RE-IMAGINING SPACs

Rajiv Shukla

SPAC Research

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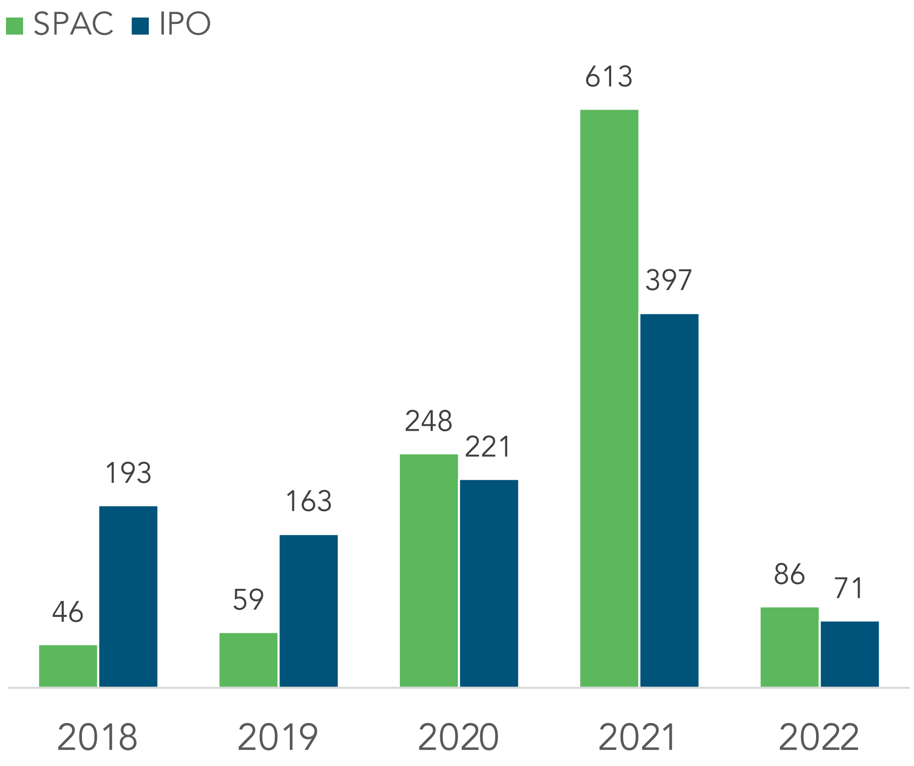
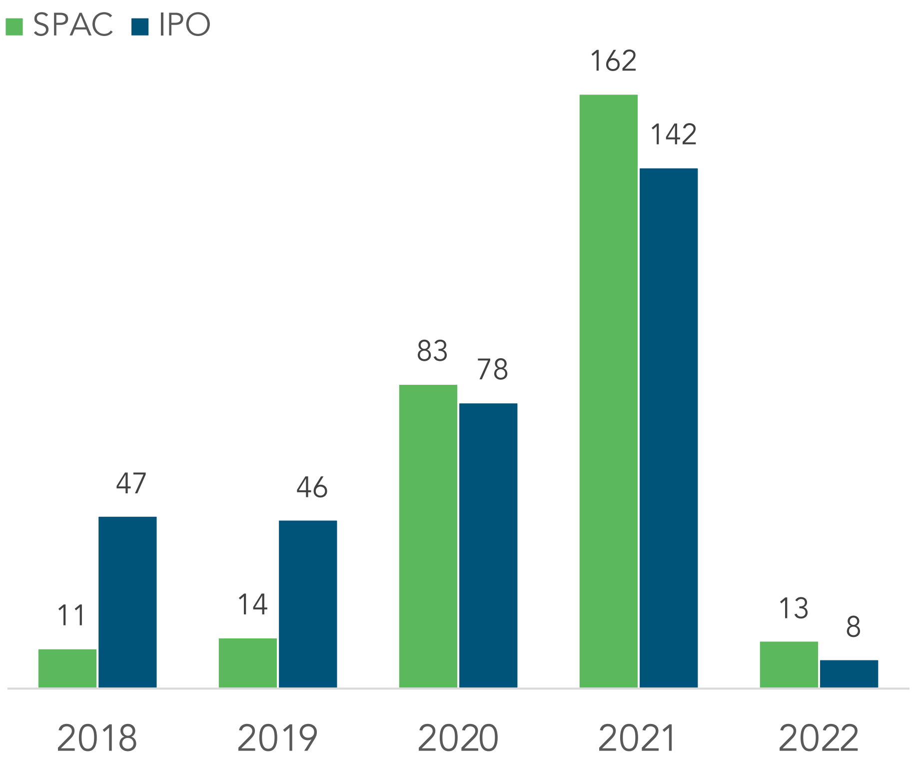
DURING THE PANDEMIC, SPAC IPOs GREW

