

Special Purpose Acquisition Company (SPAC)

Boom of the shell companies

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1. Introduction

Börsengang: SPAC-takulär

BLANKO-BÖRSENGÄNGE

Anleger kaufen den Sack sogar
schon ohne Katze

The future of investment: SPAC

Billionaire investor Bill Ackman offers new hints
on possible targets for his record-breaking SPAC

Shaquille O'Neal, former Disney executives, and
Martin Luther King Jr.'s son target \$250 million
SPAC launch

SPACS

Der unheimliche Boom des Börsengangs
durch die Hintertür

Sergio Ermotti schließt sich Spac-Hype an

1. Introduction

- SPACs = "Special Purpose Acquisition Vehicle Companies"
- Known as "*blank check companies*" (*Blankoscheck Unternehmen*), but with investor protection features
- Sole purpose of a SPAC is using capital raised in an Initial Public Offering ("IPO") to buy one or more operating businesses, which at the time of the IPO have not been identified
- SPACs are formed by well-known and experienced investors (so called "sponsors") who serve as the SPAC public face
- Decisive factor for the investment decision is the reputation, experience and track record of the management and sponsors
- To be distinguished from reverse mergers as a merger of a larger (non-listed) company with a (listed) smaller company to achieve a stock exchange listing (fungibility)

2. Market Situation

USA



- Known since 1980, "Revival" since 2017
- in 2020 more SPAC-IPOs than traditional IPOs
- Stability despite volatile environment
- Recent boom (transactions, among others *Nikola, Immatix, Virgin Galactic, Canoo, Momentus, Vincera, Playboy, Chargepoint*)

Europe



- Focus: UK, admission on the LSE
 - Recently cancellation of the IPO of Harvester Holding
- Outside UK currently only minor importance
 - FWB: Helikos SE, European Cleantech 1
 - In addition: Euronext (in particular, Amsterdam), Borsa Italiana Mailand
 - interest increased due to boom in the US

2. Market Situation

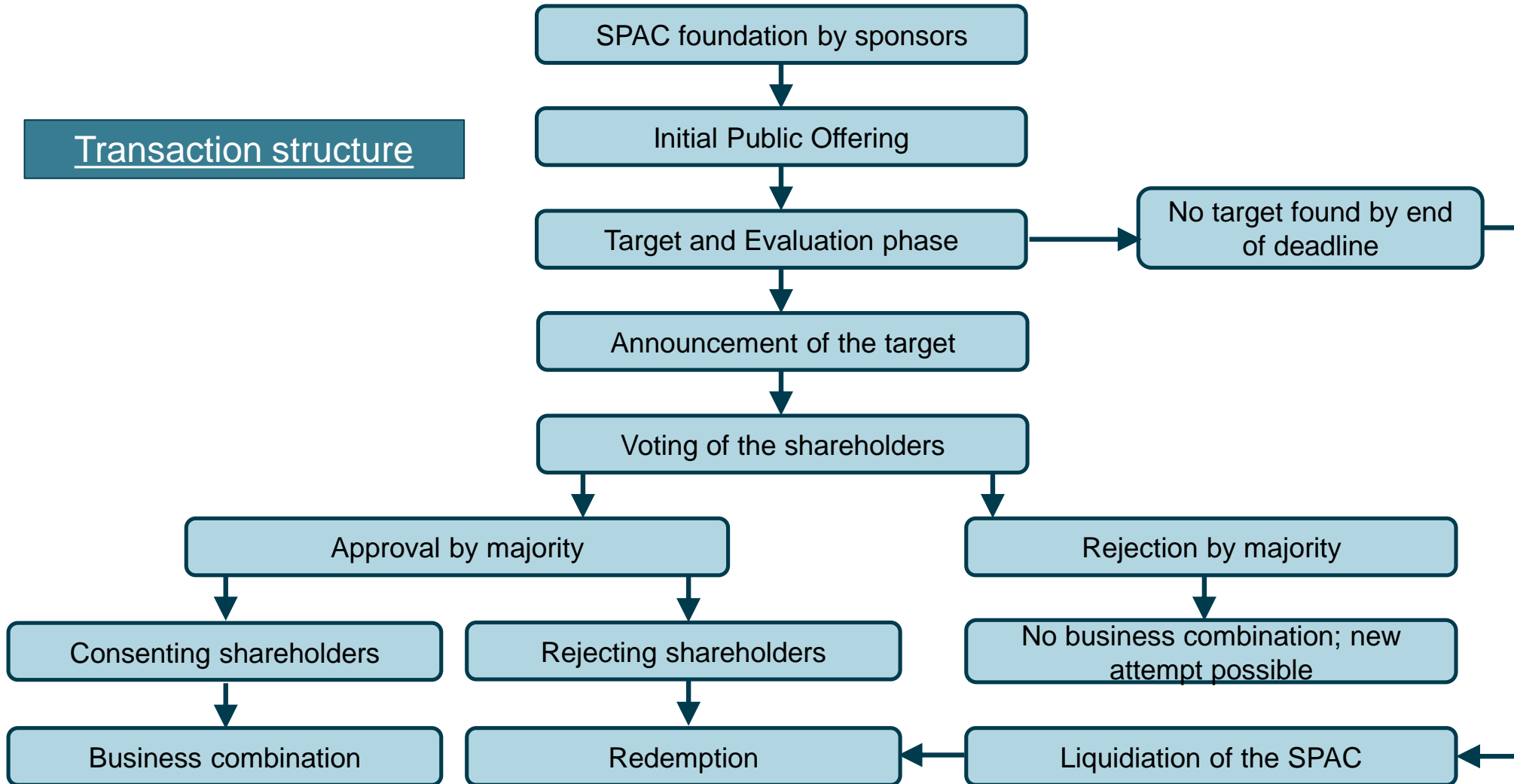
Some facts about the current SPAC boom in the USA:

