

# THE SPAC REPORT

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## Deluge of New SPACs Fails to Heed Low Prices, Stagnant IPO Market

The SPAC market has become overly saturated in recent months and investors should expect to see a much slower pace of offerings as warrants continue to trade below market expectations.

Generally, warrants should trade between 80 cents to 90 cents, according to one SPAC underwriter. Now they are averaging 60 cents and even lower. Because of this, he said, there are a large number of investors that are hesitant to buy in early trading.

There are more than 20 SPAC mergers that are pending shareholder approval. Of these, only seven have warrants that are trading above 60 cents. There are 15 pending deals that have warrants trading below 35 cents. A cross section of bankers from both boutique and bulge bracket underwriters polled by *TSR* all said warrants trading at less than 35 cents equate to the Street saying, "Good luck with getting the deal done."

"A large chunk of what's been filed will never see the light of day," said a managing director at one of the largest SPAC investment banks by dollar volume. Reality is setting in, he says, and "a lot of people thought [SPACs were] an easy way to get 20% [of a company]."

Additionally, a number of deals currently being promoted by management teams will not be approved, he said. "Expect to see a number of new liquidations about six weeks from now."

SPACs with merger votes approaching in the next several weeks include **Jaguar Acquisition Corp.** and **Asia Automotive Acquisition Corp.**

Another banker said any SPAC with warrants trading at a small fraction on the dollar are hearing from the market that the deal will likely fail.

Bankers believe that two opposing forces are at work: the increasing number of larger offerings, namely \$300 million and above, that have

been filed in recent months; and the almost complete absence of deal announcements with escrow accounts of that size.

One banker, who's firm has become a major SPAC underwriter during the last six months, said the vast majority of new offerings immediately trade down after coming to market, causing the yield-to-worth calculations that most initial buyers are betting on to not be worth their initial investment.

"I think that we are going to need some other significantly-sized SPACs to at least announce deals with shareholder-friendly terms, before new ones will come to market," said one of the bankers. The number of new registration filings, he said, could indicate that the market expects at least one or two significant announcements in the near term.

Another bulge-bracket banker said that it is reasonable for the market to

expect to see more than one prominent deal announcement in the second quarter.

Additionally, this banker said that the vast majority of initial SPAC buyers are somewhat illiquid at the moment. There needs to be either some quality deal announcements that will allow investors to sell shares in the open market, or liquidations before more offerings come to market.

David Miller, a managing partner at New York City law firm **Graubard Miller**, agreed that the supply is far outpacing the demand, but also said that, to a certain extent, "the underwriters have coasted since 2003, selling SPACs to the same two dozen buyers." The traditional investor base must be expanded, he said.

Doug Ellenoff, a partner at New York City law firm **Ellenoff Grossman & Schole**, said that two of the most notable offerings so far this year, **GHL Acquisition Corp.** and **BPW Acquisition Corp.**, were marketed extremely hard by their respective underwriters, **Banc of America Securities** and Citi, and "sucked the wind out of the SPAC market."

Mark Nordlicht, chairman of prominent SPAC investor **Platinum Partners**, said it is difficult to gauge the liquidity of particular funds, but also acknowledged a high level of saturation in the market. It is going to take some time, he says, before the pace of initial public offerings picks back up.

Nordlicht also pointed directly to consistently low-trading warrants and their potential for diluting holdings as a major issue that needs to be resolved. That there are some SPACs trading at a considerable premium shows a strong need for fewer, higher-quality deals.

One potential niche that could spark the SPAC market, Nordlicht says, are those classified as foreign private issuers. "These are potential game changers," Nordlicht said, "because they go so much quicker through the review process."

The new registrations keep coming, however. Ten new SPACs filed registration statements during the first three weeks of March that together could top \$2 billion in proceeds. —JS