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SPACTACULAR

THE DAWN OF A NEW ERA FOR SPACS

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SPECIAL THANKS

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As a partner to hundreds of firms worldwide, Dealogic provides integrated content, analytics, and technology that helps clients originate the right opportunities, distribute deals to the right buyers, and ensure seamless and transparent consumption of resources.

We would also like to thank our intern, Tiffany Fung (BBA, Global Business at Hong Kong University of Science and Technology), for her help in the preparation of this report.

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EXECUTIVE SUMMARY

While the number of businesses being launched on a yearly basis continues to rise, numbering almost 214 million in 2020, the number of companies that are choosing to list is failing to keep pace.

While there are numerous benefits for issuers in going public, they have not created a strong enough incentive for companies to list in their respective markets, with a growing number of companies preferring to stay private. The disadvantages of taking a company public via traditional routes, such as an Initial Public Offering (“IPO”) or Direct Placement Offering (“DPO”), have seen an estimated 10,000 companies turn their backs on listing over the past decade. With IPO’s suffering from issues around: (1) time and (2) cost, and DPO’s struggling with: (1) volatility; (2) lack of capital; (3) less promotion; and (4) lack of external support, public financial markets have been in dire need for new avenues to bring investment opportunities to the market.

Against this floundering backdrop, we have witnessed the rejuvenation of a decades-old listing model: the Special Purpose Acquisition Company (“SPAC”) IPO. While technically not a “new” listing vehicle, SPACs have suddenly re-emerged in recent years, bringing a renewed sense of life to the capital raising scene. Offering an alternative way to enjoy the benefits of listing publicly without having to experience the inconveniences posed by both traditional IPOs and DPOs, SPACs deliver salient benefits to issuers, sponsors, and investors alike.

Propelled by a differentiated value proposition, SPACs have been enjoying widespread adoption in Western markets. In 2021, year-to-date (“YTD”) alone, SPACs accounted for 31% of proceeds and 24% of the global IPO deal volumes. With USD 133 billion worth of SPAC IPO proceeds being raised in 2021 at the time of writing (garnering over USD 2.5 billion in underwriting fees YTD), we anticipate a bright future ahead for SPACs. And having set Western markets ablaze with a newfound energy, SPACs are now knocking on the doors of major Asian economies, such as Hong Kong and Singapore. We estimate SPACs to account for USD 35 billion worth of Asia-Pacific (“APAC”) IPO proceeds by 2025 (~31% of total IPO volume), growing at a rapid compound annual growth rate (“CAGR”) of 78% from 2016.

Notwithstanding this positive outlook, there remain notable challenges to the prevalence of SPACs, including: (1) high underwriting fees; (2) target sourcing difficulties; and (3) lacklustre post-de-SPAC-ing returns. Target sourcing difficulties give rise to an intricate set of challenges faced by sponsors, including: (1) time limit; (2) supply-demand mismatch; (3) due diligence shortcomings; and (4) a dearth of expertise. Moreover, the over-reliance of the SPAC model on sponsors has exacerbated the magnitude of these hardships, as evidenced by a number of failed SPAC deals to date.

While there will always be risks involved in taking a company public via the SPAC route, we identify several critical building blocks that can aid sponsors in winning the race against time to successfully de-SPAC, including: (1) being operator-led; (2) network centrality; (3) geographic expansion; (4) versatile expertise; (5) robust governance; and a deep focus on (6) negotiation strategies.

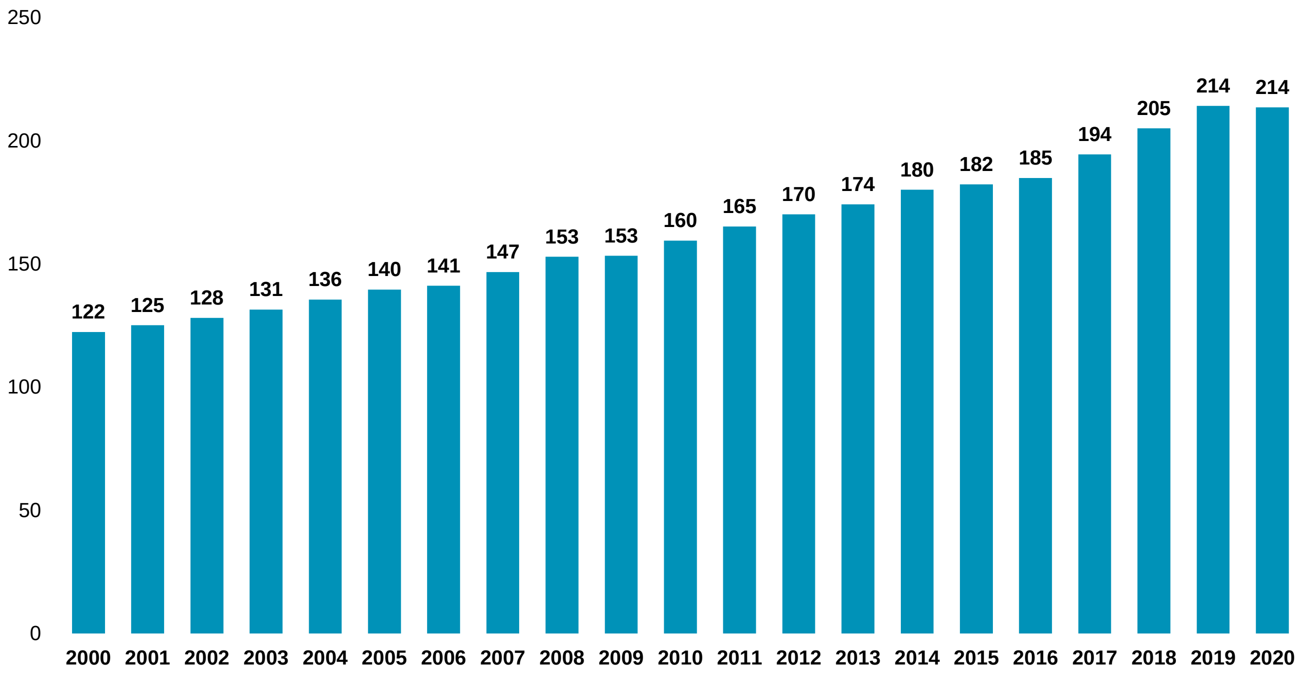
With APAC gradually warming up to SPACs, we anticipate the floodgates of public listings are about to open in a manner that will truly be Spactacular.

SECTION 1
GOING PUBLIC

INTRODUCTION

On the back of two decades of robust economic growth, the number of companies in operation across the world continues to touch new all-time highs, reaching 214 million in 2020. This translates to about one business for every 36 people on the planet (see Figure 1). Naturally, this has also created a broader pool of capital-seekers, including companies looking to go public in order to continue funding their expansion efforts.

FIGURE 1: NUMBER OF COMPANIES WORLDWIDE (MILLIONS, 2000-20)



Source: Statista, Quinlan & Associates analysis

WHY GO PUBLIC?

With more companies launching every year, the need for capital to support business operations has grown in tandem. While there are several sources of funding available to companies, from venture capital for start-ups to bond markets for large corporations, "going public" remains a compelling option for a variety of reasons.

Going public refers to becoming a publicly traded and owned entity. Companies typically take this route for one of two primary reasons, including: (1) raising capital and/or (2) providing an exit route to existing investors. In addition, other benefits to going public include: (3) brand awareness; (4) transparency; and (5) value assessment (see Figure 2).

FIGURE 2: WHY GO PUBLIC?