More Issuances

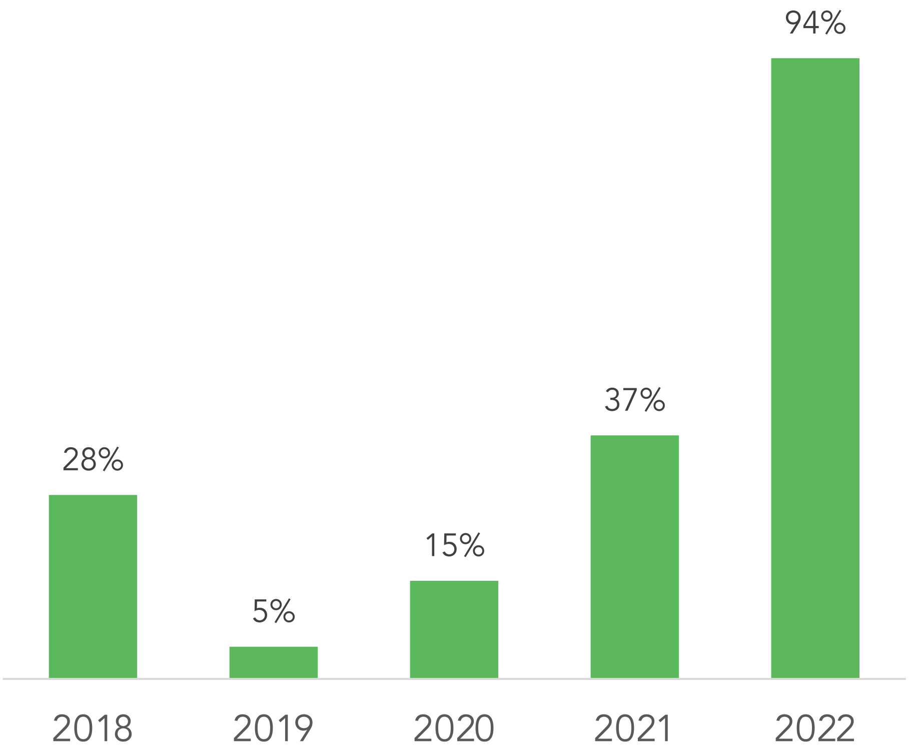


More Proceeds, $B

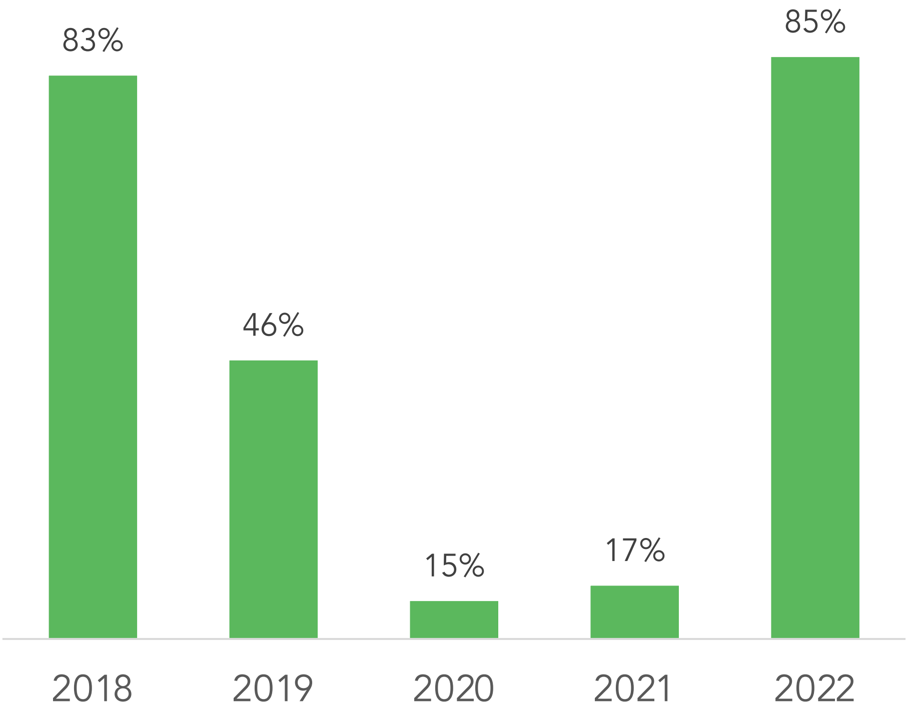


DURING THE PANDEMIC, QUALITY OF SPAC IPOs IMPROVED

SPACs with Overfunded Trusts[1]



SPACs with Warrant Coverage Over 50% or Rights[1]



