

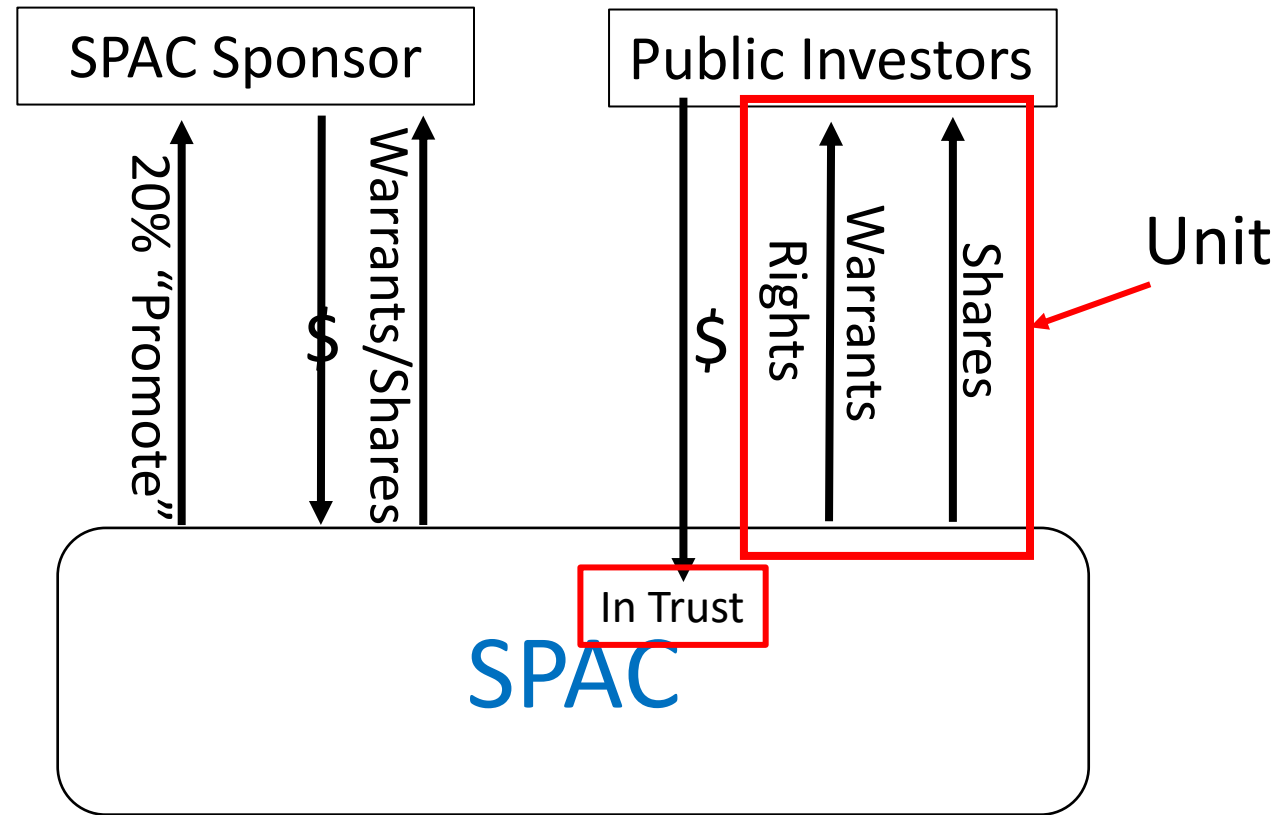
A Sober Look at SPACs

