THE PIPEs Report®
The Deal
TUESDAY JAN. 19, 2016
VOLUME 2, NO. 2
NEWS, DATA AND ANALYSIS OF SMALL CAP EQUITY FINANCE

SPAC IPO dollar volume doubles in 2015

Special purpose acquisition companies raised the most money since the Great Recession

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Special purpose acquisition companies raised over $3.9 billion dollars in the U.S. last year—more than twice the amount in 2014—making it the biggest year for SPACs since the Great Recession.

Public offerings outside the country, including about $400 million raised by SPACs in Canada, brought the total even higher.

SPACs raised about $3.9 billion in 20 U.S. transactions last year, according to PrivateRaise, The Deal's data provider on blank-check companies. In comparison, a dozen SPACs raised about $1.75 billion in 2014.

Deal flow increased last year as investors looked to apply their capital in an environment where traditional IPOs where taking companies public at valuations that were extremely high, turning off some buyers.

Industry players told The Deal that "unicorn" companies with very high valuations put a premium on the management acumen of groups coming together to look for more reasonably priced SPAC acquisitions.

Three SPAC IPOs in the last quarter of 2015 raised $390 million, compared with $340 million in the same quarter in the previous year.

The largest deal of the year, an IPO from **Double Eagle Acquisition Corp.** (EAGL), raised over $500 million including an overallotment option in September. It was the third SPAC from Hollywood moguls Jeff Sagansky and Harry Sloan.

SPACs are blank-check companies that raise money in IPOs to acquire businesses. They must complete an acquisition within a certain period of time, typically two years, or return the capital to investors.

In addition to IPO proceeds, debt may be employed to structure acquisitions.

Capitol Acquisition Corp. II's acquisition of **Lindblad Expeditions Holdings Inc.** (LIND) in March required the educational travel specialist to raise at least $112 million—which it did with a $120 million secured loan.

The SPAC market depends on performance. "I think the market will depend on how successful the existing SPACs are in getting deals done," said Simon Romano, a partner at the Toronto law firm **Stikeman Elliott LLP.** "If we see some good deals, then I think the SPAC market is likely here to stay. If we don't then it will be tougher."

About two dozen SPACs were looking at about $5 billion in acquisitions at yearend.

"There are many distinct advantages to using a SPAC to go public over and above the cost and time savings, including the possibility that the owners of the operating company can be paid additional equity consideration after the closing of the SPAC acquisition (based on future operating results) on a tax-free basis," SPAC veteran **David Alan Miller**, a partner at the law firm **Graubard Miller** in New York, told The Deal in an e-mail. "This result cannot be achieved in a traditional !PO."

The SPAC vehicle was more attractive than ever as sponsors put deals together for companies all over the world that came to the U.S. to source capital.

Companies like **Quinpario Acquisition Corp. 2** (QPAC) and **Arowana Inc.** (ARWAU) sought U.S. cash from outside U.S. borders, while traditional U.S. players like **Gores Holdings Inc.** (GRSH) and **Boulevard Acquisition Corp. II** (BLDVU) raised billions of dollars.

SPAC offerings have typically involved the issuance of a unit, consisting of a share and a warrant to buy a share, priced at upwards of $10. The ratio is changing. Many deals from the past year have featured half warrants or even less.

"The reduction in the number of warrants issued by SPACs as part of the IPO units from two warrants to one warrant and now the further change to one-half or even one-third of a warrant will make the SPAC structure more attractive to sponsors and appears to have gained acceptance in the market," said **Kirkland & Ellis LLP** partner Carol Anne Huff in Chicago.

"The potential overhang of the warrants had been viewed as a negative factor by target companies and by investors purchasing SPACs' stock in the market in anticipation of the closing of a business combination," Huff said.

"In many prior deals, the repurchase by the SPAC of some portion of the outstanding public warrants or the forfeiture of warrants by the SPAC sponsor were either a condition to the deal or a necessary change in order to get the deal done," according to Huff.