1. Lower is better: indicates smaller structural inducement at IPO implying more attractive SPAC Sponsor

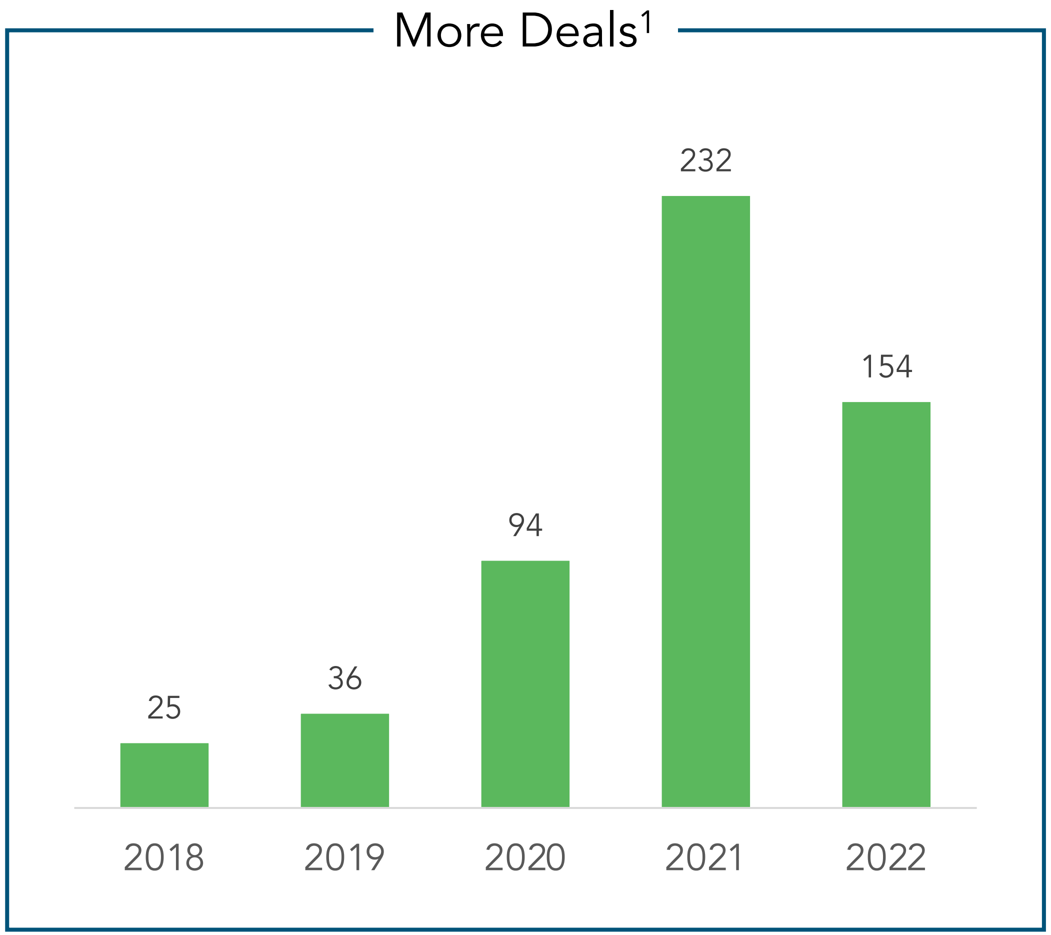
DRIVEN BY HIGH QUALITY STAKEHOLDERS

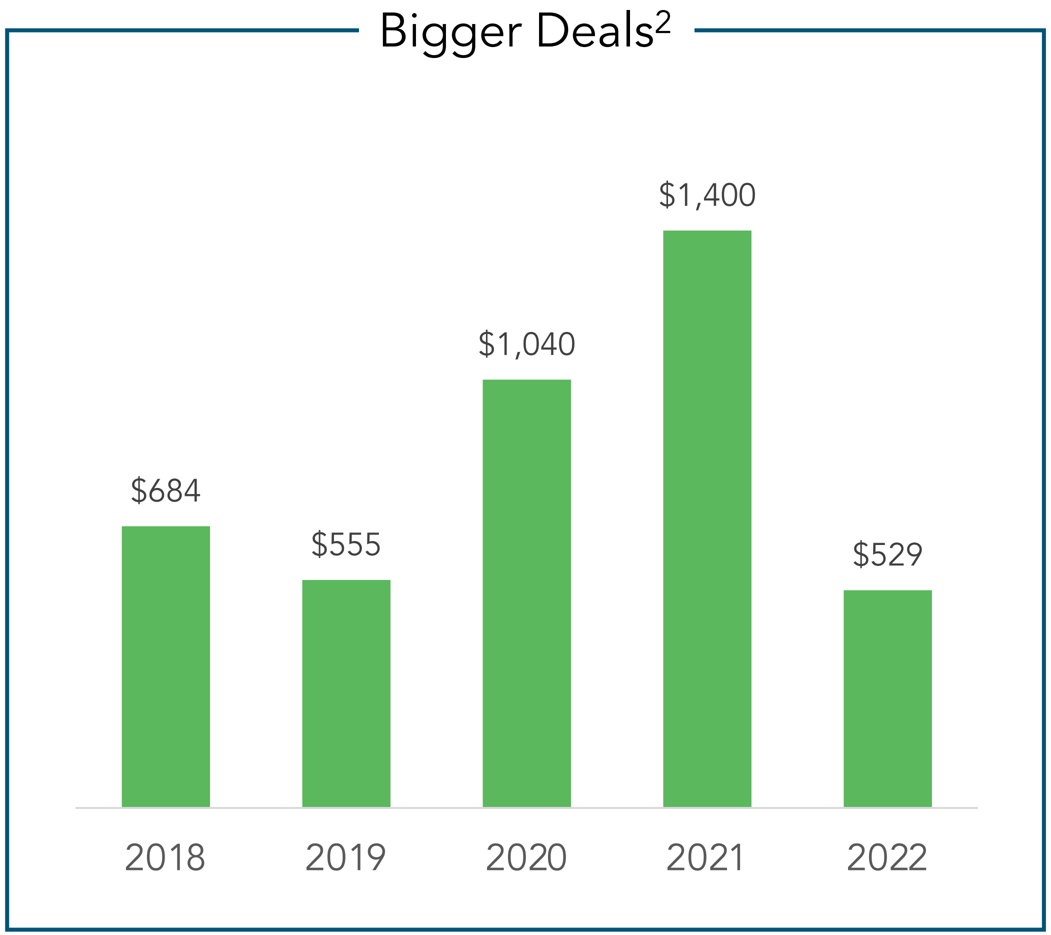
SPAC Sponsors*		
Alec Gores	Eli Casdin	Peter Thiel
Apollo Global Mgmt	Foresite Capital	Reid Hoffman
Ares Mgmt	Fortress Investment	Riverstone Holdings
Bain Capital	Guggenheim Capital	RTW Capital
Barry Sternlicht	HIG Capital	Softbank
Betsy Cohen	InvestCorp Group	Suvretta Capital
Centerview Capital	L Catterton	TPG
Chamath Palihapitiya	Michael Dell	True Wind Capital
Chinh Chu	NGP Energy Capital	Victory Park Capital
Deerfield Mgmt	Oaktree Capital	Vinod Khosla

