when the SPAC's shares have been sold to investors) but it is rather construed as an acquisition or a merger transaction which undergoes the vote of the SPAC's shareholders. In other words, the shareholders cast a vote not only on the economic terms of the proposed transaction but also on the business and financial information contained in the transaction materials (i.e the merger documents).
It must be noted that even in an IPO forward looking statements and projections can be disclosed. However, the U.S. Private Securities Litigation Reform Act ("PSLRA") protection provided to companies against liabilities in private litigation for forward looking statement (so called "safe harbor") is not available for private

companies introducing themselves to the public market via an IPO. The rationale of the safe harbor protection was to incentivize the disclosure of valuable investor information regarding a company's future outlook.
This lack of protection, which is common feature in other developed securities legislation has so far been limited to IPOs but not to de-SPACing transactions.
This explains why disclosure of forward looking statements and projections has been widely adopted in de-SPACing prospectuses. As we will analyze further in this chapter, this has come under SEC's scrutiny and a new draft legislation is being proposed by the U.S. Congress. An important element that we intend to underline is that reporting and disclosure requirements need to go in tandem with transparency, consistency and full alignment of information provided to existing and prospective investors.
This is better understood if we consider that the de-SPACing is often preceded by a PIPE transaction. In order to entice prospective PIPE investors, the SPAC promoters and their advisors, together with the management team and/or shareholders of the target (and their advisors), prepare and distribute a comprehensive information package on the target containing forecast and forward - looking statements.

Use of projections

In a business combination transaction, including de-SPACings, projections of the target company's future financial performance often are relevant in analyzing and negotiating the transaction (and generally support valuation and price determination). These projections are generally disclosed in disclosure documents provided to shareholders in the context of the transaction (e.g., the proxy statement or registration statement). In the U.S., the determination or obligation to disclose projections in connection with a transaction also depends on the requirements of state laws.
In particular, several U.S. state laws require the board of directors to disclose fully and fairly all material information when seeking shareholder action, and information is generally considered material if from the perspective of a reasonable stockholder, there is a substantial likelihood that it significantly alters the information made available.
Accordingly, if the board of directors relies on projections in the context of transaction approvals, these projections are considered potentially "material" and consequently they are disclosed to shareholders. Similarly, in de-SPAC transactions, as previously noted, the projections of the private company target shared with the SPAC are often included in S-4 filings and proxy statements provided to the SPAC's shareholders in connection with their approval of the proposed business combination transaction.
These projections are usually considered by the SPAC's board of directors in assessing the proposed de-SPAC transaction, as the target company's projections generally provide insight into its future financial performance, including its perceived potential for growth, and represent a key element to assign the appropriate valuation to the target company.

The U.S. House Financial Services Committee in May 2021 released a draft legislation expressly prohibiting SPACs from using the "safe harbor" provisions of the 1995 PSLRA to protect themselves against liability for inaccuracies in projections and other forward-looking statements.

If the draft legislation becomes law, parties to a SPAC business combination, as well as directors and officers, may be exposed to additional liability for incorrect projections and other forward-looking statements used in the transaction.

<u>SPAC performance</u>

We have provided an overview of early and most recent academic literature focusing on SPAC performance as well as market practitioners' point of view. As to academic studies, the most interesting analysis in our view has been performed by Bai, Ma and Zheng in a working paper that formally examines the economic role of the SPAC market and draw certain conclusions as to drivers of SPAC performance and its market structure. Firstly, the authors point out the fact that the market share of SPACs is strongly and positively correlated with equity market sentiment, as evidenced by the clear co-movement between equity market sentiment and SPAC activity. Secondly, these authors maintain that compared to companies undertaking a traditional IPO, the ones who go public via a de-SPACing are generally smaller and riskier at the time of going public. Specifically, at the going-public year, SPACed companies are notably smaller and have significantly less revenue than traditional IPOed companies.

Moreover, they have significantly higher cash flow volatility over the first four years of being a publicly traded company and are also more cash-constrained than IPOed companies, as measured by cash-to-assets and payout ratios. SPAC operating firms are smaller and have more volatile cash flows and lower payout ratios. These are features suggesting that these firms are more speculative investments and therefore more sensitive to investor sentiment.

Bai, Ma and Zheng also suggest that SPACed companies grow at similar or even higher rates compared to IPOed companies after going public. They also find that, in the years immediately after going public, SPACed companies have similar or even higher growth rates of revenue, market capitalization, and assets when compared to IPOed companies. Companies that choose the SPAC method of going public may be speculative and risky investments that are more difficult to value but that also have the potential to execute higher growth. The authors also provide evidence against the hypothesis that the SPAC market is purely a market for low-quality firms and instead suggest that SPACed companies may be of comparable quality on average to IPOed companies. Next, the authors build a theoretical framework of the SPAC market based on the observed segmentation in the going-public markets.

