SPACs – A Primer (Part I)

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After COVID, the elections, and what the fifth instalment of the *Scream* series will be called (hint: it's not *Scream 5*), the topic getting the most attention from our readers is the ramp-up of SPACs, or special purpose acquisition companies.

By definition, these vehicles are publicly traded shell companies with investor cash as their only initial asset. The sponsors then have two years to merge with a target company before the vehicle would have to unwind and return the cash.

A creature of the 1990's, SPACs were designed to help smaller businesses access public equity. After the tech bubble burst, and again following the Great Recession, the popularity of SPACs declined.

As our *Chart of the Week* shows SPAC IPOs zoomed this year. So far in 2020 there have been 183 such vehicles raising $66 billion. Compare that to 2019 when only $13.6 billion was raised from 59 IPOs.

Indeed, this level of activity was as robust as the traditional US IPO market, which year-to-date has seen $64 billion in proceeds amid 184 new launches.

There's also been an increase in the number of high-profile sponsors and management teams entering the space. The hedge-fund manager Bill Ackman kicked off his own SPAC, Pershing Square Tontine Holdings, in July that raised a record $4 billion to seek out "high-quality, venture-backed businesses" and "mature unicorns."

Last month Shaquille O'Neal, Martin Luther King III and three former Disney executives formed their own SPAQ – sorry, SPAC – called Forest Road Acquisition Corp. They hope to raise $250 million for deals likely in the media and tech spaces.

Another former NBA All-Star, Baron Davis, also filed for a SPAC fund raise, this one $75 million, to seek out sports and entertainment businesses. Bull Horn Holdings is Miami,FL-based, and will also target brand companies.

And sticking to the sports theme, RedBird Capital, a private investment firm, launched RedBall Acquisition. The co-chair of RedBall is Billy 'Moneyball' Beane. This SPAC will raise $500 million focusing on sports ventures, including European soccer.

What's going on here?

Over the next couple issues we'll explore this interesting equity option that's going from a backwater of the capital markets to upscale resort beach fronts.

We'll look at what's driving this renewed enthusiasm for SPACs, what the differences are between yesterday's and today's structures, and what kind of businesses are using this IPO alternative to go public.