* Not an exhaustive list

Rank	IPO Underwriter	2020 SPAC IPOs
1	Credit Suisse	41
2	Citigroup	40
3	Goldman Sachs	31
4	Cantor Fitzgerald	25
5	Jefferies	23
6	UBS	22
7	Morgan Stanley	23
8	Deutsche Bank	23
9	J.P. Morgan	17
10	BofA Securities	18

DURING THE PANDEMIC, SPAC DEALS GREW

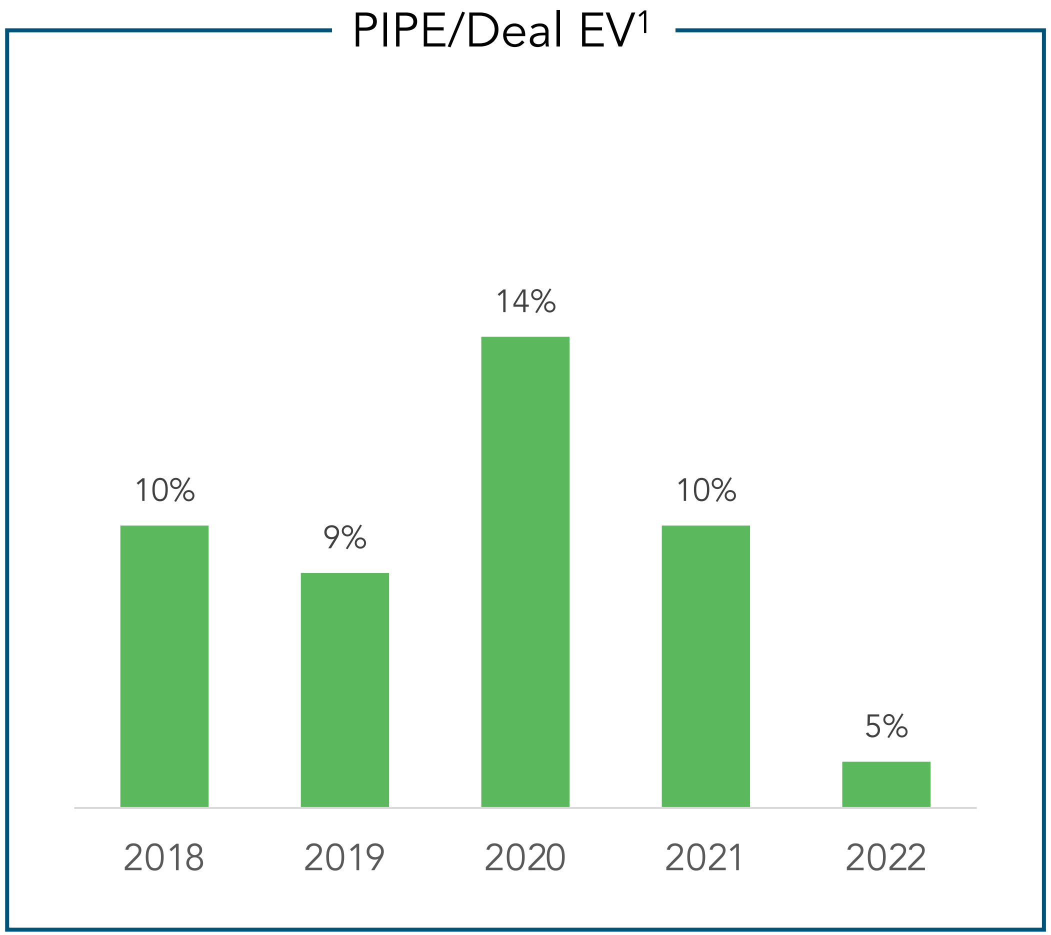


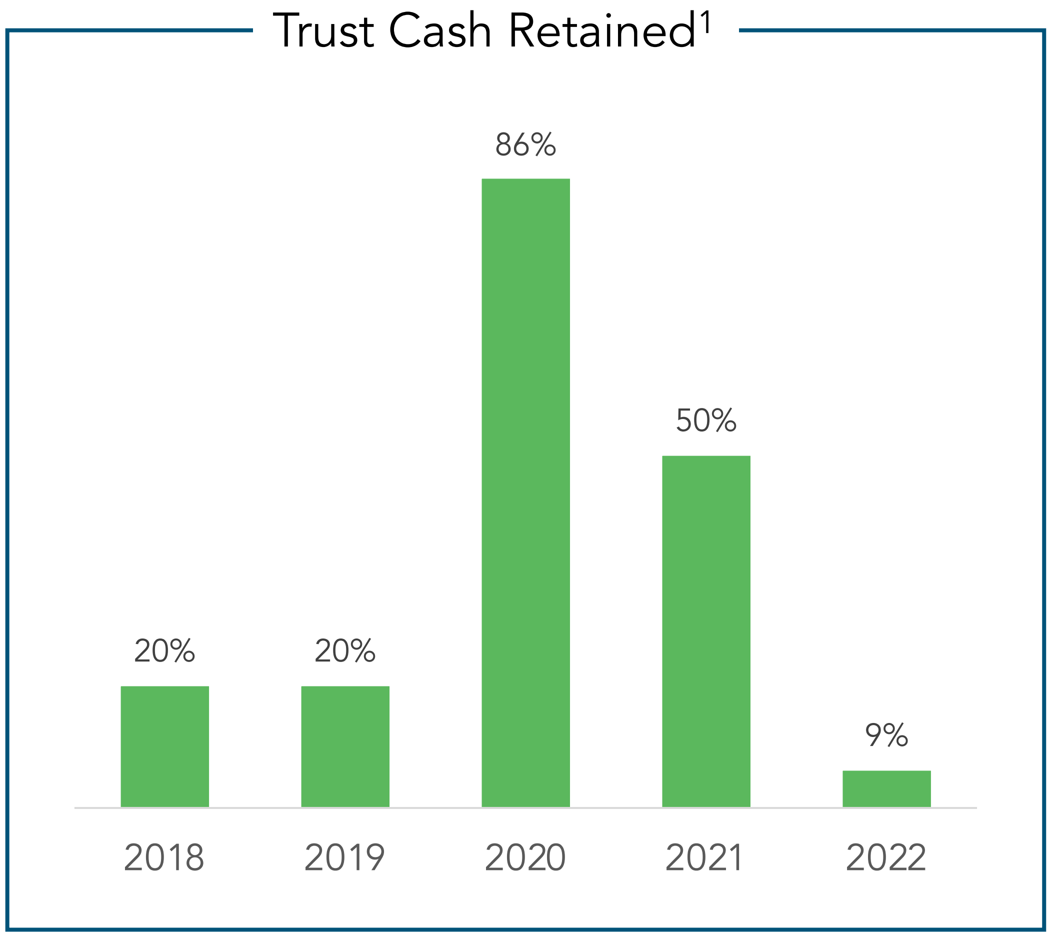