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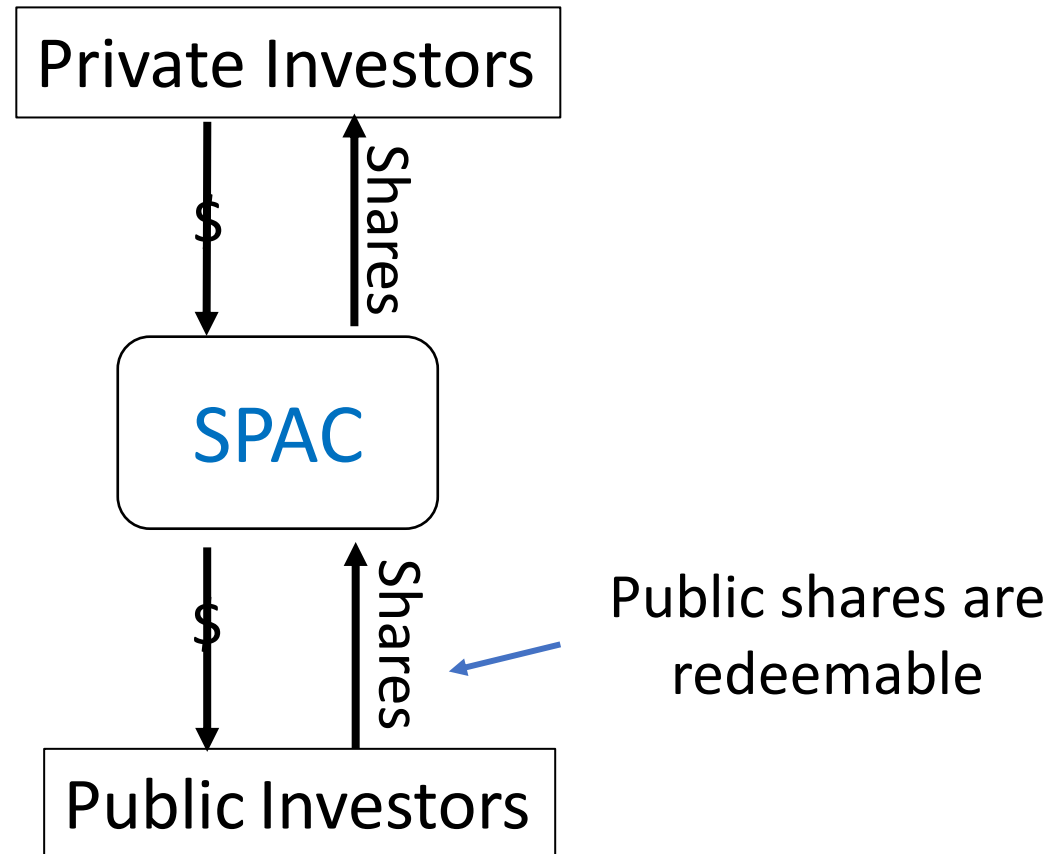
ECGI

