The Deal

SPAC deal flow slows, but bigger players are chasing the market

The third quarter decelerated, but larger players (like Haim Saban) and banks remain interested in special purpose acquisition companies.

By Bill Meagher   Updated on October 7, 2016

According to **PrivateRaise**, The Deal's data service that tracks **SPAC** activity, five SPACs registered in the third quarter to raise $950 million. Last quarter, the same number of vehicles registered to go public, but the transactions stood to raise $1.6 billion. A year ago, seven SPACs registered to raise about $2 billion.

A pair of SPACs registered last month to raise $300 million each: GTY Technology Holdings Inc. and **Avista** Healthcare Public Acquisition Corp.

Stellar Acquisition lll Inc. (STLRU) registered the first day of the quarter and priced its $65 million initial public offering in August. M l Acquisitions Inc. (MACQU) registered July 26 and raised $50 million Sept. 19. **Saban** Capital Acquisition Corp. (SCACU) registered Aug. 23 and less than a month later, on Sept. 21, priced a $250 million offering.

SPACs are investment vehicles created for the purpose of taking a private company public. They are capitalized via an IPO and generally have 18 to 24 months to close a merger or return the IPO proceeds to investors. Investors also have the option of redeeming the shares they purchase for cash if they don't like the deal put on the table by the SPAC.

Besides Saban, M l and Stellar, Conyers Park Acquisition Corp. (CPAA) priced its $375 million offering in the past quarter and M lll Acquisition Corp. (MIIIU) debuted a $150 million IPO.

David Miller, managing partner with the law firm **Graubard Miller**, said the most pronounced trend he sees is higher-profile execs and bigger investment banks choosing to get into SPAC IPOs, and the result is larger business combinations.

SPAC IPOs

Year	No.	$M Raised
2010	7	**497**
2011	16	**1,050**
2012	9	**475**
2013	10	**1,325**
2014	11	**1,510**
2015	20	**3,637**
2016*	10	**2,294**

*YEAR-TO-DATE   SOURCE: PRIVATERAISE

The quarter saw a fair amount of deal activity as **Terrapin 3 Acquisition Corp.** (TRTL) and Indian travel agency Yatra Online Inc. agreed to a $218 million merger. Energy-minded **Silver Run Acquisition Corp.** (SRAQ) and Denver-based Centennial Resource Production LLC have a $1.7 billion deal on the table. E-Compass Acquisition Corp. (ECAC) and NYM Holdings Inc., an East Coast Asian grocery chain, are looking at a $125 million merger.

But perhaps the most intriguing deal to come together during the third quarter involved **Arowana Inc.** (ARWA), an Australian-based SPAC, and solar power company **VivoPower International plc.** VivoPower is owned by **Arowana International Ltd.**, a unit of Australian investment conglomerate Arowana & Co., which is also the SPAC's sponsor. The deal is valued at $162 million and, according to **Securities and Exchange Commission** filings, has not yet been consummated. A meeting has been set for November to allow shareholders to vote on extending the deal deadline to Jan. 9, 2017.

A trio of other deals that came together before the third quarter are still pending. The **Easterly Acquisition Corp.** (EACQ) purchase of solar company Sungevity for $357 million still has not closed. **GP Investments Acquisition Corp.**'s (GPIAU) deal for WKI Holding Co., the parent the company that makes Corelle, Pyrex, CorningWare and Snapware, also has not yet been consummated. And **Gores Holdings Inc.**'s (GRSH) $2.2 billion deal for Hostess Brands LLC has yet to get to the finish line.

While Gores is focused on bringing the Hostess deal home, it registered a new SPAC in Delaware in August, though it has not yet been made public with an SEC filing.

Not every SPAC that raises money finds fortune. The quarter also saw some deals go south.

Atlantic Alliance Partnership Corp. (AAPC) had a $200 million deal with London-based talent agency **TLA Worldwide plc** on the table, but it was scrapped last month. The SPAC has until next month to put another merger together or write some checks to investors and return the IPO proceeds.

Garnero Group Acquisition Co. (GGAC) is returning $140 million to investors after its merger with Brazilian men's wear retailer Grupo Colombo fell out of bed. **Hennessy Capital Acquisition Corp.** II (HCAC) also saw a deal dry up: its $348 million merger with **USI Senior Holdings Inc.**, a provider of installation and construction services for residential and commercial markets. Hennessy says it is currently searching its deal pipeline for another merger candidate.

And the clock is ticking on Barington/Hilco Acquisition Corp. (BHAC). The SPAC extended its deadline in August to get a deal done to Nov. 11.

