Praexo
technology serving issuers

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"Crack the SPAC!" – Improving your SPAC capital raising journey

Though SPACs have been around for decades, this type of investment vehicle has recently earned new popularity as more private companies consider it for their exit strategy, in the context of an otherwise uncertain traditional IPO market. For many, SPACs offer the dual advantages of speed in execution and certainty of price. The increasing availability of funding sources has also helped to fuel this eye-popping surge in deals. In this article, we examine the challenges brought about by their astounding development and how Praexo can offer a powerful and cost-effective solution to optimise the SPAC process and follow-on transactions for the resulting newly-listed vehicle.

What is behind the undeniable recent strong resurgence in US SPACs?

SPACs have signalled a major comeback in 2020 and have gained significant traction in the US. We have witnessed over 200 SPAC IPOs in 2020 so far[1], totalling more than $70 billion raised – more than during the last 7 years combined. Furthermore, SPAC volumes have almost caught up with traditional IPOs in US, as SPAC mergers account for approximately 40% of total IPO proceeds in 2020. As Reid Hoffman, the legendary entrepreneur & investor from Mountain View, rightly pointed out in a recent fireside chat organised by Silicon Valley Bank, SPACs are no longer an act of desperation and have provided the much-needed innovation that IPOs alone had not been able to offer.

There is no doubt they also benefited from the coronavirus pandemic. The crisis has driven some private companies' valuations down and increased their need for liquidity – while the traditional IPO market remained constrained or effectively shut down for several months. In addition to its speed of execution, a SPAC merger allows for three benefits that traditional IPOs cannot offer:

- (i) Industrial and operational expertise from the SPAC sponsors
- (ii) Ability to provide for earn-outs
- (iii) De-risked IPO process with pre-negotiated price for a fixed amount of money with a single counterparty (SPAC sponsor)

These inherent advantages are even more decisive for investors since they allow them to fully benefit from more upside potential due to sponsors' expertise and fast processing. Lastly, going through a SPAC merger can also provide target companies with alternative access to capital. For both investors and target companies, a SPAC merger seems to offer a solid and rational alternative to the standard IPO listing for private companies requiring liquidity in 2020.

[1] *As at 30/11/2020 (Silicon Valley Bank report)*

Nevertheless, one must remain cautious when jumping on the SPAC bandwagon. Investing in a SPAC is no magic trick that guarantees the completion of the process and it should not be considered as a way to get around fundamental valuation issues. At the end of the day, the success of the SPAC will always rely on the ability of the sponsor to find the right target at the right time, and on how the newly combined firm can fulfil the requirements of a listed company. If at the time of listing, SPAC investors deem the company's management are not yet ready, or if the target company itself chosen by the

sponsor does not match their expectations, they may decide to sell their shares right away, thus exposing the firm to a huge drop in share price right after the de-SPACing. Communication and transparency between all the stakeholders, managed in a very short timeframe, are fundamental to achieving the successful completion of the process, even for outstanding SPAC candidates.

SPACs will likely remain popular beyond this exceptional 2020 vintage year. Some rationalisation in the market could yet be expected but sponsors, investors, and target companies' management must stay conscious that their mutual success relies not only on their ability to handle traditional capital raising challenges, but also new ones introduced by the SPAC merger. We will move on to exploring these new challenges now.

While SPACs have enlightened us with a totally new way of going public, plenty of challenges still exist for sponsors to ensure that every key moment runs smoothly and perfectly.

The traditional route to going public is too slow for certain companies that want to raise cash or investors who care to cash in especially in current financial markets where risk on/risk off sentiments change very quickly. In that respect, SPACs embody an attractive answer. This however also imposes extremely high requirements on sponsors. A successful SPAC IPO is just the beginning of the process with SPACs typically having 18 to 24 months post-IPO to complete a successful business combination. After a target acquisition has been identified and a deal negotiated, the de-SPACing process begins.

The de-SPACing transaction involves many of the same requirements that would be applicable to an IPO of the target business, including audited financial statements and other disclosure items, but that need to be prepared in a shorter time. According to 'SPAC Research', first-time sponsors frequently underestimate the challenge of the de-SPACing process, especially in moving shares from SPAC arbitrage funds (usually Hedge Funds, specialised investment funds) into the hands of long-term fundamental holders in the target company. To be successful, SPACs need sponsors that not only understand the process, the industry, but also very importantly, have the ability to track the whole process and ensure the smooth and immediate dissemination of information among the constituent stakeholders (investors, shareholders, employees, business partners, etc.).

Even after successfully handling the de-SPACing process, the sponsors still need to deal with the obligations of listed company requirements for the combined entity. Once the acquisition has completed, the SEC generally does not grant the typical grace periods for many areas of regulatory compliance (which are enjoyed by public companies created through traditional IPOs). From day one, the new company must satisfy a wide range of SEC requirements. In cases where there is insufficient or incorrect public information of the target, the SPAC might even face the risk of being suspended. In order to remain listed and admitted to trading, the target company is required to publish a new prospectus which is a very time-consuming and burdensome process. Besides that, the sponsor will also need to face the free float risk due to the open market, and the volatility associated with the listing.

Throughout the whole process, gaining investors' trust has and will always be the key. Investors engage actively throughout the whole process, from investor targeting at the very beginning, to investor

roadshows in IPO phase or even later in the de-SPACing phase. Investors' opinions need to be heard and properly treated considering they are giving away significant shares to sponsors. In the US, SPAC investor protection is quite strict, and they have shareholder voting rights as well as share redemption rights. In most cases, investors have the right to reject the proposed business acquisition and redeem their shares for nominal value. Obviously, it is critical that the sponsor has a healthy relationship with the investor, otherwise the sponsor may face a cash shortage or even failure to close the deal.

As we live in a digital era, technology is changing every aspect of our lives. Can it also help solve the challenges faced by SPAC sponsors?

The answer is YES. Technology can certainly act as an accelerator in the process of establishing and stabilising the SPAC life-cycle – and that is what Praexo can bring to you.

Praexo is dedicated to delivering data-driven advisory and execution for capital markets participants. Developed by a team of experienced investment bankers, IT and data science experts, Praexo's solutions – 'Perseus' and 'Hemera' – offer a powerful and cost-effective tool for sponsors to optimise the SPAC process (see our website: https://praexo.com/).

Perseus's superior and contextualised data enables precise investor targeting. While Hemera, a web-app platform, will efficiently and seamlessly collect, analyse, synthesise and report data to all parties, facilitating rapid and transparent information sharing as well as building healthy and long-term investor relationships by collecting and analysing real-time investor reactions and feedback.

The solutions provided by Praexo will enable sponsors to more accurately anticipate and gage the critical path required for a successful merger, while also building a cost-effective internal Investor Relations team not only limited to the de-SPACing process, but also thereafter once the acquired private company becomes public and needs to promptly establish a channel for professional and efficient dialogue with its shareholders.

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ABOUT PRAEXO

Praexo is a French Fintech company co-founded in 2019 by a team of investment bankers and IT managers from bulge-bracket investment banks. Praexo intends to introduce data-science and digitalization in capital raising processes in order to help private companies in improving their investment case and how top management interacts with the investors' community. The objective of Praexo is to allow top management to regain ownership in these processes without losing grip to their daily operations.

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