April 14, 2021

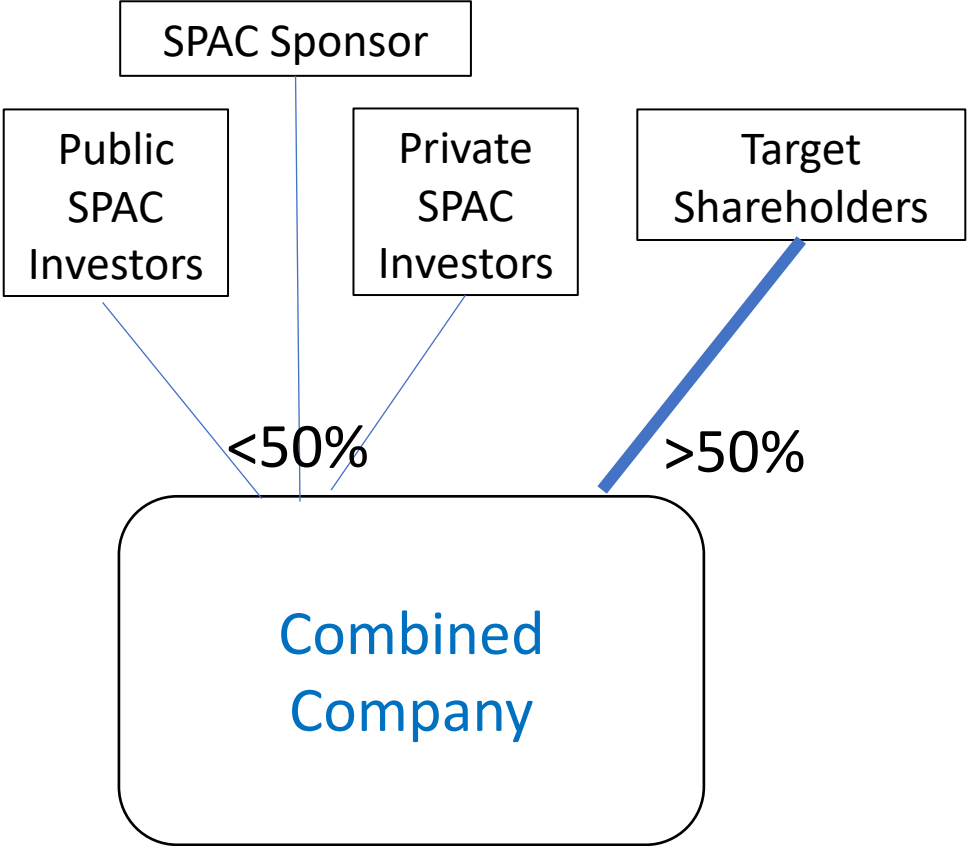
Setting Up the SPAC



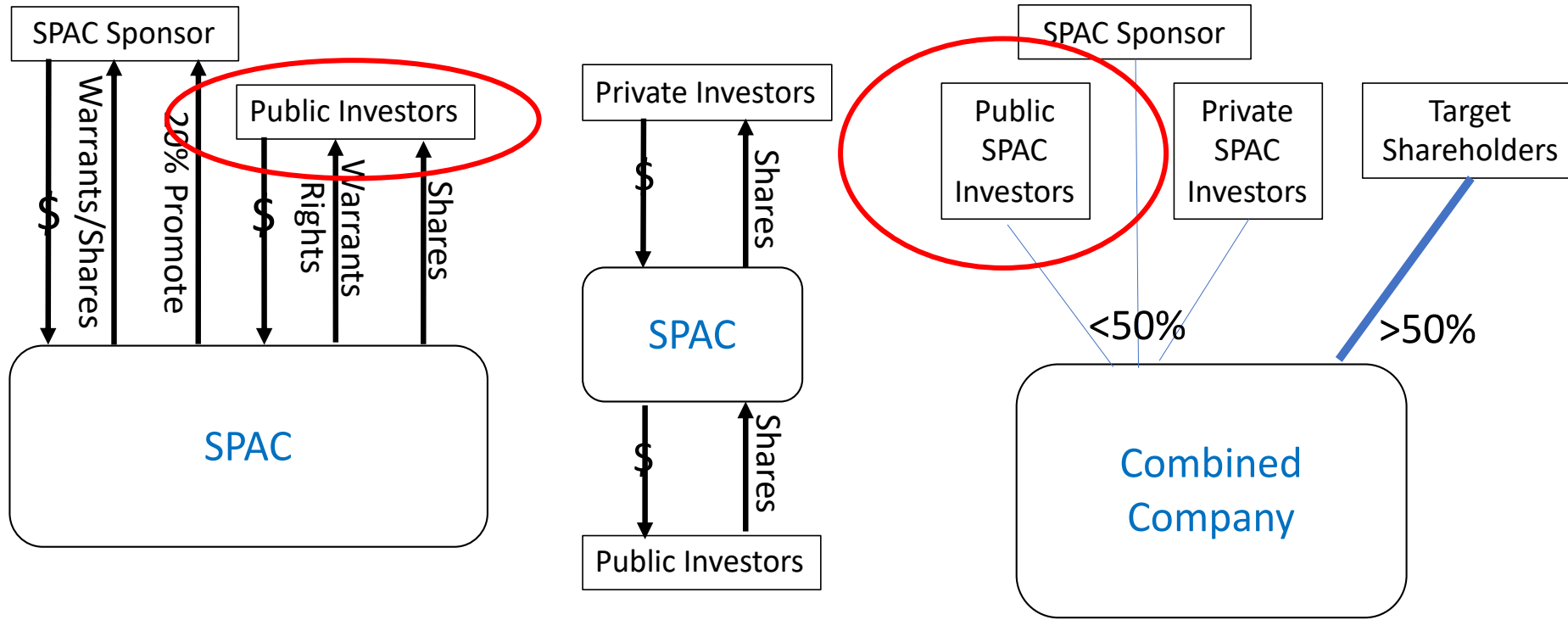
Two Years Later: Redemption, PIPE and Merger