CAPITAL

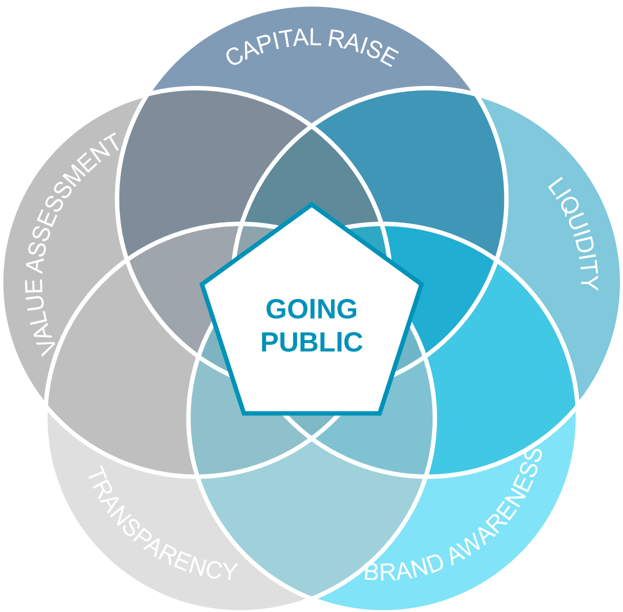
Infuse capital by raising funds in a lumpsum manner from new investors to finance future growth aspirations

VALUE ASSESSMENT

Gain insight into the company's worth, especially for supporting mergers and acquisitions

LIQUIDITY

Provide an exit route to existing shareholders of the company through the liquidity gained



TRANSPARENCY

Enhance organisational credibility from additional oversight / regulatory scrutiny

BRAND AWARENESS

Enhance brand awareness for the company through publicity and prestige

Source: Quinlan & Associates analysis

CAPITAL

Taking a company public can help raise funds that can be used to support a broad range of initiatives, including financing research and development (“R&D”), new product launches, market entry, general restructuring, debt repayment, merger and acquisition (“M&A”) financing, and many other initiatives that can aid the development of the business. In addition, it opens additional avenues for future access to capital for the company.

LIQUIDITY

A public listing provides the company’s existing shareholders, such as its founders, angel investors, employees, and venture capital investors, etc., with an opportunity to cash-in on the value generated from their years of support in making the company successful.

BRAND AWARENESS

Due to the publicity generated by such a sizeable event, the public offering may have wider halo effects for the company, including the potential to boost its market share; by drawing attention to the potential listing, a company can raise customer brand awareness around its product and service offerings.

TRANSPARENCY

The added transparency of being a public company, including scrutiny from analysts and regulators, helps provide organisational credibility. Having to meet the rules and requirements of being publicly listed, such as regularly publishing audited reports, can build a sense of trust amongst investors, while also putting pressure on the company’s management to maintain a high standard of performance without cutting corners.

VALUE ASSESSMENT

Gaining an understanding of how much an investor is willing to pay for participating in the company’s future can help management (and the broader market) derive a clear picture of the company’s worth. This can prove instrumental in driving inorganic growth, especially through M&As via share swap transactions.

WHILE THERE ARE SEVERAL SOURCES OF FUNDING AVAILABLE TO COMPANIES, FROM VENTURE CAPITAL FOR START-UPS TO BOND MARKETS FOR LARGE CORPORATIONS, “GOING PUBLIC” REMAINS A COMPELLING OPTION FOR A VARIETY OF REASONS

TRADITIONAL ROUTES

There are two traditional routes for companies to go public by listing on financial markets, including an: (1) IPO; and (2) DPO.

IPO

An IPO involves the creation of new shares of the company, which are underwritten by an intermediary, such as an investment bank. There are five major types of underwriting agreements that are commonly found in practice: (1) firm commitment; (2) best efforts; (3) all or none; (4) mini-maxi; and (5) standby agreement.

Once an underwriter is selected, they are responsible for facilitating the IPO process, including supporting due diligence, material preparation, regulatory filing, roadshow management, price setting, share issuance, quiet period stabilisation, and post-issuance transition (see Figure 3).

FIGURE 3: IPO PROCESS

N/A	Underwriter Selection	An intermediary, typically an investment bank, is chosen by the issuer
STRUCTURING	Due Diligence	Due diligence is conducted to examine regulatory compliance and any risks
STRUCTURING	Material Preparation	Material for regulatory filing and marketing to investors is prepared
STRUCTURING	Regulatory Filing	Relevant documentation is submitted to the regulator(s) for approval
STRUCTURING	Roadshow Management	The issuance is marketed to drum up excitement and gauge interest
STRUCTURING	Price Setting	The shares are priced based on investor demand and company fundamentals
MANAGEMENT	Share Issuance	The shares are listed and made available for trading on the public market
MANAGEMENT	Quiet Period Stabilisation	Underwriters manage stabilisation of the price for a ‘quite period,’ e.g. 40 days in the US
MANAGEMENT	Post-Issuance Transition	Underwriter transitions to an advisory role, shares are subject to full market conditions

1. **Firm Commitment Agreement**
   The underwriter guarantees to purchase all the shares offered by the issuer regardless of whether they can sell them to investors
2. **Best Efforts Agreement**
   Underwriters do their best to sell all the shares offered, but are not obligated to purchase them for their own account
3. **All or None Agreement**
   Investors’ funds are held in escrow until all of the shares are sold, else the issue is cancelled, and the funds are returned
4. **Mini-Maxi Agreement**
   A type of best-efforts underwriting agreement that does not become effective until a minimum number of shares is sold
5. **Standby Agreement**
   The underwriter agrees to purchase shares that current shareholders do not purchase, which it will then resell to the public

Underwriter Supported

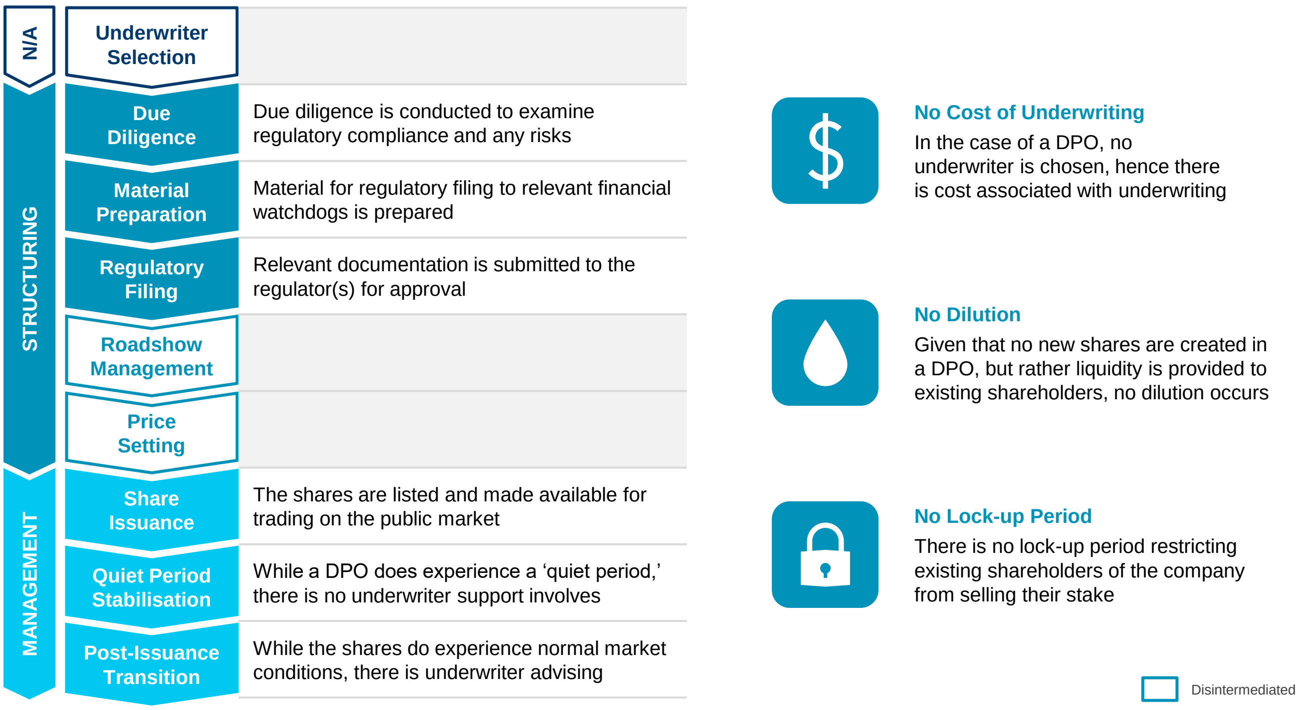
Source: Quinlan & Associates analysis

DPO

A DPO, more commonly known as "direct listing" or "direct placement," is generally preferred over an IPO if the issuer: (1) is unable to afford an underwriter; (2) does not wish to dilute existing shareholders; and/or (3) wants to avoid lock-up agreements.