1. Deals announced in respective year

2. Median enterprise value in $ million

DURING THE PANDEMIC, QUALITY OF SPAC DEALS IMPROVED

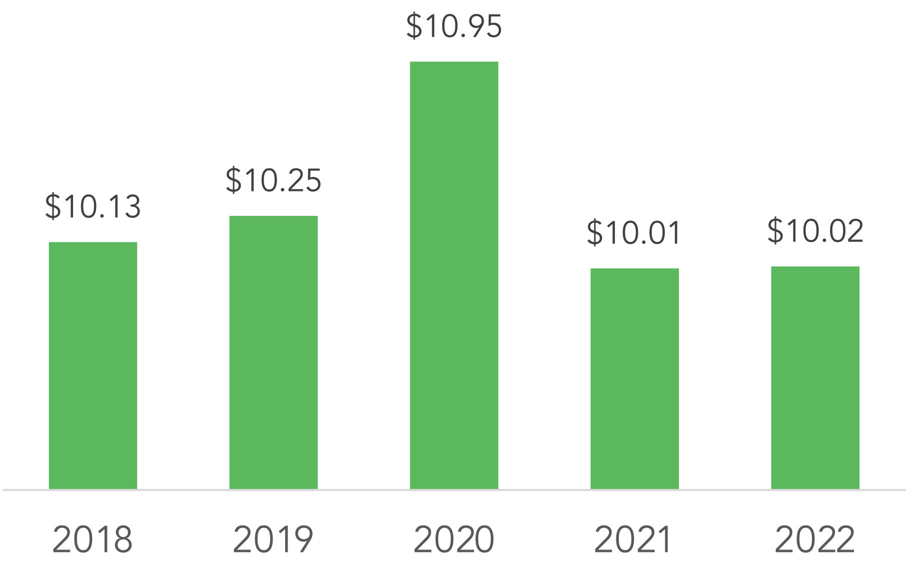




1. Higher is better: indicates more cash financing at Closing

DURING THE PANDEMIC, SPAC PERFORMANCE WAS STRONG

Median Price on Deal Announcement[1]