Outcome



Finding #1: IPO Investors ≠ Merger Investors

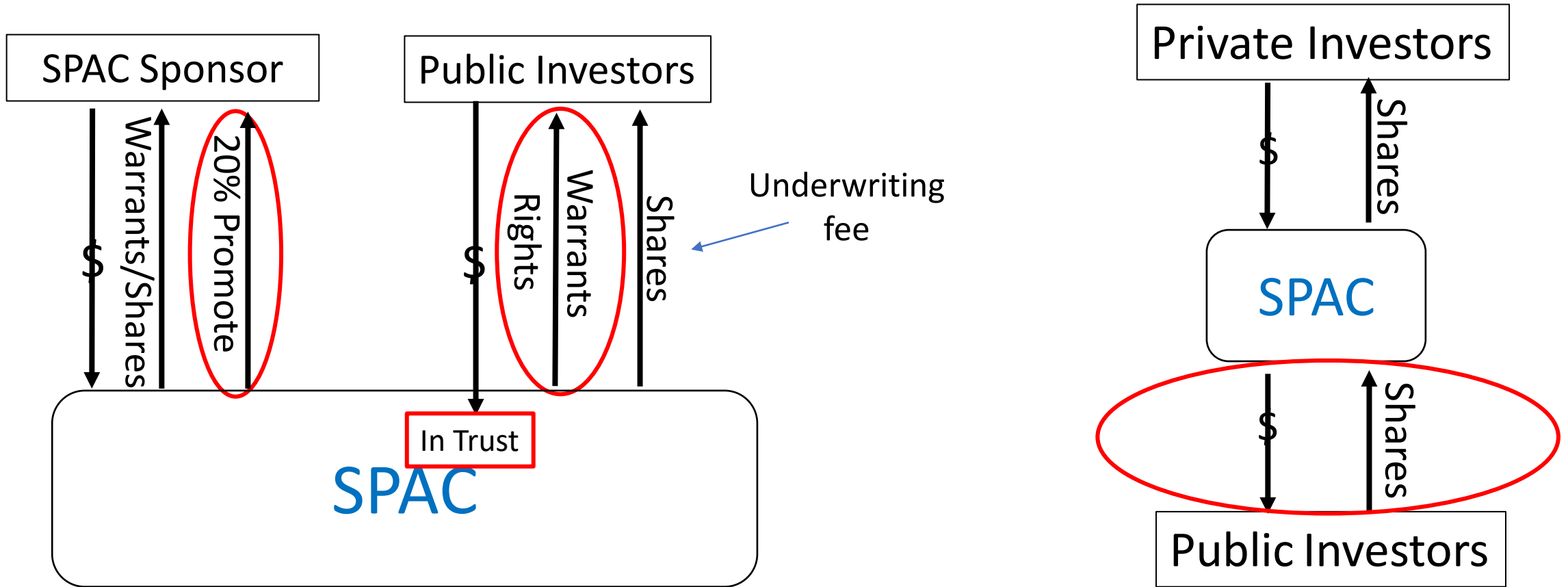


Sponsor promote,
sponsor investment & IPO
(Step a)

Redemption, PIPE & Merger
(Steps b, c, d)

Post-Merger Ownership
(Steps e, f)

Finding #2: High Transaction Costs/Dilution



Finding #2: High Transaction Costs/Dilution

- Sponsor's "promote"
 - 400% return
- Warrants/rights to IPO investors
 - 11.6% annualized return—no downside risk
- Underwriting fees as percent of nonredeemed shares
 - Mean 345%
 - Median 16%