Graubard's Miller noted the importance of market conditions. "The structure of the unit sold in a SPAC IPO (as well as the amount of proceeds retained in the SPAC's trust account (100% or more than 100%)) is directly related to how strong the SPAC IPO market is," Miller's e-mail said.

"If the SPAC IPO market is strong, which it was for most of 2015, the unit might be sold with just half of a warrant. In a tougher IPO market, the unit might need to contain a full warrant or a right."

The year's SPAC deals represents a wide variety of management skill sets.

Past experience helps. Most of the sponsors coming to the market are return players or have a long track record of institutional investing. These include the Gores Group, Mark Ein's Capitol Acquisition entities, Marc Lasry's **Avenue Capital Group, Quinpario Partners,** Brazil's **GP Investments Ltd.** and Australia's Arowana Inc.

Double Eagle illustrates a trend towards returning to the well—it is now the third SPAC created by a sponsor group including Jeff Sagansky, a media executive and chairman of media finance vehicle **Hemisphere Capital Management Inc.**

The first of the Sagansky sponsor group's previous SPACs acquired Row 44 Inc. and Advanced Inflight Alliance AG in 2013, combining them as **Global Eagle Entertainment Inc.** (ENT), a digital media provider for airlines. The second SPAC acquired India's **Videocon d2h** (VDTH) last March in a deal where the SPAC exchanged about $273 million for equity in the television provider.

Private equity investor Gores Group raised $402.5 million in an August IPO underwritten by **Deutsche Bank Securities Inc.** and **I-Bankers Securities Inc.** The Gores Group is no stranger to investing—it has put billions of dollars into companies including medical laser manufacturer **Fotona,** plastic fabricator **US Farathane Corp.** and staffing company **Glotel.** Alec Gores has been investing in growth companies since the late 1970s, and his company has over $2 billion invested in its prospects.

Capital-seeking companies have come from afar to tap U.S. capital.

Quinpario Acquisition Corp. 2 set out to raise $350 million last January and ended up raising over $400 million through an overallotment option that it will use to acquire a specialty chemicals company. Deutsche Bank and **Cantor Fitzgerald & Co.** underwrote the deal.

Likewise, Arowana, based in Australia, came to the U.S. to raise capital to buy an education or energy company.

Arowana CEO Kevin Chin founded **Arowana & Co.,** which comprises three companies that manage unlisted investment funds, early-stage venture capital and private equity. CFO Gary Hui was previously a managing director of **Indus Capital Partners LLC,** a fund manager founded by former **Soros Fund Management LLC** partners.

This year, SPAC vehicles also took off in Canada, where several SPACs so far have been structured by longstanding sponsors **Dundee Securities Inc.,** PE and turnaround specialist **INFOR Financial Group Inc.,** alternative asset manager **Alignvest Management Corp.** and merchant bank **Acasta Capital.** The first vehicles have already raised C$525 million ($396 million), and Acasta has filed to raise C$220 million.

SPAC transactions continue to offer advantages over costly IPO transactions that do not always create equity—or visibility—for issuers.

Some of the non-U.S.-based SPACs have sought to meld high foreign economic growth rates with U.S. capital.

The countries the SPAC makers have staked out offer varying degrees of economic growth and political stability. Some of these markets have significantly matured in recent years, but they are still limited in their ability to source capital in public markets, according to regulatory filings by **Andina Acquisition Corp. II** (ANDA), which raised $40 million in November to acquire a business in South or Central America.

Colombia, for instance, experienced a 4.6% average gross-domestic-product growth rate from 2010 through last year, while its government provides responsible fiscal management and is keen on holding down inflation.

Likewise, GDP growth in Chile has averaged 5.3% since 1987 and "has long been considered one of the most stable and best managed economies in Latin America," according to Andina.

Panama features very high growth rates, which have grown from 8.7% from 2006 through 2014, and Andina expects new infrastructure projects to support GDP growth in the 6% to 7% range.

It remains to be seen how SPAC companies will capitalize on these scenarios.