The most notable difference the DPO is the absence of an underwriter. As no new shares are being created, it simply allows existing shareholders to exit without having to raise new capital (see Figure 4).

FIGURE 4: DPO PROCESS



Source: Quinlan & Associates analysis

PRESENT SHORTCOMINGS

While an IPO and DPO both offer relevant paths to take a company public, they are each rife with their own sets of shortcomings, centred around: (1) time; (2) cost; (3) volatility; (4) capital raise; (5) promotion; and (6) external support (see Figure 5).

FIGURE 5: SHORTCOMINGS OF TRADITIONAL LISTING ROUTES

TIME

An IPO can take as long as 10-12 months, given the complexity of the entire process at hand

LACK EXTERNAL SUPPORT

Given the lack of an underwriter and other third-party service providers, there is very little support

LESS PROMOTION

There is no roadshow involved, which could potentially dampen awareness

COST

With a large number of third-party engagements involved, direct and indirect costs can skyrocket

VOLATILITY

The issuer is unable to influence price setting, which is subject to demand and potential swings

NO CAPITAL RAISE

DPOs involve the sale of stock held by existing shareholders, with no new stock being created

IPO DPO

Source: Quinlan & Associates analysis

IPO

IPOs are plagued primarily by two overarching disadvantages, namely: (1) time; and (2) costs. These two factors alone can make them unattractive to potential issuers.

As highlighted in Figure 3, a traditional IPO involves comprehensive preparation as well as market engagement to sell the concept of the company going public to investors. During this process, the issuer needs to work with a host of third-party service providers, including a: (1) capital markets advisor; (2) investment bank; (3) independent auditor; (4) advisory accountant; (5) financial printer; (6) public relations ("PR") firm; (7) transfer agent; and (8) legal counsel (see Figure 6).

This leads to a very time-consuming engagement that can take 10-12 months and a range of direct and indirect expenses. For instance, a typical underwriting fee stands at 3.5-7.0% of the IPO proceeds raised.[1]

FIGURE 6: THIRD-PARTY ENGAGEMENTS REQUIRED

CAPITAL MARKETS ADVISOR

The capital markets advisor assists in selecting an underwriter, crafting a narrative, and estimating valuation

LEGAL COUNSEL

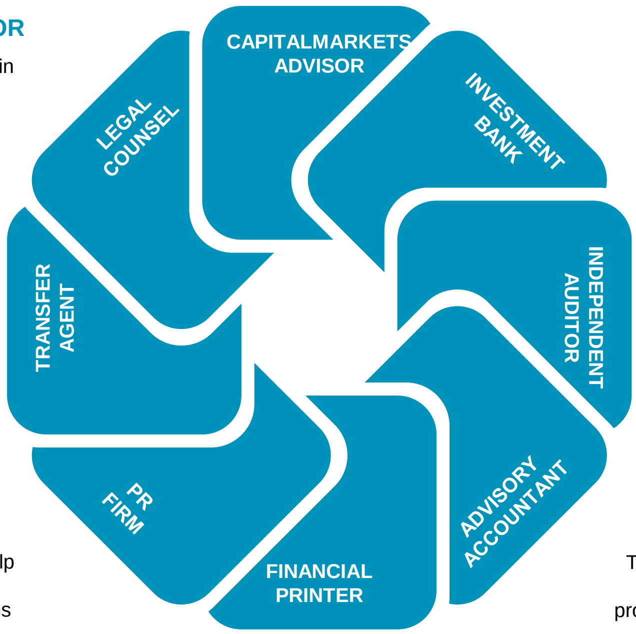
Legal counsel, which may belong to the issuer, underwriter, or a third-party is also required

TRANSFER AGENT

A stock transfer agent provides administrative and operational services associated with trading

PR FIRM

A public relations ("PR") firm can help prepare marketing materials and coach management for presentations



INVESTMENT BANK

The investment bank functions as an underwriter, performing various functions throughout the process

INDEPENDENT AUDITOR

The auditor helps guide the issuer from an accounting perspective, reviewing key documentation

ADVISORY ACCOUNTANT

Apart from the independent auditor, a second auditor is often involved for transaction support

FINANCIAL PRINTER

The financial printer is responsible for printing documentation, such as the prospectus, registration statement, etc.

Source: Quinlan & Associates analysis

[1] PwC, 'Considering an IPO? First, understand the costs', accessed on 26th November 2021, available at: https://www.pwc.com/us/en/services/deals/library/cost-of-an-ipo.html

DPO

While the DPO process was designed as an alternative to IPOs, it has numerous shortcomings of its own, such as: (1) volatility; (2) no capital raise; (3) less promotion; and (4) lack of external support.

In the case of a DPO, the opening stock price of the issuance is completely subject to investor demand and any potential swings in the market, thereby hurting the ability of the issuer to influence the price setting process. Moreover, since there is no underwriter involved, stabilisation practices such as "greenshoe," which involves the sale of additional stock in case of significantly higher demand than expected, cannot be properly managed.

Furthermore, the issuer does not gain any new funds from the issuance process, as there are no new shares being created. Instead, the issuance is primarily of use to existing shareholders looking to cash-in on their investments. With no roadshow and less promotional activities involved, the brand awareness surrounding the issuance also gets dampened.