- around 55% of IPOs in total (450) were SPAC IPOs (248) in 2020; in 2019 it was 28% (59 SPAC IPOs of 213 IPOs in total)
- SPACs accounted for approx. 19% of IPO proceeds 2019 and 46% of IPO proceeds in 2020
- SPACs raised approx. USD 83 billion in 2020, and approx. USD 13.6 billion in 2019
- 298 SPAC are currently seeking acquisitions

3. Structure

- SPAC is a newly formed shell company, with no revenue or operating history
- Management team of the SPAC is typically a group of people affiliated with or on loan from the sponsor who dedicate part of their time to seeking an initial business combination
- Management team will incorporate the SPAC and provide the initial capital
- At the time of the IPO, the SPAC has no business operations or tangible assets
- If the SPAC needs additional capital to pursue the business combination or pay its other expenses, the sponsor may loan additional funds

3. Structure



3. Structure



4. Initial Public Offering

- Major contents of the securities prospectus:
 - Risk Factors
 - Current financial information of the SPAC (incl. audited statements)
 - Detailed description of the SPAC structure
 - Description of the expertise of the sponsor
 - Description of industry and geography on which the SPAC will focus
- Due to their short business history, SPACs are regularly qualified as start-ups
 - According to ESMA, a start up issuer is a company that has been operating in its current sphere of economic activity for less than three years
 - even if the issuer was incorporated more than three years ago, the recommendations would be applicable if the company completely changed its business less than three years ago

4. Initial Public Offering

- ESMA information requirements for specialist issuers, such as start-up companies, are amongst others:
 - Business plan with strategic objectives for the next two years
 - Information about the extent to which the issuer's business is dependent upon any key individuals,

4. Initial Public Offering

- SPAC raises capital by selling public units composed of shares (*Aktien*) and warrants (*Optionsscheine*) to investors
- Following the IPO, the units become separable, such that the public can trade units, shares, or whole warrants, with each security separately listed in the securities exchange
- Warrants become exercisable
 - (a) upon completion of a business combination and
 - (b) one year after the IPO,whichever event occurs later.
- They entitle the holder to acquire further shares at a fixed issue price
- The term of a warrant is usually four years
- If the SPAC is liquidated, the warrants expire worthless