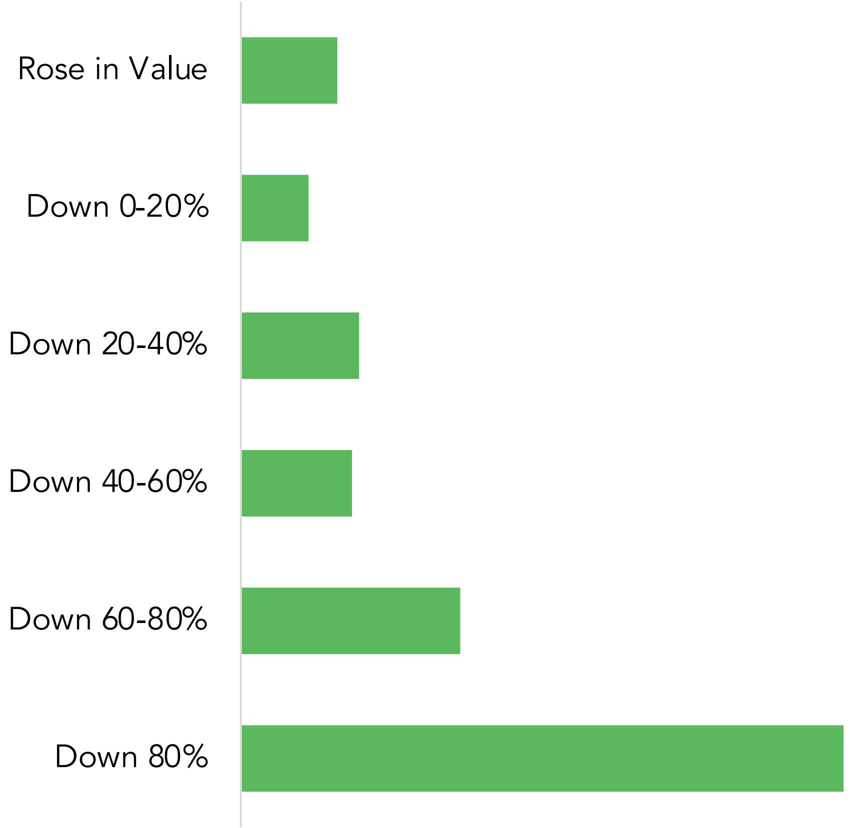
Median Price on Deal Closing[2]

1. Price on day after deal announcement

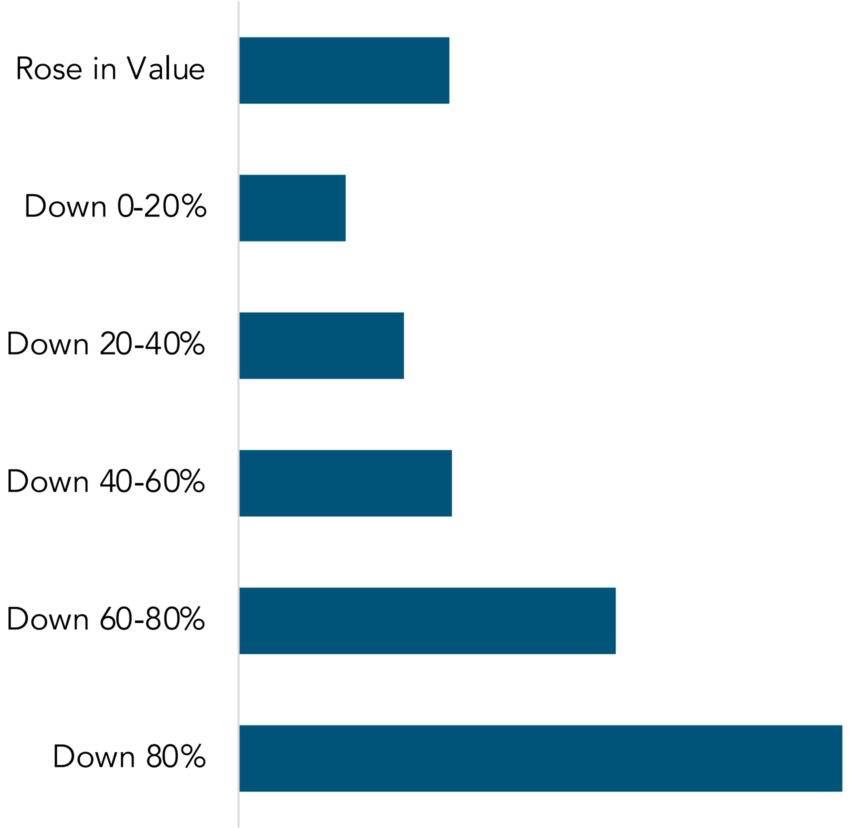
2. Price on day of deal closing (Merger Proxy is publicly available weeks in advance of closing)

THEN, CAPITAL MARKETS TURNED CHOPPY

SPAC Post-listing Performance[1]



IPO Post-listing Performance[1]



1. Companies that either IPO'ed or completed SPAC mergers between 2020-2022. Price as of Apr 30, 2023

NIPPING A BUDDING SPAC MARKET BEFORE IT COULD MATURE

	2020	May 31 YTD 2023	Trend
SPACs with more than 50% warrant coverage or any rights	15%	100%	Worsened
SPACs with under 24-month tenor	25%	93%	Worsened
SPACs with overfunded trusts	15%	100%	Worsened
Median Redemptions at Deal Closing	14%	96%	Worsened
Big banks* in Top 10 league table	100%	0%	Worsened

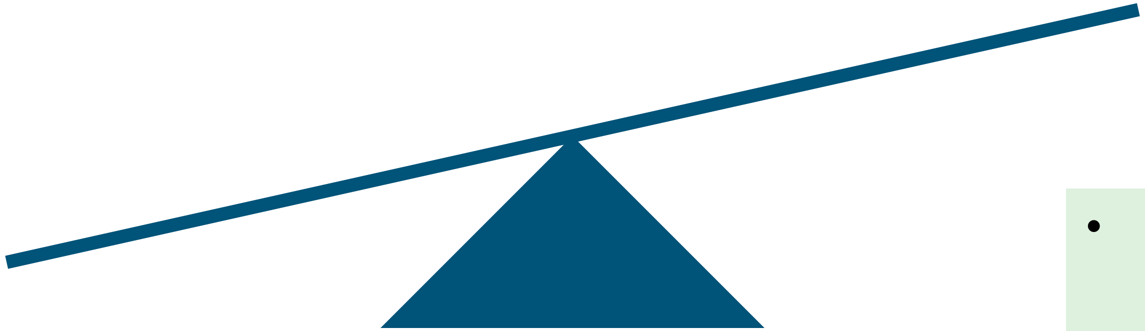
* Need more than 2 deals to qualify on the league table. Big banks are Goldman Sachs, Morgan Stanley, BofA, Citi, Credit Suisse, Deutsche Bank, UBS, J.P. Morgan, Jefferies, Cantor Fitzgerald.