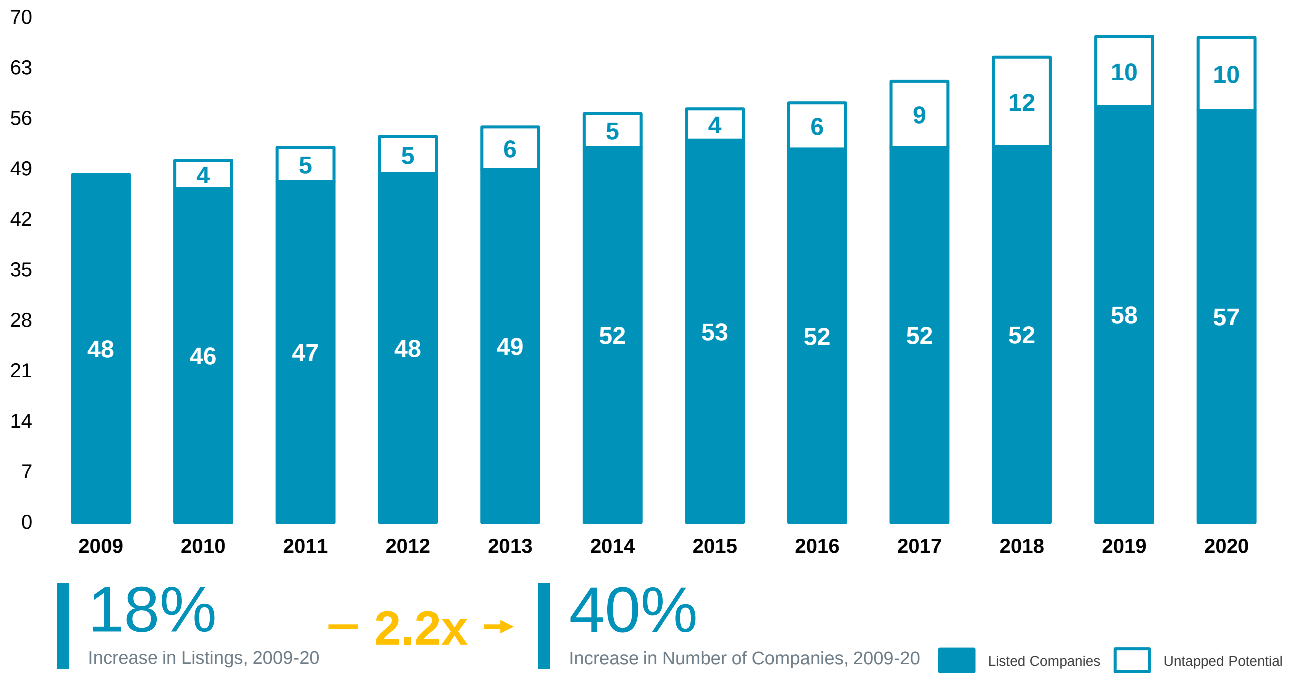
With fewer third-party service providers involved, such as the absence of an investment bank acting as an underwriter, there is a lack of external support in helping the company to navigate the new realities of going public; the abovementioned example of greenshoe being one such testament to the potential struggles of opting for a DPO.

WHILE AN IPO AND DPO BOTH OFFER RELEVANT PATHS TO TAKE A COMPANY PUBLIC, THEY ARE EACH RIFE WITH THEIR OWN SETS OF SHORTCOMINGS, CONCERNING: (1) TIME; (2) COST; (3) VOLATILITY; (4) CAPITAL RAISE; (5) PROMOTION; AND (6) EXTERNAL SUPPORT

LOST OPPORTUNITY

The drawbacks of IPOs and DPOs often dissuade firms from going public. This can be evidenced by the number of companies in existence increasing by 40% over the past decade, while the number of listings has increased at less than half that rate (i.e. 18%) over the same period. This represents a 2.2x differential between the rate of increase in listings and the rate of increase in the number of companies (see Figure 7).

FIGURE 7: LISTED COMPANIES WORLDWIDE (THOUSANDS, 2000-19)



Source: Statista, World Federation of Exchanges, Quinlan & Associates estimates

SECTION 2
ENTER SPACs

WHAT IS A SPAC?

A SPAC is a "blank check" shell corporation that enables companies to go public without experiencing the hindrances posed by the traditional IPO route. In a nutshell, a SPAC is first listed as a shell company, which then goes on to merge with / acquire a "target" company within a specified duration of time. The day after the acquisition is complete, the newly merged entity lists on the stock market.

An interesting point to note is that SPAC IPOs are not a new concept and have been around in their current form since the 1990's. Although SPACs have already been adopted in over 14 countries worldwide, as at the time of writing, it is only in recent times that a sudden surge of interest in SPACs has drawn global attention to this subject.

For instance, in the United States ("US"), more than USD 100 billion worth of proceeds have been raised via SPACs in 2021 alone, far surpassing previous years' figures and indicating that an inflection point is at hand.

This proverbial overnight reversal of fortune, from an afterthought to centre stage, raises the question of whether SPACs can in fact serve as a panacea to alleviate the shortcomings of traditional listing routes, such as IPOs and DPOs.

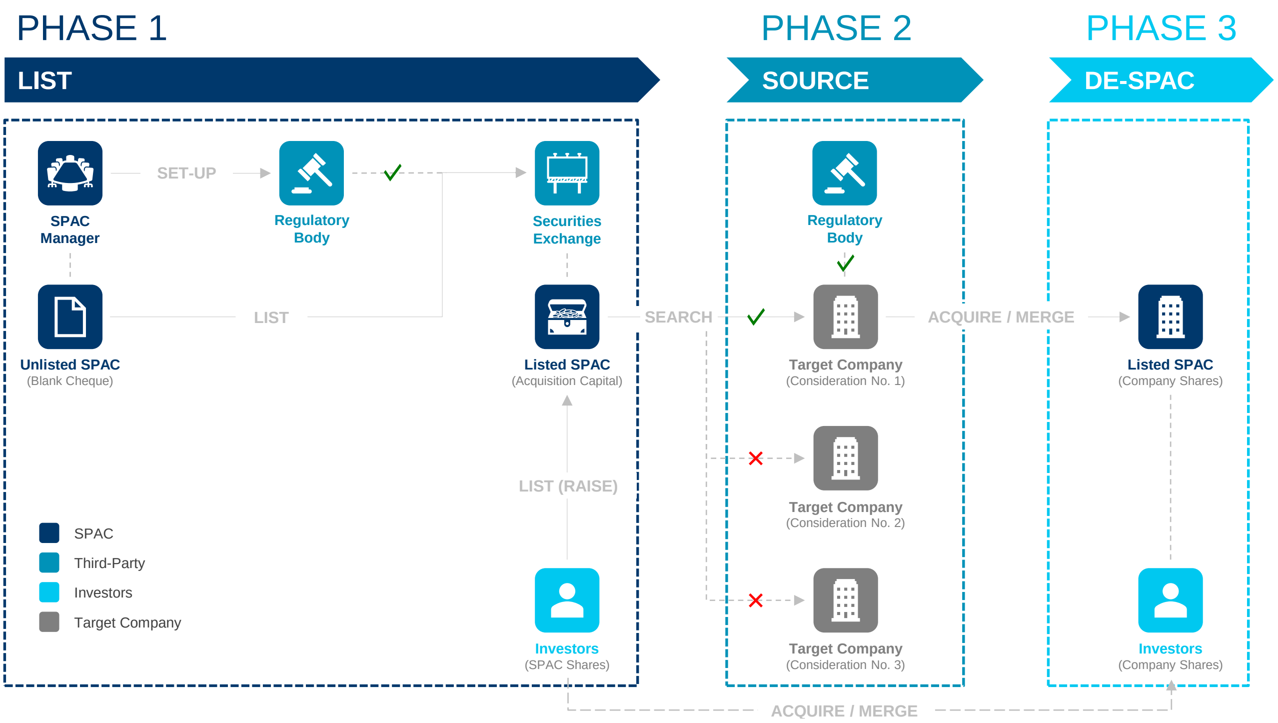
THE DRAWBACKS OF IPOS AND DPOS OFTEN DISSUADE FIRMS FROM GOING PUBLIC. THIS CAN BE EVIDENCED BY THE NUMBER OF COMPANIES IN EXISTENCE INCREASING BY 40% OVER THE PAST DECADE, WHILE THE NUMBER OF LISTINGS HAS INCREASED AT LESS THAN HALF THAT RATE, JUST 18%, OVER THE SAME PERIOD

HOW DOES IT WORK?

The entire SPAC IPO process can be broken down into three simple "phases": (1) list; (2) source; and (3) de-SPAC (see Figure 8).

First, a "sponsor" or "SPAC manager" forms a shell company and lists it publicly. Following this, the sponsor identifies and negotiates with a target company. This leads to the culmination of the process, termed "de-SPAC-ing", i.e., when the shell company that was originally listed merges with / acquires the target company, taking the latter public. In this last step, as a mark of completion, the ticker of the original blank check company is converted to a new ticker the day after the merger / acquisition occurs.