4. Initial Public Offering

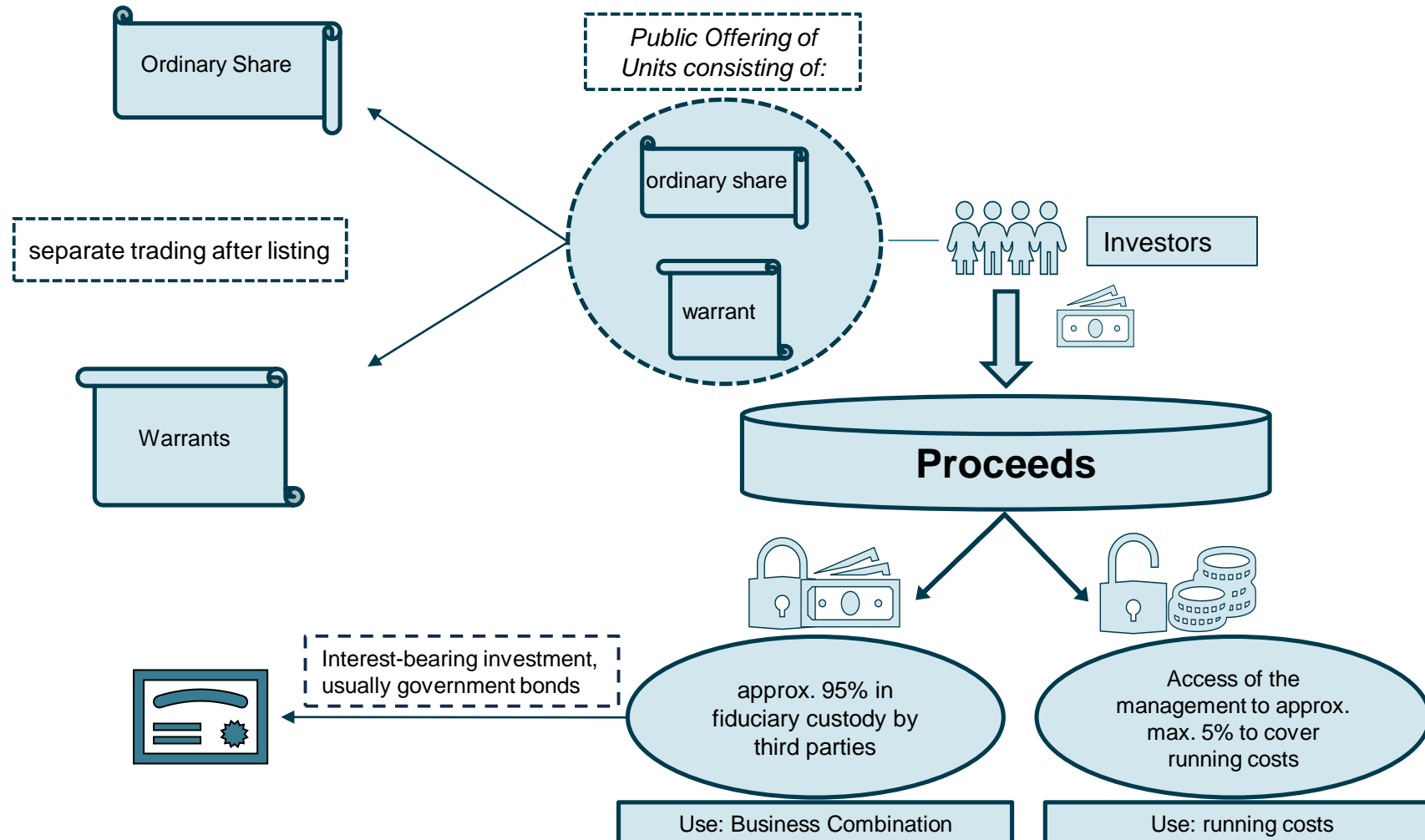
Typical capitalization of a SPAC upon consummation of an IPO:

- 20% founder shares are issued for a nominal amount to the sponsor(s)
- 80% of the SPAC shares are issued to the public in the IPO as part of a unit (consisting of shares and warrants)
- The sponsor also purchases warrants to fund the IPO costs such that there are enough funds in the trust account to repurchase shares at the offering price of a unit upon redemption (so called sponsor's "at risk capital", because upon a liquidation, founder shares and warrants become worthless)

4. Initial Public Offering

- 85% to 100% of the IPO proceeds are deposited in a trust account for the purpose of investor protection
- Offering expenses, including the up-front portion of the underwriting fee, and a modest amount of working capital will be funded by the sponsor. The remaining expenses are only paid upon the consummation of an initial business combination.
- Typical structure for the underwriting fee:
 - i. 2% of the gross proceeds to be paid at the closing of the IPO, and
 - ii. 3.5% of the gross proceeds deposited into the trust account and payable to the underwriters on closing of the De-SPAC transaction; in case no De-SPAC transaction occurs, the 3.5% discount is never paid to the underwriters and is used with the rest of the trust account balance to redeem the public shares.

