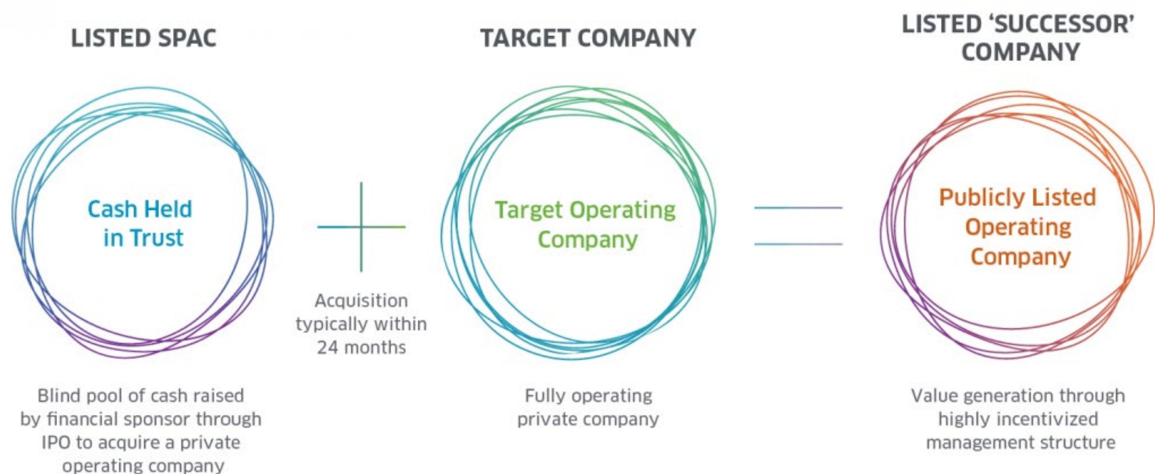
Family Office BKMS

Special Purpose Acquisition Company (SPAC)

1. WHAT IS A SPAC

A Special Purpose Acquisition Company (SPAC), is a “blank check” shell corporation designed to take companies public without going through the traditional IPO process. Therefore, SPACs are companies without any revenue or operating history that use investors' funds to acquire or merge with an operating company. SPACs can operate as blank check companies, which the SEC defines as companies that either have no specific business plan or purpose, or have indicated that their business plan is to engage in a merger or acquisition with an unidentified company or companies.

An IPO through a SPAC is similar to a standard reverse merger. However, unlike standard reverse mergers, SPACs come with a clean public shell company, better economics for the management teams and sponsors, certainty of financing/growth capital in place - except in the case where shareholders do not approve an acquisition, a built-in institutional investor base and an experienced management team.



2. SPAC vs IPO

In a traditional IPO, the prospectus focuses on historical facts about the issuer and its past performance. Underwriters market the offering after announcing an initial price range. The price at which shares are offered to the public should reflect both demand for the shares and estimates of future performance of the issuer. Underwriters conduct significant and thorough due diligence on the issuer and assume liability for the information disclosed in the prospectus.