FIGURE 8: THE SPAC PROCESS



Source: Quinlan & Associates analysis

PHASE 1: LIST

The first and most crucial element within the SPAC process is the sponsor, who acts as the face of the investment and has the most direct and meaningful impact on the development of the SPAC. While this person and/or team may vary by experience and industry, there is already evidence[2] emerging that the most profitable sponsors are generally ones with extensive business knowledge and a notable reputation within a particular sector or industry.

Once a sponsor has decided to create a SPAC, they establish a holding company and follow all of the traditional processes involved in launching an IPO. However, since the sponsor is simply taking a shell company with no actual business operations public, the documentation requirements are far more relaxed when compared with a typical non-SPAC IPO.

Post preparing relevant material for regulatory filing and marketing, the sponsor hits the road, akin to an IPO roadshow, but with the exception of selling their capability of successfully de-SPAC-ing by sourcing an attractive target company (rather than pitching the investment case of a specific privately held business that is looking to go public). This is the greatest distinction between the traditional IPO model and the SPAC model, given that the sponsor is marketing their reputation, experience of discovering target opportunities, and financial and negotiation skills for securing a successful merger / acquisition.

After having drummed up considerable interest, the sponsor then sells units in the SPAC, typically at a price of USD 10 per unit, generally representing one share of the company, in addition to which a warrant is issued to permit the investors to purchase additional shares in future. Once the capital raise is complete, the funds raised are parked in a blind trust that cannot be accessed until the shareholders approve the target company identified for merger / acquisition.

At this stage, the SPAC gets listed and begins trading on a public exchange, just like any other publicly listed company. This opens the avenue for retail investors to purchase a stake in the SPAC as well, before even getting to know which company the SPAC is going to merge with / acquire.

At the conclusion of this phase, before even having sourced a target company, the sponsor already receives payment, termed "promoter / founder's share" in the form of 20% of the total shares of the SPAC.

PHASE 2: SOURCE

In this phase the sponsor must hunt for, negotiate with, and merge with / acquire a target company. It is worth noting that the sponsor must typically achieve this within a two-year timeframe, with some sponsors pushing for an even shorter timeframe.

There are no restrictions in terms of the selection of a target company, and a sponsor can freely choose a target company that sits within any industry. Once the target company has been sourced, the final part of this phase is to negotiate a valuation and purchase price.

On the flip side, in case the sponsor is unable to merge with / acquire a target company within the stipulated timeframe, the SPAC will be dissolved, with all the capital raised for the project returned to the shareholder base.

[2] see section 5 – Winning The Race Against Time

PHASE 3: DE-SPAC

Once terms are agreed with the target company, the sponsor presents the target and its merger / acquisition model to the SPAC's shareholders for a vote. If the target is approved, then a review is conducted by individual shareholders to determine if they wish to proceed with the investment or redeem their shareholdings and exit the SPAC.

One key stumbling block in this phase is that the sponsor requires additional capital to complete the acquisition, as the initial capital raise generally covers only 25-35% of the purchase price. As such, the sponsor engages with both existing as well as new money investors in the form of a PIPE ("Private Investment in Public Equity") transaction to raise the remaining capital needed to close the deal.

With all the monies secured, the sponsor now launches the SPAC IPO, taking the newly formed entity public. It is notable, however, that although the SPAC may have already received approval from regulators and been listed, an additional round of approval from regulators is required to sanction the transition, after which the stock ticker changes to reflect the name of the target company and commence trading in the open market.

THE ENTIRE SPAC IPO PROCESS CAN BE BROKEN DOWN INTO THREE SIMPLE "PHASES": (1) LIST; (2) SOURCE; AND (3) DE-SPAC

WHY IS IT DIFFERENT?

As highlighted earlier in this report, the IPO process is plagued by high costs and a lengthy time to market. While the DPO process helps resolve these shortcomings, it is similarly plagued by several drawbacks of its own.

The SPAC process offers an alternative route to going public that not only alleviates the shortfalls of the traditional IPO process but does so without incurring the disadvantages associated with the DPO process, thereby combining the best of both worlds (see Figure 9).

FIGURE 9: SPAC VS. IPO VS. DPO

	1 SPAC Alternative Route	2 IPO Traditional Route	3 DPO Traditional Route
DESCRIPTION	A listed shell company, which merges with / acquires a "target" company within a specified duration of time	Creation of new shares of a company, which are underwritten by an intermediary and listed publicly	Direct listing on a public exchange without new shares being created or capital being raised
CRITERIA			
CAPITAL RAISE	✓	✓	×
COST	-	×	✓
TIME TO MARKET	-	×	✓
PROMOTION	✓	✓	×
VOLATILITY	✓	-	×
EXTERNAL SUPPORT	✓	✓	×
	The SPAC route solves the shortcomings of IPOs without incurring the disadvantages of A DPO, combining the best of both worlds	Although a viable source of capital raise and promotion, IPOs are plagued by high costs and a lengthy time to market	While the DPO process solves the cost and time issues of an IPO, it suffers from several of its own drawbacks as a result

There is a growing shift in favour of SPACs ✓ Favourable - Dependent / Neutral × Unfavourable

Source: Quinlan & Associates analysis

SPAC VS. IPO

Relative to an IPO, which can typically take as long as 10-12 months to complete, the SPAC process lasts only 3-6 months. In addition, while an IPO pricing model is dependent on market conditions at the time of listing, the SPAC pricing model is determined before the merger / acquisition is closed, making it a superior option in the face of volatile market conditions.

It may also be argued that the SPAC process is more suitable for growth-oriented companies, given that IPOs are generally based on historical financial performance, while SPACs are more open to the use of forward-looking projections.

The high-cost barrier posed by traditional IPOs is also solved for by SPACs, without having to sacrifice other aspects of the process, such as brand promotion. Furthermore, depending on the nature of the sponsor, a SPAC may benefit from having more professional and experienced operators to provide guidance and advice.

SPAC VS. DPO

Although the DPO process, akin to the SPAC process, also alleviates the cost and time to market issues associated with traditional IPOs, it is bereft with a lack of capital raise, promotion, external support, and protection against volatility. Opting for the SPAC route can also help achieve the same intended results of a DPO, but without all the associated disadvantages.

Overall, what makes the SPAC model truly shine is that it provides a golden opportunity for small and medium-sized and emerging companies to list publicly without experiencing the barriers posed by traditional listing routes.

THE SPAC PROCESS OFFERS AN ALTERNATIVE ROUTE TO GOING PUBLIC THAT NOT ONLY ALLEVIATES THE SHORTFALLS OF THE TRADITIONAL IPO PROCESS BUT DOES SO WITHOUT INCURRING THE DISADVANTAGES ASSOCIATED WITH A DPO PROCESS, THEREBY COMBINING THE BEST OF BOTH WORLDS

WHY IS IT NEEDED?

With the number of traditional IPOs taking place declining in recent years and a growing number of private companies delaying their public listings, SPACs provide an opportunity for the marketplace to revive the activity that investors have missed over the last decade, as highlighted earlier in this report.

Looking beyond just (1) issuers, we also see significant benefits to other stakeholders as well, including (2) investors and (3) sponsors (see Figure 10).