4. Initial Public Offering



5. Business Combination

- The SPAC usually has a limited period of time, i.e. 18 to 24 months, to identify a potential target company and execute the business combination
 - in case a business combination does not occur prior to the deadline, the SPAC will be dissolved, and shareholders will receive their pro rata share of the amount in trust
 - Holders of founder shares are not entitled to receive funds on such a dissolution
- The period may vary depending on the company and industry
- Once a target company or group is identified and an agreement is reached with its shareholders, the SPAC requires shareholder approval to complete the proposed acquisition
- If a business combination is not approved, the SPAC management is free to present new business combination transactions to the shareholders' meeting, provided that the deadline has not yet expired
- The SPACs often arrange committed equity financing, such as a private investment in public equity ("PIPE") commitment, to finance a portion of the purchase price for the business combination

5. Business Combination

Shareholder approval process:

- The management/sponsor is not entitled to vote
- In general, only a simple majority is required for voting
- Upon approval, the balance in the trust account will be released for the business combination and the satisfaction of the shareholders that have requested a redemption of their shares

5. Business Combination

- Acquisition structures
 - Acquisition by cash and/or new shares in the SPAC
 - Merger or contribution of the shares in the target company by way of a capital increase against issuance of new shares
- The management team of SPACs is only interested in taking over operational functions in the target company in exceptional cases and therefore largely resigns after the completed business combination or withdraws to positions on the supervisory board
- The management of the target company normally remains in office of the combined company

5. Business Combination

Recent transactions on the NYSE

NIKOLA

Purchase aspects

Merger with VectoIQ Acquisition Corp. (DE)
USD 237 Mio. cash, USD 525 Mio. from PIPE-Financing

Involvement SPAC-Management

Founder Shares: 20% nach SPAC-IPO
SPAC-CEO Chairman of the Directors' Board

IMMATICS

Purchase aspects

Merger with Arya Sciences Acquisition (Cayman I.)
USD. 149 Mio. cash, USD 104 Mio. from PIPE-Financing

Involvement SPAC-Management

Founder Shares: 20% nach SPAC-IPO
SPAC-CEO member of the Directors' Board

VIRGIN GALACTIC

Purchase aspects

Merger with Social Capital Hedosophia (Cayman I.)
USD 450 Mio.; 59% of the shares held by VG-existing
shareholders

Involvement SPAC-Management

Founder Shares: 20% after SPAC-IPO
SPAC-CEO Chairman of the Directors' Board

CANOO

Purchase aspects

Merger with Hennessy Capital Acquisition Corp. IV (DE)
USD 607 Mio., approx. USD 300 Mio. thereof from
PIPE-Financing

Involvement SPAC-Management

Founder Shares: 20% after SPAC-IPO

5. Business Combination

– **Business Combination: Virgin Galactic and Social Capital Hedosophia Holdings Corp., Cayman Islands (SPAC)**

- IPO Proceeds USD 690 million gross; USD 31 million underwriting discounts and commissions; thereof USD 24,15 million deferred underwriting commission payable only upon completion of business combination;
- IPO of 69,000,000 Units (each unit consisting of one Class A ordinary share and one-third of one warrant) @ USD 10;
- Separate trading of shares and warrants on 52nd day after date of Prospectus
- SCH Sponsor Corp. (the sponsor) holds 20% of shares (class B shares); founder shares locked-up until one year after business combination (earlier after business combination, if good share price performance); only holders of the founder shares have the right to vote on the election of directors prior to the initial business combination; sponsor shares are protected by anti-dilution rights
- Each whole warrant entitles to acquire one Class A ordinary share @ USD 11.50; exercisable 12 months after IPO or, if earlier, 30 days after the completion of the business combination;
- Sponsor purchased an aggregate of 8,000,000 warrants (one warrant entitling to the acquisition of one share) @ USD 1.50 per warrant (USD 12,000,000 in the aggregate);
- Founder warrants transferrable 30 days upon business combination

5. Business Combination

- **Business Combination: Immatics N.V. and ARYA Sciences Acquisition Corp., Cayman Islands (SPAC)**
 - IPO Proceeds USD 143.75 million gross; USD 7.5 million underwriting discounts and commissions; thereof USD 4.67 million deferred underwriting commission payable only upon completion of business combination;
 - IPO of 12,500,000 Unit (each unit consisting of one Class A ordinary share and one-half of one redeemable warrant) @ USD 10;
 - Separate trading of shares and warrants on 52nd day after date of Prospectus
 - ARYA Sciences Holdings (the sponsor) holds 20% of shares (class B shares); founder shares locked-up until one year after business combination (earlier after business combination, if good share price performance); only holders of the founder shares have the right to vote on the election of directors prior to our initial business combination; sponsor shares are protected by anti-dilution rights
 - Each whole warrant entitles to acquire one Class A ordinary share @ USD 11.50; exercisable 12 months after IPO or, if earlier, 30 days after the completion of the business combination;
 - Sponsor purchased an aggregate of 5,437,500 warrants (one warrant entitling to the acquisition of one share) @ USD 1.00 per warrant (USD 5,437,500 in the aggregate);
 - Founder warrants transferrable 30 days upon business combination