The main point is the asymmetric information between companies merging with a SPAC and public investors in the SPAC as to quality and riskiness. Quality of the business is private information known to the company and unknown to public investors, while company's riskiness and size are public information. Public investors differ in their preferences for project riskiness: safety-seeking investors prefer safe projects, while yield-

seeking investors prefer riskier projects. The main implication of the theory is the segmented going-public market: larger and safer companies go public in the IPO market, while smaller and riskier companies go public in the SPAC market. Both SPAC IPO volume and the market share of SPACs in the going-public market increase with the propensity of investors to seek yield.

Bai, Ma and Zheng suggest one possible bright side of the SPAC market: a well-functioning SPAC market can open a door for value-creating, but smaller and riskier companies to go public. Given that the ability to become a publicly listed firm provides an increase in opportunities for liquidity and exit for both founders and initial investors, the existence of such a mechanism may stimulate entrepreneurial activity ex ante. A growing market share of SPACs also implies an increasing impact of SPAC firms on the economy. Thus, mitigating the potential short-termism of SPAC sponsors is important for protecting public investors and maintaining financial stability. In that respect, the authors suggest that an improved SPAC sponsor compensation structure through a long-term phase-in structure, earn-out provisions, and optimized stock-warrant mixture may help alleviate agency issues by better aligning the incentives of SPAC sponsors with those of long-term investors. If implemented, they predict a healthier SPAC market with potential to attract broader participation from investors.

As to the market participants' point of view, we have described how research analysts tend to assess the SPAC market and which tools and observations are generally utilized. In particular, analysts from Barclays observed the rapid growth in the SPAC market during 2020 and the resulting concerns about investor exuberance and saturation. With typical SPAC acquisitions being significantly larger than the amount raised in the SPAC IPO (in the 2-5x range), Barclays highlights the risk that demand for acquisition targets bids up prices. On the flip side, the bank points out that larger acquisition sizes lead to less dilution from SPAC sponsor's unfunded promote equity stake. The key insights and considerations Barclays has drawn (as of the date of the report) from the life cycle of a typical SPAC include:

- There is typically a spike in the share price when a SPAC announces the company it intends to acquire. On average SPACs see a return of 3.5% on the day they announce their intent to acquire a company. In general, this return is consistently positive, with over 90% of SPACs seeing non-negative returns on their acquisition announcement dates.
- SPAC unit returns tend to remain strong between the announcement spike and the closing of the acquisition. Although the day of announcement for SPACs provides consistent strong returns, most SPACs tend to continue to perform well up until the acquisition is completed.
- SPAC returns tend to be volatile on the day of the acquisition's closing. In general, around 50% of SPACs had positive returns on the closing date of the acquisition, while 50% had negative returns.
- Companies acquired by SPACs tend to underperform following the acquisition. Barclay's analysis shows that in general, companies acquired by SPACs underperform in the subsequent year. The bank's research report notes that the average returns for SPAC acquired companies in the six months following the acquisition is -8.3%, although these returns are heavily dependent on the size of the SPAC.

- SPAC warrant returns tend to be much higher but more volatile. This is common for SPAC warrants, although due to the inherit leverage in the warrant the risk is much higher as well.

The Barclays research also emphasizes that it may appear counter-intuitive that SPACs can have negative returns, but once a SPAC has made an acquisition announcement it takes on equity properties. After the acquisition is completed, it transitions fully to a stock and reflects the valuation and prospects of the acquired company.

Some observations on SPAC performance measurement

It can be useful to draw some conclusion on the topic of SPAC performance measurement.

Firstly, it appears not to be possible to take an absolute view on SPAC performance as it depends on the selected universe and the period of observation. In addition, most SPACs before de-SPACing tend to trade around their $10 redemption value. However, especially academics, have found an interest in focusing on the determinants and the impact of dilution inherent to SPACs as described in this chapter. Market participants such as equity research analyst tend to have, so far, a somehow more benign view but, again, conclusions on SPAC performance can vary significantly depending on selection criteria and reference period.

Secondly, it is questionable whether SPACs can be considered a separate asset class for public investors.

On one hand, until de-SPACing, the instrument does not offer any significant yield and as said before and it is structurally conceived not to offer significant share price appreciation. On the other hand, its nature can be both considered as an equity security (as it gives the opportunity to be exposed after de-SPACing to an operating company) and a fixed income security (as the shareholders can elect to be redeemed at par).

Thirdly, when it comes to performance measurement of de-SPACed companies, we believe that it is even more difficult to draw conclusions since performance, as indicated before, largely depends on multiple factors which are not inherent to the SPAC or, to put it differently, they should be considered for any IPO of an operating company.

One may argue that the risk of underperformance is higher with de-SPACings than traditional IPO but again we think that a proper comparison could me made only between de-SPACed companied and IPOed companies pertaining to the same sector and even, within a sector, to a specific vertical or business segment. Maybe one identifiable risk can be found in the fact that the need for a SPAC to consummate a business combination within the two year time period and the competitive tension that operating companies can generate among deal seeking SPACs can lead to excessive valuations of the operating companies being de-SPACed. Also, the fact that most de-SPACed companies operate in “new” sectors and/or are quite early in their business life cycle (start ups or early stages) expose these companies to high share price volatility and investors’ views and observations as to whether such companies deliver on promises.

