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Snapshot: SPACs and private equity - new tools for investment and acquisition

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Though special purpose acquisition companies (SPACs) are now enjoying enormous popularity, there is belief in certain quarters that their resurgence is fleeting.

Looking back, SPACs first boomed in the 1980s but then became mired in some of the same financial scandals that plagued the end of that decade. A better regulated SPAC market grew and blossomed in the first decade of the 21st century (with SPACs accounting for almost 25% of all US IPOs in 2007) but this new market then fell victim to the "Credit Crunch" and recession of 2008.

The current resurgence in SPAC activity started in 2012 and, after initially seeing steady year on year growth, SPAC use suddenly rocketed in late 2019. Since then, growth has been almost exponential.

Although the current growth reflects an unprecedented boom in unprecedented times - partly a product of the unusual environment of 2020 and 2021 - the current boom builds on an existing pattern of steady growth based on the real tangible advantages of SPACs over more traditional investment structures and methodologies.

Even before the current SPAC boom, an increasingly well-disposed sponsor and investor universe was already moving to recognise the advantages that the SPAC as a tool offered.

SPACs and typical PE or VC acquisition and management structures

The philosophy and goals behind a SPAC and typical PE or VC acquisition and management structures are not dissimilar, and it is easy to see how the model might be adopted – though SPACs have a number of key advantages over some of the traditional PE fund and acquisition structures.

SPACs offer:

- **Limited risk and certainty of return during their pre-acquisition phase**

Investors have the security and certainty of the return liquidation from the funds held in the trust account if the SPAC fails to complete an acquisition or the investor does not want to participate in one.

- **Liquidity and easy exits**

SPAC investors benefit from the liquidity of publicly-traded securities and the ability to control the timing of an exit.

- **Enhanced management incentivisation**

Pending an acquisition there is typically no cash compensation paid to the SPAC's management team. Their reward will depend on the success of the SPAC and its acquisition.

- **Additional Leverage and Flexibility for Investors**

By including additional securities, such as warrants, in SPAC composite units, investors are given the ability to leverage their initial investment by enabling them to invest more capital at a pre-determined price (usually a small premium over the IPO price), even if the investor elects to redeem its shares and take back its cash investment in a pre-business combination redemption or tender offer.

- **SPACs are a fund and Bidco combined**

A SPAC operates as a fund (with all of the advantages described above) and acquisition vehicle in one. While some SPAC acquisitions may feature some additional corporate structuring, the "all in one" aspects of a SPAC can offer considerable legal, regulatory and administrative costs savings.

SPACs and private equity

While for some time general investors have recognised the advantages that SPACs offer, including access to investments and transactions which might otherwise be restricted to PE or VC firms, now those same firms have themselves recognised that SPACs might also form part of their own strategies.

The possibilities and advantages that SPACs offer have led to some of the biggest PE firms incorporating SPACs in their toolkits. For example in October 2020, the NYSE listed Manager Apollo Global Management, with over US$400 billion AUM, launched its Apollo Strategic Growth Capital SPAC with a US$750 million SPAC. Apollo has already registered a new SPAC for 2021: Apollo Strategic Growth Capital II filed with the SEC in January targeting a US$400 million IPO.

Apollo's 2020 activity followed a summer of SPAC related activity by established PE and investment firms, including:

- RedBird Capital's sports focussed SPAC which completed its IPO in August 2020;

- the Solamere Capital backed Executive Partnering Corp, which completed an upsized US$360 million IPO in September 2020 and included former US House of Representatives Paul Ryan as a sponsor; and

- TPG's Pace Tech Acquisition Corp, which raised US$450 million in 2020 and recently announced its proposed merger with online learning platform provider Nerdy, Inc.

Over the years Ogier has advised on the establishment and IPOs of a number of high profile offshore, US and UK listed SPACs, including the majority of BVI Nasdaq SPACs since 2015. For more information, please contact our equity capital markets team.

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