6. Liquidation

- In case the SPAC is unable to complete the initial business combination within the specified time frame, the SPAC will:
 - i. cease all operations except for the purpose of winding up,
 - ii. redeem the then outstanding public shares for cash at a per-share price equal to the aggregate amount then on deposit in the trust account, plus or minus interest, divided by the number of then outstanding public shares, and
 - iii. as promptly as reasonably possible following such redemption, dissolve and liquidate, subject in each case to the SPAC's obligations under applicable law, including to provide for claims of creditors.
- The sponsors waive their rights to liquidating distributions from the trust account with respect to any shares held by them prior to the IPO.

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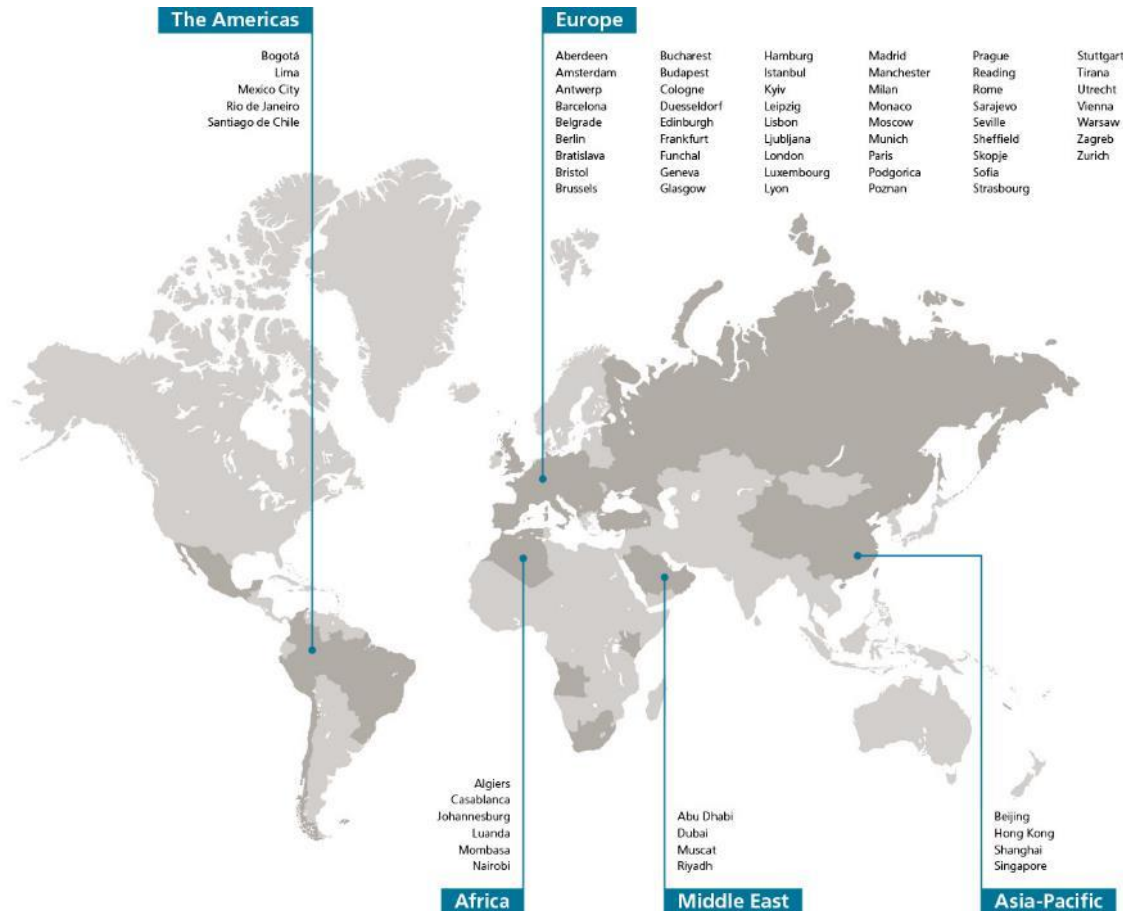
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