In traditional IPOs of established businesses investors tend to value companies based on multiples of current operating results or one / two years forward. Several de-SPACed companies, due to the negative or relatively

low operating results at time of de-SPACing are typically valued with a longer term view which takes into account the expected (high) growth rate of operating results. This generally translates into three-five years forward multiples being applied in the context of de-SPACing valuations (thus resulting in relatively higher implied multiples of current or one year forward earnings as we will show in the following chapter).

Recent market developments

After a robust start to 2021, SPAC issuance has slowed materially since April, as shown in figure 11.
A number of factors can be considered as the determinants of this reduced activity. On one hand, there has been increased scrutiny by regulators and resulting more stringent disclosure requirements and/or new accounting policies. This had an impact on the time to market due to IPO documents preparation.
The potential removal of "safe harbor" protection in the U.S. has also created some delays in IPO and de-SPACing activity. More importantly, we think that the reduced activity is a consequence of a sort of "deal fatigue" due to the high IPO volumes and the record number of IPOs achieved during 1Q 2021, leading to some supply/demand imbalance in the IPO and the secondary market.
In this respect, and even more importantly, coming now to performance observations, we note that the market environment for SPACs have materially deteriorated since April.
If we look at the evolution of the average unit price for all outstanding SPACs on a weekly basis since May 2021, we note that this metric has somehow deteriorated over the period getting closer to the $10 mark. If we then look at the share price of all the outstanding SPACs seeking acquisitions (424), only 38% are trading at or above the redemption value.
SPAC share prices trading below the $10 redemption value could obviously not be observed in a perfect market environment as investors would prefer to wait until redemption rather than selling at a discount.
Market participants tend to explain these trading patterns with oversupply in the market and the preference for certain investors to reallocate resources into more lucrative opportunities rather than waiting for a redemption which could materialize one or two years later.
Clearly, this might also depend on the consideration that the large number of SPACs seeking acquisitions and the resulting fierce competitive environment to close a business combination may lead to inflated valuation of target companies.
This would in turn result in an increased redemption activity and/or in negative performance of de-SPACed companies.
Similarly to what we have done for outstanding SPAC IPOs, we have tracked the evolution of the average share price of SPACs that have announced an acquisition or merger on a weekly basis since May.
We get the same results in terms of a downward trajectory towards $10 and even below for the week of August 20.

On the other hand, it is interesting to note that de-SPAC volumes have continued to be sustained in recent months, signaling sufficient deal velocity and thus removing some pressure on the market, with investors seeing that deals get done in the current environment.

A more cautious investor approach to SPAC IPOs and PIPEs is forcing SPAC sponsors and management teams of operating companies to consider more careful, detailed financial modeling and more rigorous testing of assumptions for achievability, and are creating more robust financial planning and analysis capabilities as part of their IPO readiness preparation.

Market participants thus suggest that successful de-SPAC mergers will be those that deliver on three key factors: (i) reasonable financial projections supported by a robust and resilient operating plan; (ii) management operating model that supports the public company requirements across finance, technology, commercial and operations functions; (iii) timely and complete communications to all stakeholders, including investors, lenders, analysts and public shareholders.

These are all factors that apply to traditional IPOs of operating companies. It means that in the current environment an operating company opting for a de-SPACing should be in any case IPO-eligible (in terms of solid business case and projections) if it wants to meet adequate investor interest and demand.

We are currently witnessing to a progressive adaption of some key SPAC features to investor preferences. As typically occurs in financial markets, there is an interaction between supply and demand sides that brings along an evolution of the instrument. While the SPAC is relatively new instrument, it has already undertaken several modifications in slightly more than a decade. As discussed in chapter I, the prevailing features of the U.S. style SPAC have become mainstream during 2020.

Especially during the second half of last year and the first half of 2021, a flexible structure and an incentivizing set up for SPAC sponsors / promoters have been instrumental to the success of the instrument, measured in terms of number of SPAC IPOs and de-SPACings, as well as in terms of market performance (i.e. in simple metrics, based on the number of SPACs trading above $10 post IPO and de-SPACings).

On the other hand, diminished investor appetite since April has also demonstrated that flexibility of the instrument and its structure is still the key to preserve a functioning market.

We believe that flexible and adapting features as the ones described above should support the SPAC market, together with a more cautious approach on the investment thesis and the business prospects of operating companies being targeted for de-SPACing.

Overall, we are witnessing an evolution of SPAC structural features, as well an increasing number of listing venues and relevant rules, which tend to be relatively homogeneous across jurisdictions and are currently showing a balanced approach in terms of investor protection and preservation of flexible and attractive features of the SPAC instrument.

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