“SKY IS FALLING ONLY ON SPACS” NARRATIVE HASN’T HELPED

Narrative	Reality
“2020 market led to SPAC bubble which led to poor quality SPACs”	2020 SPAC cohort had superior IPO terms, de-SPAC performance and higher quality Sponsors, Bankers and Investor participation
“Regulatory changes are making the SPAC market better”	IPO terms and de-SPAC performance have worsened over the last 2 years
“SPACs significantly underperform IPOs”	No meaningful difference in performance by sector
“SPAC sponsors are making fortunes”	SPAC sponsors have lost $2.2 billion in cash over last 12 months while VC/PE fund sponsors earned fees through the market tumult
“Retail investors are losing heavily by investing in SPACs”	• Retail participation at IPO is principally to satisfy Exchange listing round lot holder requirements – typically under $0.5 million investment • 13F holders account for more than 95% of SPAC shares currently
“Just do a good deal. It will drive stock price above redemption price lowering redemptions”	Unlike VC/PE who can take advantage of poor markets/low valuations, SPACs face high redemption pressure when volatility (VIX) is high

WHERE DO WE GO FROM HERE?

Retrograde retreat into market niche?



March forward in a better direction?

- Using precedents that worked in a healthy market

And,

- Extending best practices to create a new and better SPAC structure

RE-IMAGINING KEY STRUCTURAL ELEMENTS OF SPACs

1. Class A shares 2. Yield features	Investor economics
3. Class B shares 4. Risk capital	Sponsor economics
5. Banker role	Banker economics
6. Liability	Accountability

ISSUE #1: DEAD MONEY THAT WALKS WHEN YOU NEED IT

SPAC IPO Investors	Other Blind Pool LPs: VC/PE/Hedge Funds
• Dead money: IPO capital parked in a Trust Account results in high underwriting expenses • Free lunch: Sponsor pays for parked capital through Warrants, Rights, Overfunded Trusts, Tenor Extensions. • IPO investor takes zero risk for holding to "maturity"	• LPs pay 2% management fee per annum on AUM • For 8 to 10-year closed end funds, 16-20% in fees on capital that has not been fully deployed • LPs pay fees at risk up to 10 years before profits are realized
• Capital can be redeemed when it is needed • 100% redemption of IPO capital permitted & rewarded	• Capital is called when it is needed • Forfeit all invested capital on ignoring capital call in closed end drawdown structures – typically VC/PE funds
• 100% protection of invested IPO capital	• No protections for invested capital

Guaranteed yield for IPO investor and bankers

- Incentives are heavily skewed in favor of IPO investors due to "dead money" structure: IPO capital can stay un-invested for up to 2 years
- No incentives for De-SPAC investors – crescent term protects IPO investors' free lunch
- Cost of free lunch borne by Sponsor, TargetCo and De-SPAC investors

RE-IMAGINING THE IPO UNIT STRUCTURE

Reduce Incentives For Transient Capital or Move Away From Dead Money Structure

Non-detachable warrants/rights:

- No free lunch for redeeming IPO investors
- Warrants/rights only for investors staying invested

Precedents:

1. Zero warrant SPACs: 60+ SPACs
2. Tontine warrants: Bill Ackman SPAC
3. Class 1 & 2 warrants: Kensington Capital
4. Bonus shares to non-redeemers: 10+ SPACs

Non-redeemable capital:

- Limit redemption rights to *force majeure/key man events*

Precedents:

- None in the US capital markets.
- London SPACs e.g. Martin Franklin

Or

- Move away from Dead Money by creating "opt-in investment rights" at Closing by bundling non-redeemable Class A share with non-detachable $10.00 strike warrants that expire at Closing

Precedent: None? Ackman's SPARC used Rights

ISSUE #2: NON-STANDARD SPONSOR ECONOMICS

	SPAC Sponsor	Other Blind Pool GPs: VC/PE/Hedge Funds
Management Fees	• Unlike any parallel in Asset Management industry, overhead costs are borne by Sponsor resulting in part-time/moonlighting focus on SPACs • No "management fee" from investors despite similar activity as VC/PE fund negotiating private transactions • Sponsors have lost billions of invested cash in last year while "zombie" VC/PE funds draw management fees even after liquidation	• Typically, 2% management fee per annum • Mega VC/PE funds heavily criticized for earning more in management fees than their actual overhead expenses • VC/PE funds also charge advisory fees from portfolio companies in some cases
Carried Interest	• 20% of common shares at IPO • Not an ironclad commitment, (re)negotiated constantly • Often shared with IPO investors, De-SPAC investors, Bankers and TargetCo • Typically amounts to 2-5% of post-merger TargetCo but is subject to lockups and forfeiture clauses linked with negotiated performance targets	• "Carried" interest is typically 20% of profits paid in cash • No negotiated reductions after fund documentation

RE-IMAGINING SPONSOR ECONOMICS

Align With Asset Management Industry Standards

Management Fee:

- Eliminate "risk capital":
  - IPO capital should not be 100% redeemable
  - Interest income used for audited deal expenses

Precedents: ~40 SPACs where interest income could be used for overhead expenses

- Make Sponsors accountable for their job:
  - No moonlighting.
  - File quarterly (blinded) disclosures on deal pipeline activity
  - Expenses are already PCAOB audited so this is superior to VC/PE fund disclosures

Focused SPAC team: TPG Pace, Eagle, Gores, Cohen, etc.