FIGURE 10: STAKEHOLDER BENEFITS

Higher Assurance

Since target companies are able to negotiate the terms of the offering with the sponsor, employees and shareholders alike gain more assurance

Sponsor Support

Gaining a strategic sponsor can help provide additional guidance to the issuer, post the merger / acquisition as well

Upside Potential

If able to source a target company that performs well upon listing, then the value of the 20% stake can skyrocket

Institutional Investors

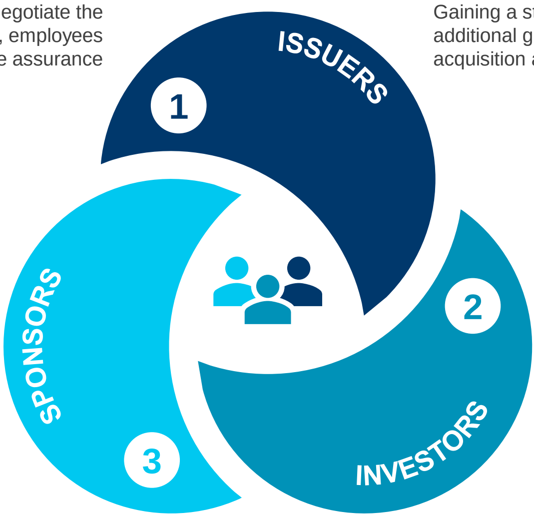
Institutional investors effectively enjoy a moneyback guarantee with warrants to boost their gains in case of success

Downside Protection

Even if the target company disappoints upon listing, the sponsor should still be poised to make a handsome profit

Retail Investors

Retail investors benefit from the advent of more investment opportunities in the market



Source: Quinlan & Associates analysis

ISSUER BENEFITS

Outside of the advantages of opting for the SPAC route over the traditional routes of IPO and DPO, there are two other additional benefits of going public via SPAC: (1) higher assurance; and (2) sponsor support.

As a result of the target companies being able to negotiate the terms of their public offering with the sponsor, employees and shareholders alike gain more assurance. Furthermore, gaining a strategic sponsor can help provide additional guidance to the issuer post the merger / acquisition.

INVESTOR BENEFITS

Investing in a SPAC can be a lucrative proposition for both institutional as well as retail investors, given the added benefits of being able to exercise: (1) redemption; and (2) warrants (in the case of an institutional investor); and (3) the added accessibility for retail investors.

Given that an institutional investor has the option to redeem shares at cost-plus-interest, they effectively get to enjoy a "moneyback guarantee". Moreover, since there is a warrant attached to their investment, they can potentially boost their returns if the De-SPAC-ing proves highly successful. In essence, investing in a SPAC puts an institutional investor in a "win-win and then some more" position.

On the other hand, retail investors benefit from the advent of more investment opportunities in the market, given that SPACs can potentially help grow the pool of publicly listed companies that are available for retail investment.

SPONSOR BENEFITS

In the case of sponsors, SPACs offer a golden opportunity to generate robust profits in a very favourable risk-reward dynamic. On the upside, if the sponsor can source a target company that performs well upon listing, then the value of the 20% stake they hold can surge. Even if the performance of the target company upon its listing is lacklustre, the sponsor should still be poised to make a handsome profit.

MARKET ADOPTION

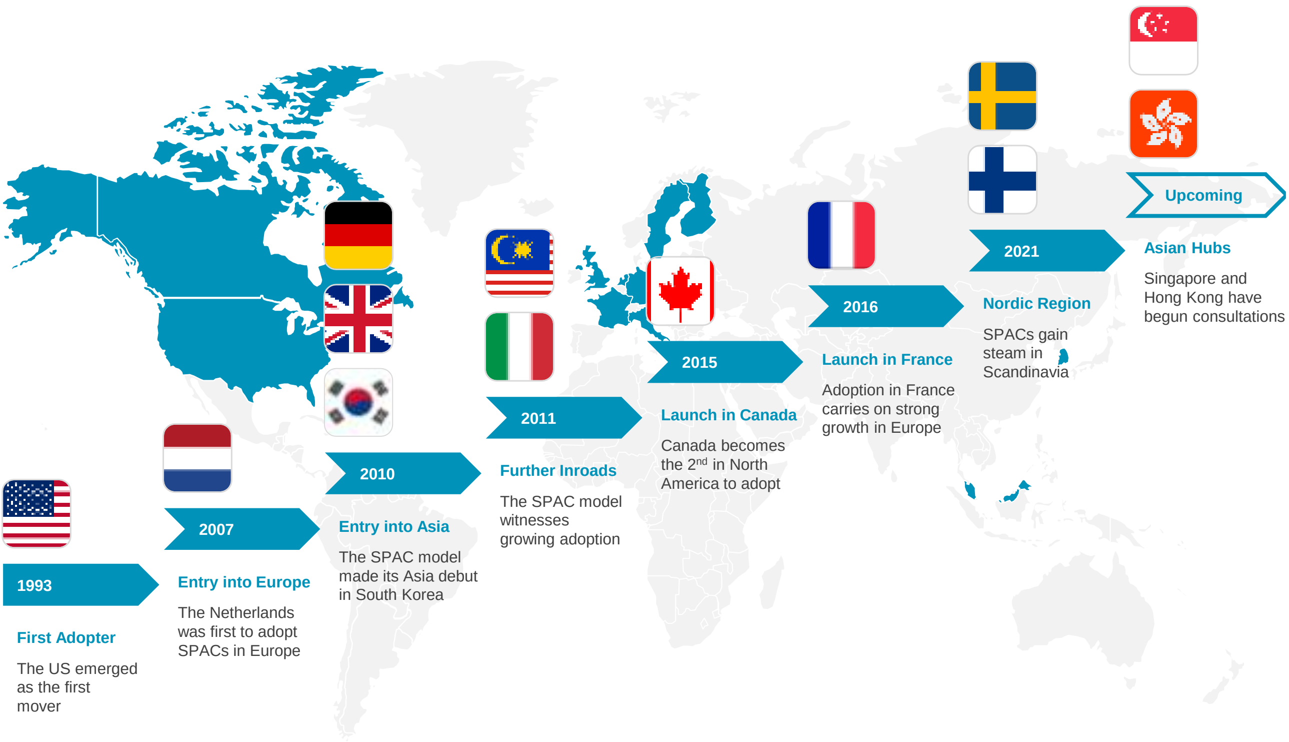
EARLY ADOPTERS

Western financial markets have emerged as a "lighthouse" for the SPAC movement, led most notably by the US.

The SPAC model made its entry into Europe through the Netherlands in 2007, quickly making inroads into Germany, the United Kingdom ("U.K."), Italy, and France, before gaining traction in Nordic countries such as Sweden and Finland.

In stark contrast, Asia has been slow to adopt the SPAC model, with South Korea and Malaysia being the only notable exceptions, and the likes of Singapore and Hong Kong playing catch-up by only recently initiating consultations on the subject (see Figure 11).