SPAC Costs as % Pre- and Post-Merger Equity

	Median	Mean	25th Percentile	75th Percentile
Costs as % Pre-Merger Equity				
Net Promote	21%	28%	11%	43%
Underwriting Fee	5%	7%	3%	9%
Warrant+Right Cost	12%	14%	6%	23%
Total Costs	36%	49%	23%	80%
Cash per Share	\$6.40	\$5.10	\$2.00	\$7.70
Costs as % Post-Merger Equity				
Net Promote	8%	9%	5%	11%
Underwriting Fee	2%	2%	1%	3%
Warrant+Right Cost	4%	5%	3%	6%
Total Costs	14%	16%	10%	20%

Cash Per Share--Illustration

- SPAC Sells 80 shares in IPO for \$10 each.
 - Gives 20 shares free to SPAC sponsor as “promote.”
 - Initially SPAC has \$8.00/share in cash --\$800 total
- 50% redemptions → \$400 cash remaining
 - 60 shares = \$6.67/ share in cash
- 75% redemptions → \$200 cash remaining
 - 40 shares = \$5.00/ share in cash

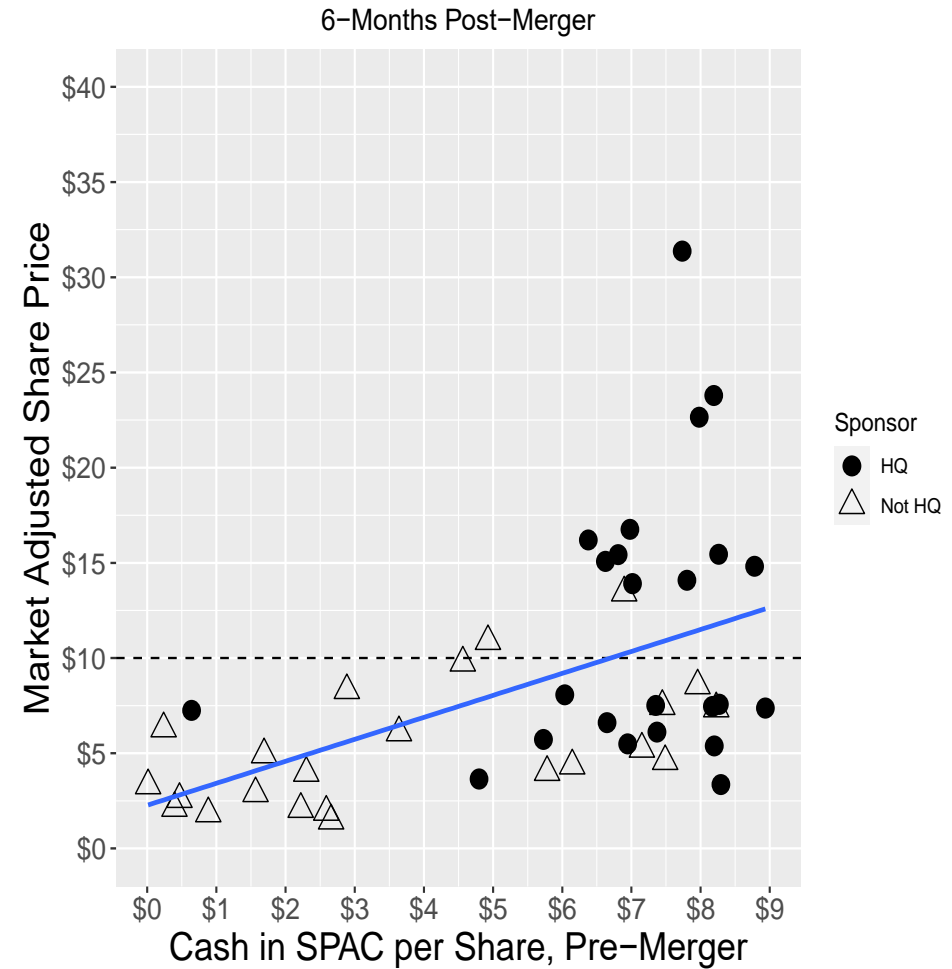
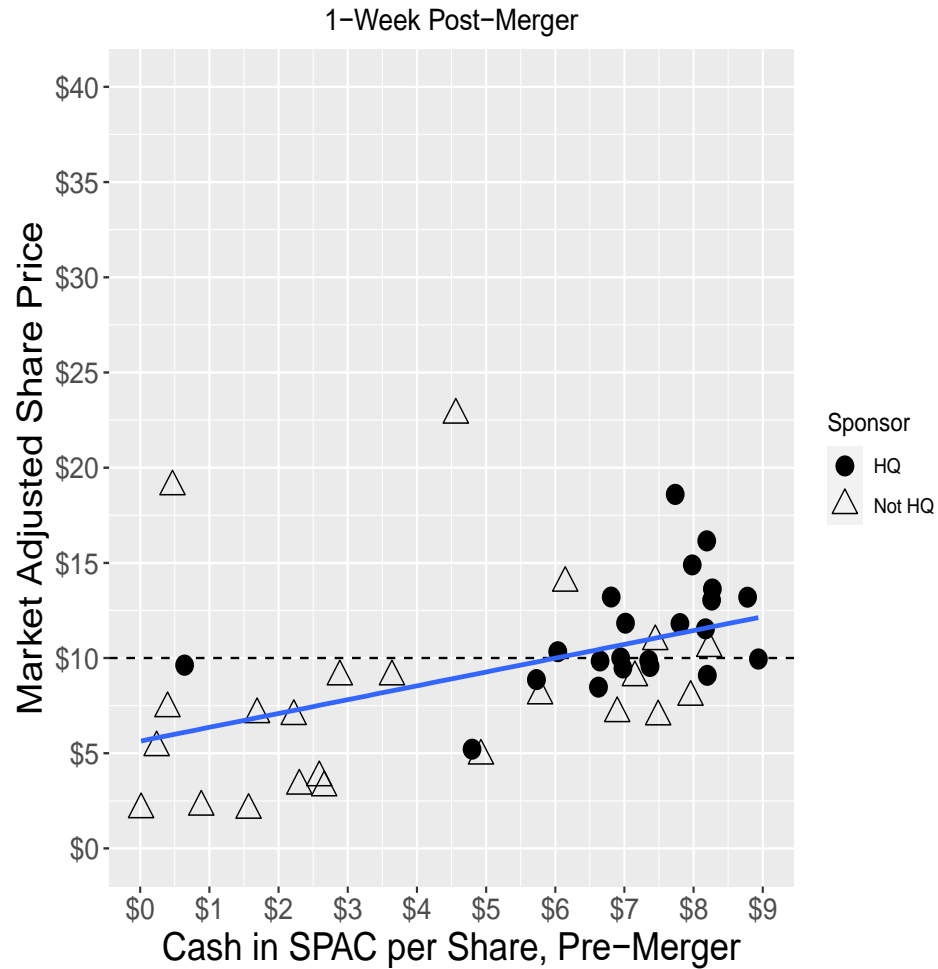
Who Bears the Costs?