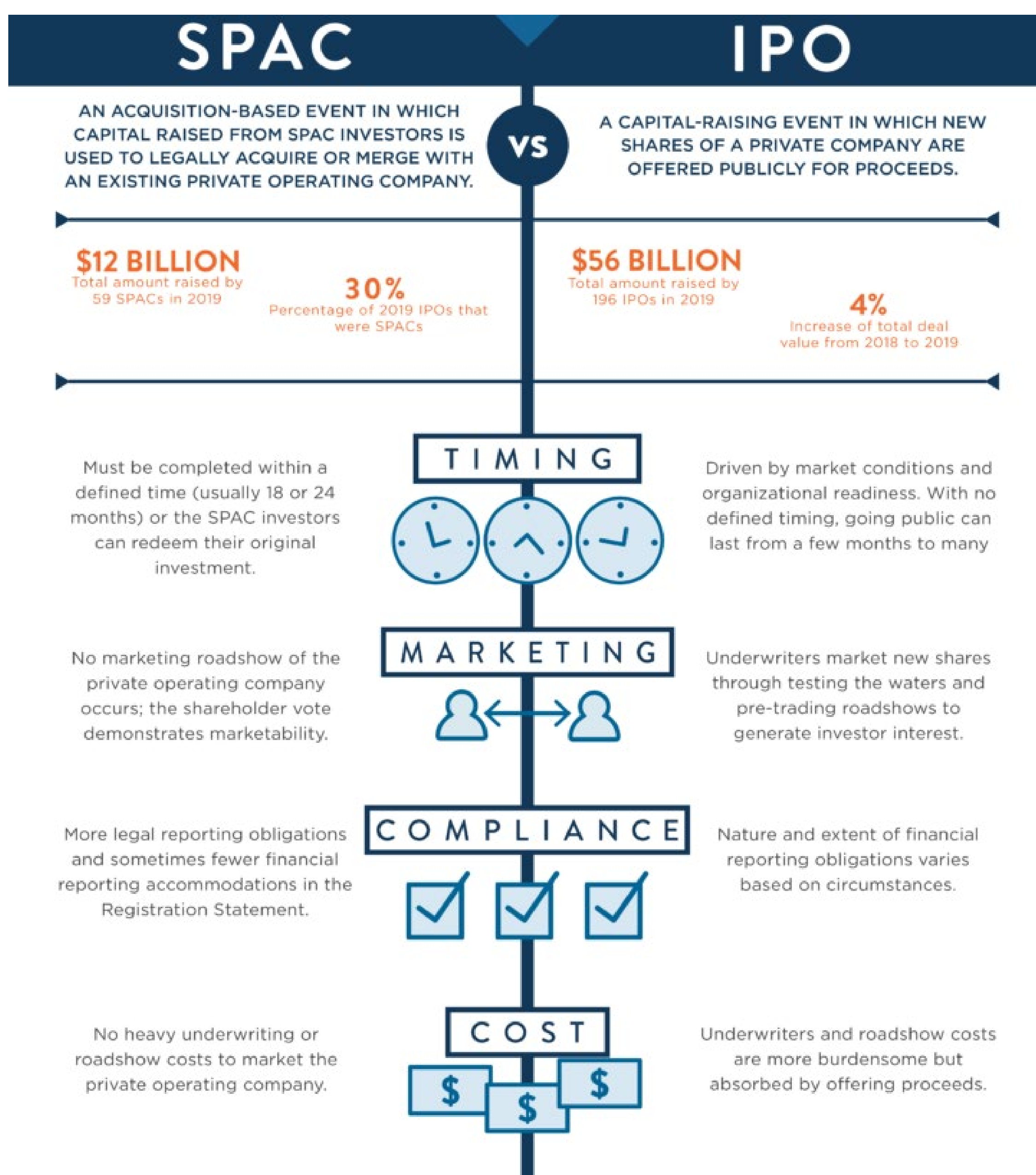
By contrast, SPAC securities are offered at a unit price, typically $6, $8 or $10 per unit. SPACs do not "pre-identify" possible acquisition targets and the underwriters do not undertake any due diligence on acquisition targets. While some SPACs are specific about the industries or regions in which they will seek an operating company, others are open-ended.

SPAC

A SPAC typically must complete an acquisition within 18 to 24 months, and must use at least 80 percent of its net assets for any such acquisition. If it fails to do so, then it must dissolve. When a SPAC dissolves, it returns to investors their pro rata share of the assets in escrow. In most cases, investors will receive nearly all of their principal invested, but will not share in any of the returns generated from the funds held in escrow as such proceeds are used to cover the operating expenses of the SPAC.

This 18- to 24-month deadline is designed to help investors by forcing a timely return of most of their capital if a suitable acquisition is not completed. However, it also puts SPAC management under severe time pressure to identify a target and complete a transaction.

If a SPAC's managers can identify an appropriate acquisition target, they must then obtain approval through a shareholder vote. Investors are sent proxy materials disclosing the details of the proposed acquisition. A SPAC's public shareholders may vote in favour of the acquisition, or vote against the acquisition. If the shareholders vote against the acquisition, they may elect to have their shares converted into a pro rata portion of the IPO proceeds, which are held in an escrow account.