FIGURE 11: MARKET ADOPTION OF SPACS

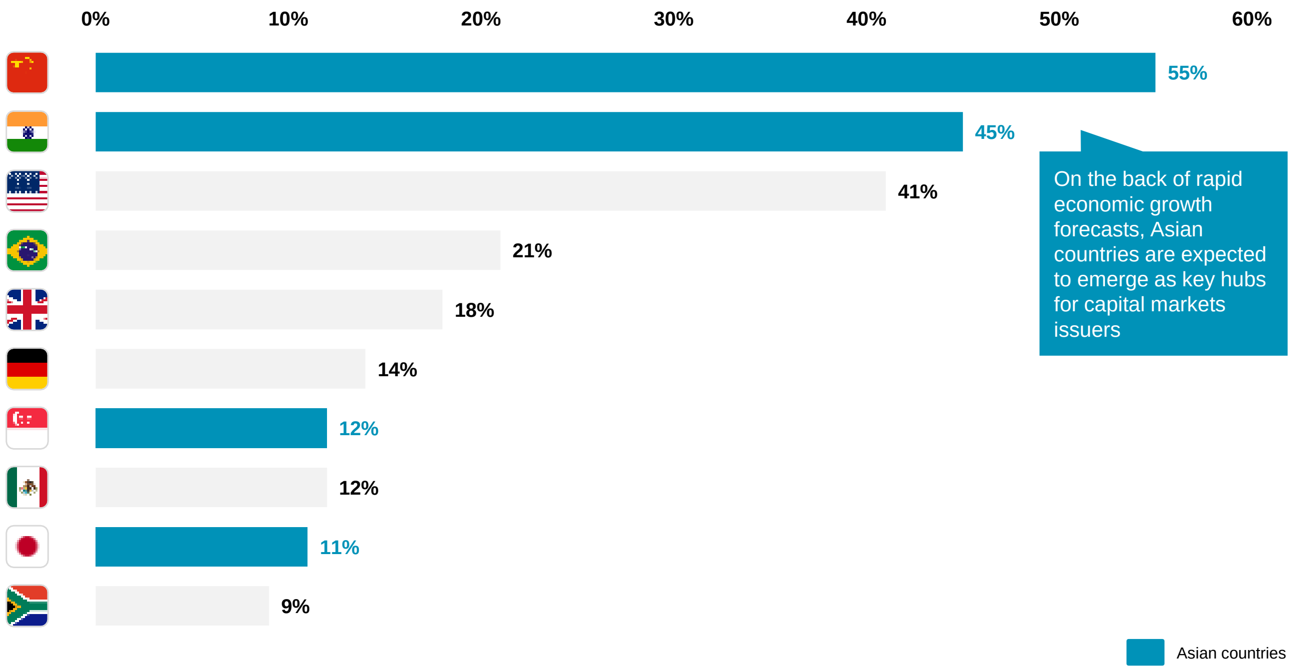


Source: Quinlan & Associates analysis

THE CASE FOR ASIA

Having witnessed robust adoption in North America and Europe, Asia is the natural next step for the SPAC community to focus on, especially given the rapid economic growth that the region is forecast to experience. This enthusiasm is also reflected in a survey conducted to gauge which markets experts feel will contribute the greatest number of capital markets issuers in 2030, with Asian economies like China, India, and Singapore demonstrating robust expectations (see Figure 12).[3] Consequently, we believe Asia represents a sizeable opportunity for SPACs.

FIGURE 12: SURVEY ON MOST POPULAR ISSUER COUNTRY OF ORIGIN (%, 2030E)



Source: The Economist Intelligence Unit, Quinlan & Associates analysis

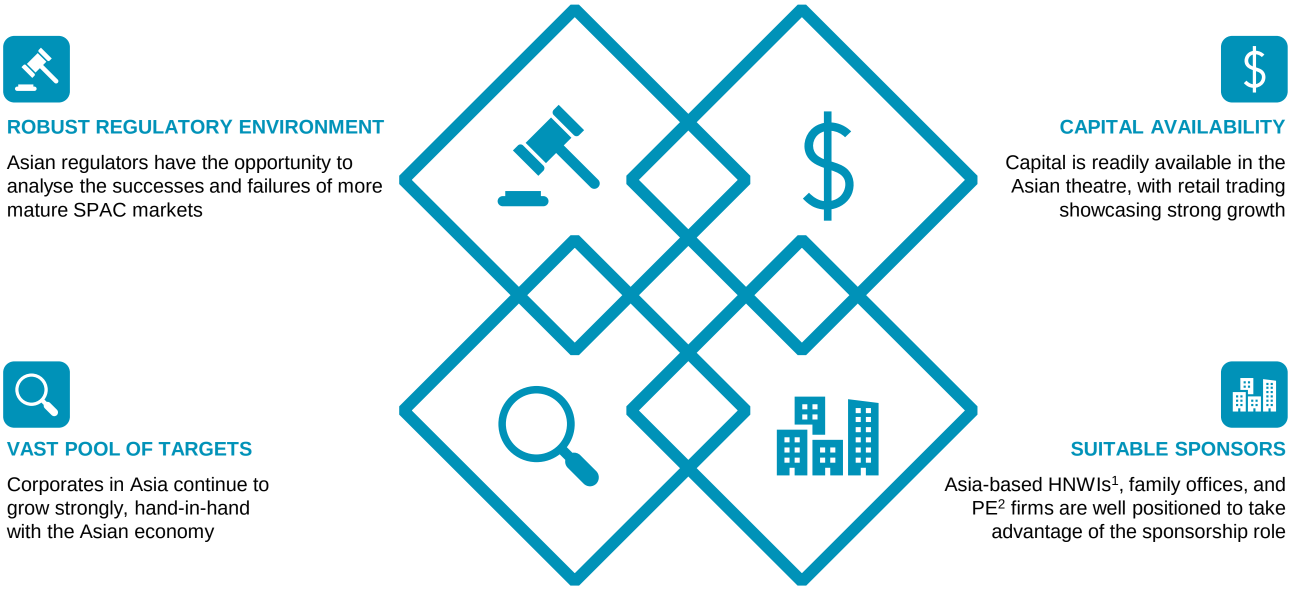
[3] PwC, The Economist Intelligence Unit, 'Capital Markets in 2030', March 2019, available at: https://www.pwc.com/gx/en/audit-services/capital-market/publications/capital-markets-2030.pdf

While progress in the region may have been slow thus far, with Hong Kong and Singapore, both key financial hubs, only now beginning to take initiatives to roll out SPACs, the market for SPACs in Asia may soon be at an inflection point.

Hong Kong, in particular, is already beginning to witness a number of heavyweights lining up to take advantage of the impending opening of the SPAC floodgates in the region, with magnates like Adrian Cheng of New World Development and Anthony Leung, the former Financial Secretary of Hong Kong, already launching their own SPAC. Amongst other stakeholders of the equation, banks like CITIC are also stepping up to the plate to service the potential flurry of SPACs that we may soon witness in Hong Kong.

With Hong Kong and Singapore gearing up to lead the way for Asia in the SPAC ecosystem, we expect there to be a ripple effect across the region, leading to a growing number of countries embracing the SPAC model. Crucially, we believe that Asia already has the four key ingredients required to successfully leverage the SPAC model, including: (1) a robust regulatory environment; (2) capital availability; (3) suitable sponsors; and (4) a vast pool of targets (see Figure 13).

FIGURE 13: KEY INGREDIENTS FOR A SPAC MARKETPLACE



[1] High-Net-Worth Individuals, [2]Private Equity
Source: Quinlan & Associates analysis

As Asia continues to champion and advance its regulatory environment, investors continue to gain a greater sense of trust in regional financial markets. In addition, regulators in Asia have the added benefit of being able to scrutinise the successes and failures of more mature SPAC markets to create an even better SPAC model.

With China, Japan, and India being amongst the top five richest countries in the world, capital and cash should be readily available in the Asian theatre. Outside of these three markets, capital is also easily accessible in other mature Asian economies like Hong Kong and Singapore. Moreover, with the retail trading environment in Asia going from strength to strength, the region is expected to attract even more capital in years to come.

The region is also fast becoming home to a burgeoning number of high-net-worth individuals (“HNWIs”), family offices, and private equity (“PE”) firms that are well positioned to take advantage of the sponsorship role offered by the SPAC model. With many of these players possessing experience in both Asian as well as foreign markets, they may prove highly effective in identifying and capturing lucrative SPAC opportunities in the region.

Accompanied by the fast growth of Asian economies has been the equally, if not more, impressive growth of their corporate enterprises, which continue to make inroads into the global marketplace, offering up a plethora of target opportunities in the region. All-in-all, we firmly believe that the mechanics to achieve strong growth of the SPAC marketplace in Asia are all firmly in place.