- Depends on merger deal
- SPAC purports to be worth \$10/sh
 - If target merges on that basis → target bears cost of dilution
 - Post-merger shares = \$10 (plus surplus)
- SPAC has \$6.40 in cash
 - If target merges on that basis → SPAC shareholders bear the cost
 - Post-merger shares = \$6.40 (plus surplus)
- We can make an inference from post-merger share prices

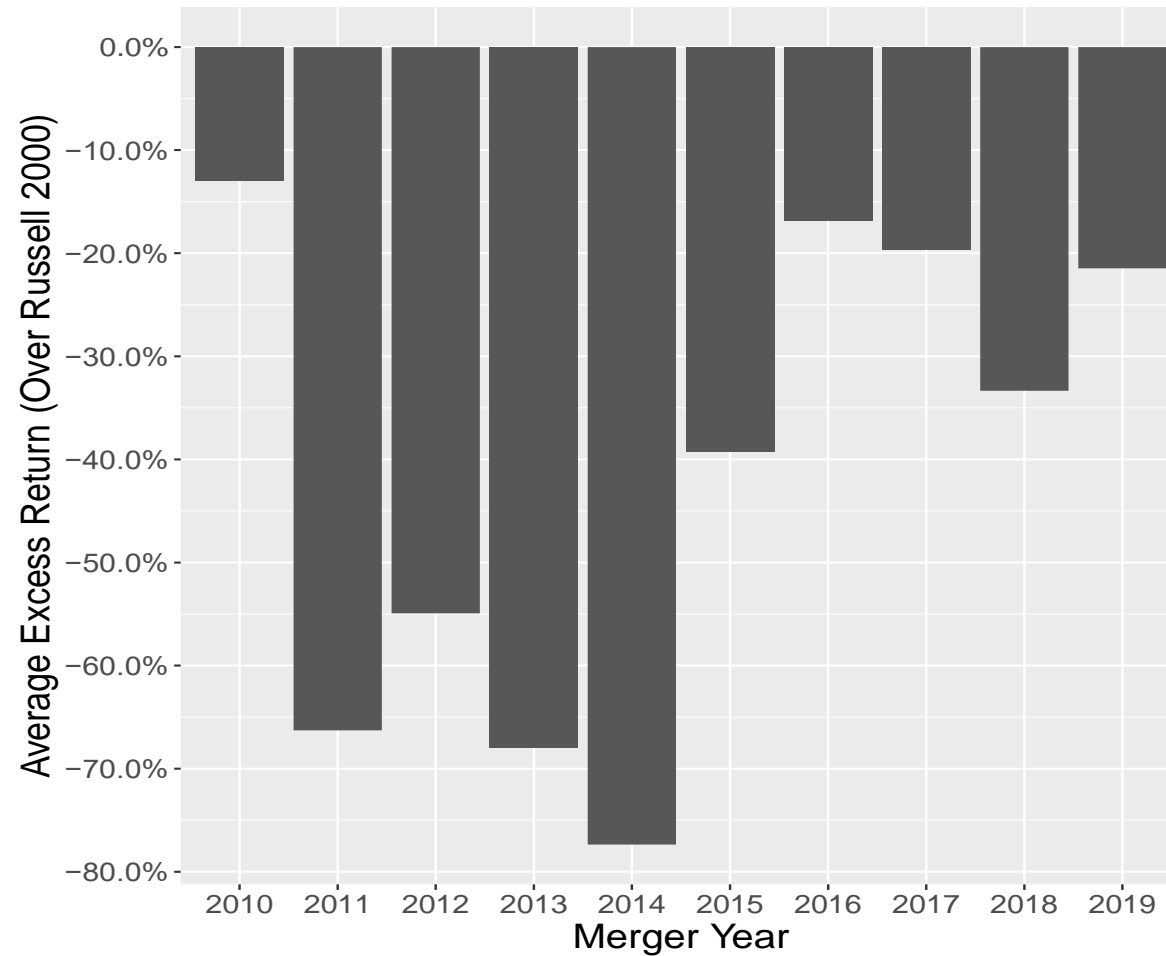
Post-Merger Returns

	Six-Month			Twelve-Month		
	All	HQ	Non-HQ	All	HQ	Non-HQ
Mean Return (Excess over IPO Index)	-33.3%	-0.2%	-67.8%	-54.4%	-20.3%	-90.9%
Median Return (Excess over IPO Index)	-45.5%	-31.0%	-59.9%	-80.6%	-54.8%	-96.4%
Mean Return (Excess over NASDAQ)	-18.0%	17.5%	-55.1%	-28.3%	14.0%	-73.5%
Median Return (Excess over NASDAQ)	-35.1%	-26.8%	-67.8%	-63.1%	-56.3%	-74.6%
N SPACs	47	24	23	29	15	14

Finding #3: SPAC Shareholders Bear the Costs



Post-Merger 1-Year Returns—Past 10 Years



SPAC vs. IPO Costs

	Median	25th Percentile	75th Percentile
Costs as % Cash Delivered			
SPAC	50%	29%	261%
IPO	28%	7%	52%
Costs as % Post-Merger Equity			
SPAC	14%	10%	20%
IPO	5%	1%	9%

Purported SPAC Benefits

- Price and Deal Certainty?
- Not necessarily

Regulatory Implications

- In the US: Disclosure
 - Better disclose of costs and cash per share
 - Equalize rules for SPACs vs. IPOs