Carried Interest:

- Eliminate "Class B/Founder" shares at IPO
  - Sponsor makes money when investors make money above $10.00 IPO price
  - Sponsor receives 2-5% of TargetCo in the form of $11.50 strike warrants at Closing – the percentage can be negotiated *inter se* with the TargetCo and PIPE investors

Precedents:

- Bill Ackman SPAC used warrants instead of Class B shares
- Sponsors that used price-based structure: Betsy Cohen SPACs, General Catalyst (CPAR), NGP Energy Capital (SWBK). Over 20 SPACs with Class B shares linked with price targets at IPO.

ISSUE #3: NARROW UNDERWRITER ROLE

At IPO

2% of IPO proceeds

At 95% redemption, turns into…

40% of IPO proceeds

Banker fees are biggest cash expense for a SPAC at IPO

Sponsor Quality

Weak Sponsor = Weak Terms

Weak Terms = Easy IPO

High yield investors usually redeem at Closing

At Backend

3.5% of IPO proceeds paid on Closing

Risk of Section 11 liability led to some Big Banks forfeiting this fee

Backend fees vary from zero to 90%+ of Trust cash

RE-IMAGINING SPAC BANKER ROLE

Trusted Ombudsman of SPAC, TargetCo and Investors

- Re-orient banking relationship:
  - Shift from IPO focused to a "start to finish" partnership
  - Where parties share risk and reward to achieve the SPAC's goals.
  - Precedent: Underwriters investing in risk capital or accepting part payment in equity such as Cantor Fitzgerald, Jefferies, BTIG, Mizuho
  - If the bank cannot avoid liability, then they should be fully involved in the deal making process – this will assure deal quality and improve PIPE traction

- Banking fees:
  - Fees paid at Deal Closing instead of upfront: 5% on cash consideration
  - M&A fees on Closing: 1-2% of equity consideration
  - Precedent: 1% upfront fee or entirely back-ended fees

- Overall fee terms more aligned with deal success (and higher for banker)

ISSUE #3: CAVEAT EMPTOR STRUCTURE

SPAC stage	Deal Searching	Deal Announced & Closing	Post-Closing
	Was the Board independent or affiliated with Sponsor?	Was the Sponsor conflicted on deal selection?	Did any party engage in fraud or selective disclosure?
	Did the SPAC improperly market the IPO (celebrities)?	Was there adequate due diligence done?	Were Forward Looking projections appropriate?
		Was valuation objectively appropriate at deal announcement?	
		Were Risk Factors appropriately disclosed?	
		Was Compensation/Shareholding appropriately disclosed?	

RE-IMAGINING SPAC LIABILITY

Building Investor Confidence Through Structural Improvements

- Disclosure standards are fairly well established:
  - SPACs have more disclosures than IPOs and Mergers

- Institutionalize best practices in the SPAC structure:
  - Financial DD: independent auditor
  - Legal DD: legal counsel
  - Target valuation: fairness opinion
  - Forward Looking projections: SPAC D&O and Banker

- Governance:
  - Board members should not be affiliated with Sponsor across multiple SPACs or other businesses
  - Sponsor should have some degree of influence on post-Closing business management – justifies both the liability and the Sponsor economics

SUMMARY

	Current Structure	Re-imagined Structure
Investor Economics	• Unit structure incentivizes IPO investors at the cost of all other shareholders – assured dilution, not capital • Dead money in a Trust Account serves no purpose	• No rewards for redeemers (also raises the bar for an IPO) • Smaller IPOs with ability to raise capital through bundled $10.00 strike warrants or rights that expire at Closing - no need to pay for parking
Sponsor Economics	• Sponsor does not get paid to manage capital but instead pays investors who take zero risk for holding to redemption • Class B shares amount/lockup: only partly linked with performance	• Trust interest can be used for working capital. Minimal/zero risk capital. • Sponsor gets $11.50 strike warrants at Deal Closing so they make money when investors make a return (no Class B shares/no dilution at Closing) – 15% investment hurdle would be among the highest across VC/PE/ETF/MF/HF asset class (accounts for many trillion$).
Banker Economics	• 2% on IPO capital that can be fully redeemed • Easier to raise IPO on yield terms with nearly guaranteed redemption • Backend fees are unclear due to Section 11 worries	• Smaller IPO makes upfront fee less important • Banker gets paid 5% on cash consideration and 1-2% on equity consideration at Closing
Liability	Variable behavior across Sponsors on: • Board independence • Fairness opinions • Diligence process • Forward looking statements	• Build quality standards into the structure so that it builds comfort with the SPAC structure instead of relying on caveat emptor • Post-Closing governance rights (approve Annual Budget and material spending, approve executive appointments and compensation, etc.)

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