Barington/Hilco is not alone in picking up the pace to ãnd a merger that works. According to PrivateRaise, 26 SPACs have gone public but have not yet closed on a transaction.

And that doesn't count GTY Technology, Avista Healthcare or another half a dozen SPACs that have registered but not yet priced their IPO. For that group of eight, the clock doesn't begin to run on a possible deal until they go public.

Miller, who has a substantial SPAC practice, said an emerging trend is that if a SPAC's time is ticking down, the sponsors may choose to hand the vehicle off to somebody else, and have them get the time extended to hunt for a target for a business combination. "It allows the sponsor to salvage a portion of their risk capital. We just did that with CB Pharma," he said.

In June the sponsors of CB Pharma Acquisition Corp. brought in new management and changed the name of the SPAC to Origo Acquisition Corp. (OACQ). The new management got an extension to get a deal done by Dec. 12.

Another example is AR Capital Acquisition (AUMA), which raised $240 million in an October 2014 IPO. The SPAC has a deal on the table to transfer ownership to Axer Master Fund Ltd., which would give Axer until December 2017 to close a merger.

Axer is led by Andrew Axelrod, founding partner of Axer. Previously he was with private equity firm **KKR & Co. LP** and Goldman Sachs Group Inc. Axelrod will get help from Lionel Benichou, the controller for Axer. Benichou was previously with **Credit Suisse AG** spin-off Altemis Capital Management LLC.

AR Capital was brought to market by Nicholas Schorsch. Schorsch made his name running AR Global, a REIT holding company.

While there is no shortage of high-proãle players kicking the tires in the SPAC sector, the $60 million IPO on Sept. 19 of M I Acquisitions demonstrates there is a variety of investors who are now considering SPACs as an investment tool. M I's sponsor is Magna Management LLC, along with a pair of vehicles it controls. Magna is a well-known investor in private-investments-in-public-equity deals, making $90 million available to small and microcap issuers since 2012, according to PrivateRaise.

The IPO was underwritten by **Chardan Capital Markets LLC** and **Maxim Group LLC**. The SPAC plans to pursue a company in the technology, media or telecommunications sector.

Magna has made a name for itself as a last-resort financer because of its use of a deal structure that goes by the unsavory moniker "death spiral financing." Those deals include a feature known as floorless convertible debt. In death spiral financing, the investor typically makes loans that are convertible into common shares. But the convertible price has a fixed discount to the quoted price of shares at any time, so the converted shares once sold into the market book an automatic profit.

However, if the shares of the debtor company drop in value, the investor is still entitled to convert shares until it has recovered the amount it's owed, putting the company in position of issuing shares even as the price decreases--and the price typically continues to decrease as the investor sells those shares into the market.

Though Magna, which is led by Joshua Sason, may not enjoy the most sterling of reputations in the small-cap sector, SPACs as an investment vehicle continue to attract high-profile executives and investors as well as players from the private equity space.

The GTY Investors SPAC is led by **William Green**, former CEO and chairman of Acccenture plc (ACN) as well as **Joseph Tucci**, the former CEO at EMC Corp. (EMC). Media titan **Haim Saban**, founder of Fox Family Worldwide and the **News Corp**. (NWSA) leads Saban Capital Acquisition Corp. The SPAC is sponsored by his private equity firm **Saban Capital Group Inc**.

Saban has plenty of company from other private equity players in the SPAC sector. Since August 2015, more than half the IPOs and registrations of SPACs have ties to private equity. Among the private equity firms and players making SPAC moves are Centerview Capital Holdings, **TPG Capital LP, Riverstone Holdings LLC**, Gores Group, Amroc Investments LP, **Colony Capital Inc**., Dundon Capital Partners LLC, **GAMCO Investors Inc**., and **Highland Capital Management LP**.

Miller points to the participation of larger players and banks as a factor in a trend that he thinks may give the SPAC space more stability. "We are seeing 'big boy deals,' where larger and more well-known players come in on the sponsor side and the bigger investment banks do the underwritings," he said. "This will lead to bigger business combinations."

He also points to the players stepping up to make sure that business combinations become more certain by agreeing to fund the back end of deals. This can be done either by buying units after the IPO or by participating in a PIPE transaction at the closing of the deal. "This gives investors more confidence that a good deal will get done." he said.

Miller also thinks the trend of bigger fish in the relatively small SPAC pool could lead to a push. "We need a few deals to perform well after the business combination. If they trade up after closing it should give the SPAC market a jump start."