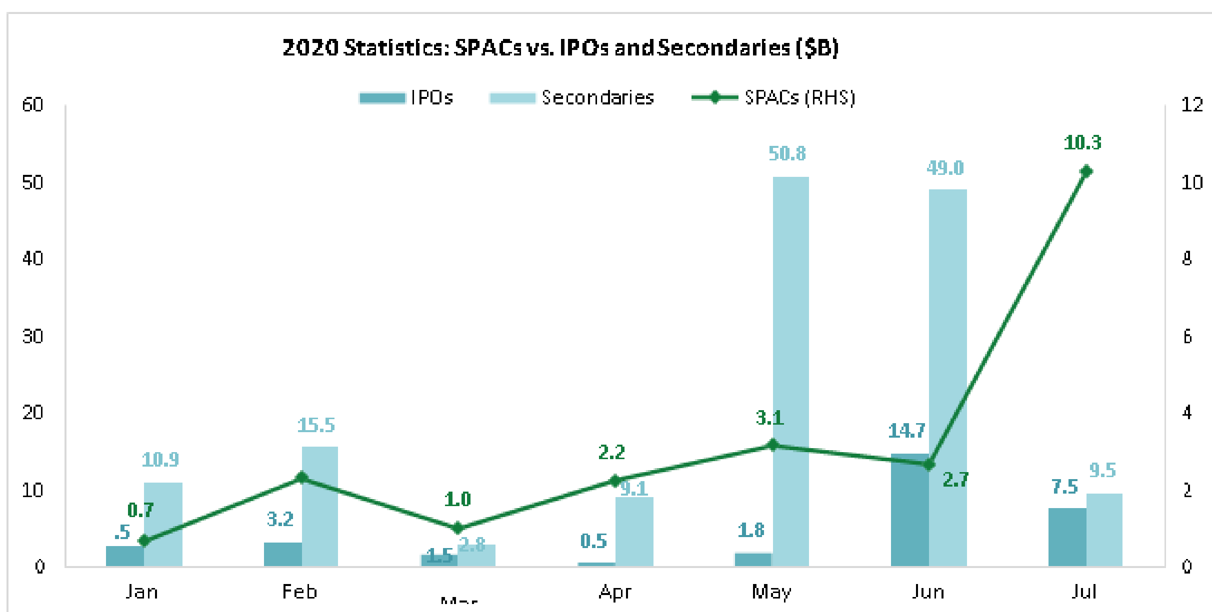


While the proxy statement sent to SPAC shareholders contains current audited financial information and other material information about the acquisition target, there are significant differences in the liability and disclosure obligations regarding a company that becomes public by acquisition by a SPAC and one that becomes public through a traditional IPO. In a traditional IPO, underwriters conduct significant and thorough due diligence on a company and assume liability for the information disclosed in the registration statement. There may be no similar "gatekeeper" function by underwriters in connection with the acquisition target of a SPAC.

3. STATISTICS

SPACs were first created in the 1990s, but they didn't gain popularity with blue-chip investors until recently. In 2019, the number of SPACs as a share of IPOs rose to 30% from 4% in 2013. The surge comes as more blue-chip private equity firms, banks and high-profile entrepreneurs form SPACs, which in turn, has further attracted owners of private companies interested in going public.

According to an industry study published in January 2019, from 2004 through 2018, approximately $49.14 billion was raised across 332 SPAC IPOs in the United States. In that period, 2018 was the largest year for SPAC issuance since 2007, with 46 SPAC IPOs raising approximately $10.74 billion. SPACs seeking an acquisition in the energy sector raised $1.4bn in 2018, after raising a record $3.9bn in 2017. NASDAQ was the most common listing exchange for SPACs in 2018, with 34 SPACs raising $6.4bn.



4. REGULATION

In the United States, the SPAC public offering structure is governed by the Securities and Exchange Commission (SEC). A public offering for a SPAC is typically filed with the SEC under an S-1 registration statement (or an F-1 for a foreign private issuer) and is classified by the SEC under SIC code 6770 - Blank Checks.

Full disclosure of the SPAC`s

- Structure
- target industries
- geographic regions
- management team biographies

- share ownership
- potential conflicts of interest and
- risk factors

are standard topics included in the S-1 registration statement.

5. THE ADVANCES OF SPAC

By going public under a SPAC, private companies benefit in the following ways:

MORE ACCESS TO CAPITAL

Small and mid-sized companies may want to continue to fund development, invest in brand awareness or make acquisitions to continue growing, but they may not be ideal candidates for traditional IPOs.

By merging with a SPAC sponsor, existing companies can retain a stake in their business and gain access to liquidity that otherwise would not be available to them.

GREATER MARKET CERTAINTY

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

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

FLEXIBLE DEAL TERMS

Besides negotiating valuation, SPACs also present target companies the flexibility to negotiate other terms of the deal that work in their favour. This could include structuring the transaction to bring in additional money through a private investment in public equity, as well as add additional debt or equity. Further, a target's board of directors is subject to negotiation. For target companies considering a SPAC, having the right expertise will be key to negotiate the most optimal deal.

ACCESS TO EXPERIENCED MANAGERS

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

CHOOSING THE RIGHT SPONSOR

Choosing the right SPAC sponsor will be key because unlike a traditional merger deal where the buyer and seller seek out business synergies, a company looking to merge with a SPAC needs to agree with the sponsor's long-term business goals. For example, a startup focused on electric vehicles should seek out SPAC sponsors backed by investors focused on that space and who will understand that area. This is especially important because a key goal of a SPAC transaction is to ensure the target has adequate capital to be successful following the merger. Since investors in a SPAC have the right to redeem or pull out of their investment at closing, it's critical that the target and sponsor agree on the long-term prospects of the business.

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ABOUT BKMS

With over a decade worth of experience and a prominent network of international clients, BKMS has established a reputation that speaks for itself. BKMS is covering a broad spectrum of industries, taking into account the required accounting treatment and tax implications as well as the challenging international regulatory framework. Client Trust and loyalty are the very fundament of every commitment undertaken by BKMS. Adherence to a strict policy of professionalism therefore results in continuously successful developments. BKMS is regulated by Cyprus Securities and Exchange Commission Registration No 96/196.

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