WITH HONG KONG AND SINGAPORE GEARING UP TO LEAD THE WAY FOR ASIA IN THE SPAC ECOSYSTEM, WE EXPECT THERE TO BE A RIPPLE EFFECT ACROSS THE REGION, LEADING TO A GROWING NUMBER OF COUNTRIES EMBRACING THE SPAC MODEL

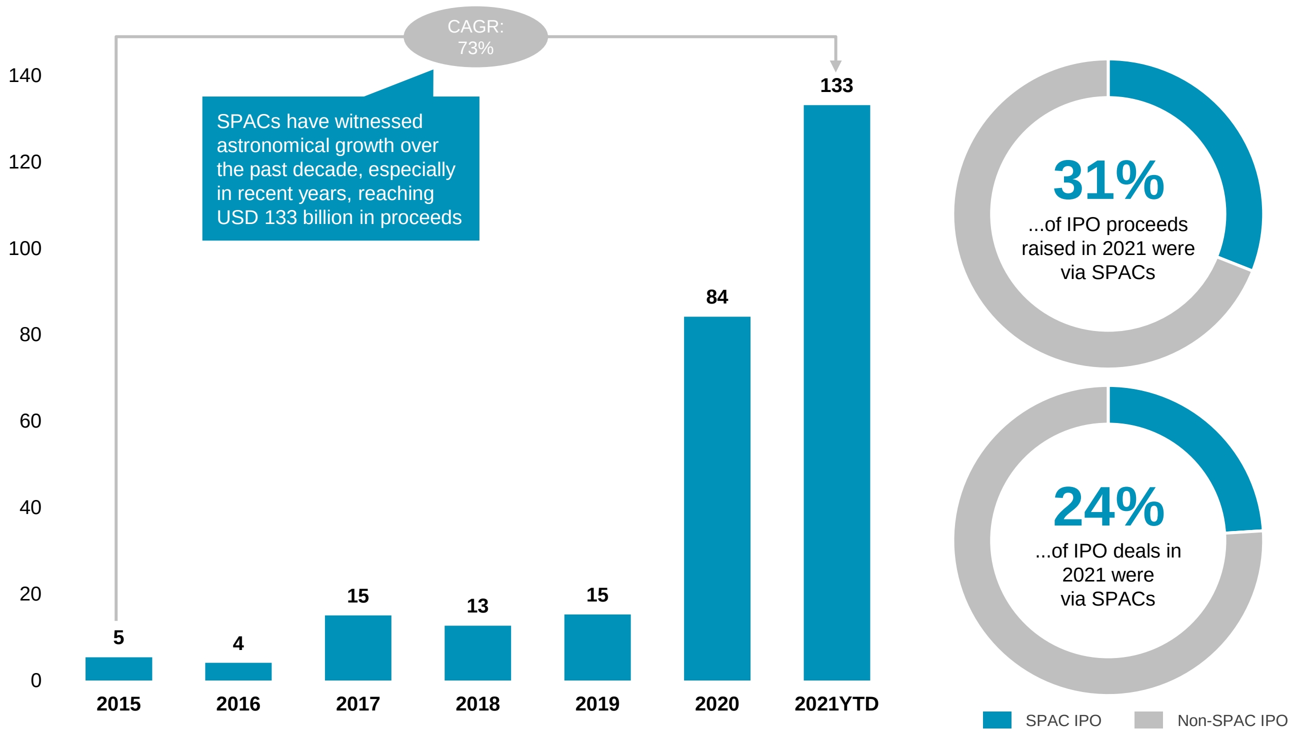
MARKET SIZE

CAPITAL RAISE

Having examined the qualitative arguments in favour of adopting the SPAC model, it is also important to understand the quantitative impact that SPACs have thus far had on financial markets.

As of 26 September 2021, SPACs raised USD 133 billion worth of proceeds worldwide, growing at a CAGR of 73% since 2015. This tremendous rise is further underscored by the fact that 24% of all IPO deals and 31% of all IPO proceeds in 2021 are estimated to be based on the SPAC model (see Figure 14).

FIGURE 14: PROCEEDS RAISED VIA SPACS GLOBALLY (USD BILLION, 2015-21YTD)

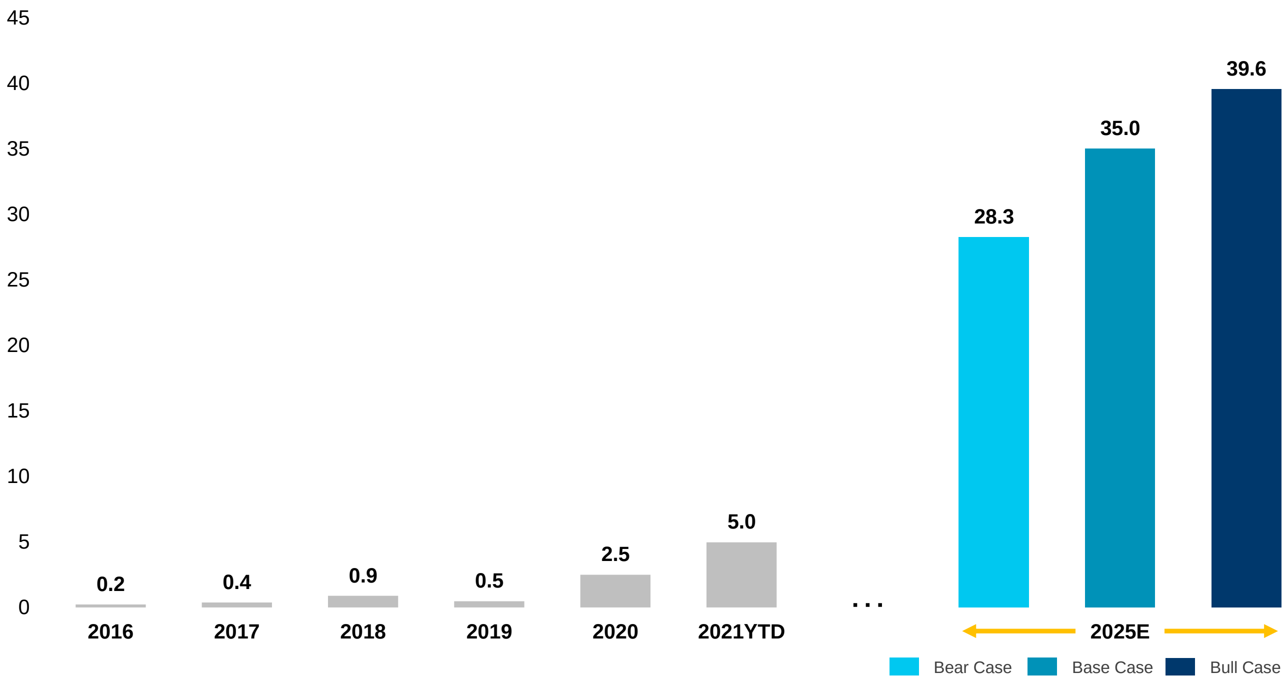


Note: data is accurate as of 26 September 2021
Source: Dealogic, Quinlan & Associates analysis

Although this burgeoning trend has caught the eye of Asia-Pacific capital markets participants, the USD 2.5 billion in SPAC proceeds raised in APAC in 2020 was a paltry fraction of the overall USD 113 billion worth of IPO proceeds raised that year. With such an immense scope for growth, 2021 has already seen USD 5 billion worth of SPAC IPOs, YTD, double that of last year.

Against the backdrop of key financial hubs such as Hong Kong warming up to SPACs, if the model is able to capture 31% of all IPO proceeds being raised in APAC by 2025, in-line with the global percentage highlighted in Figure 14, then that could translate to USD 35.0 billion worth of proceeds being raised via SPAC IPOs in APAC, as part of our base case estimation (see Figure 15).

FIGURE 15: PROCEEDS RAISED VIA SPACS IN APAC (USD BILLION, 2016-2025E)



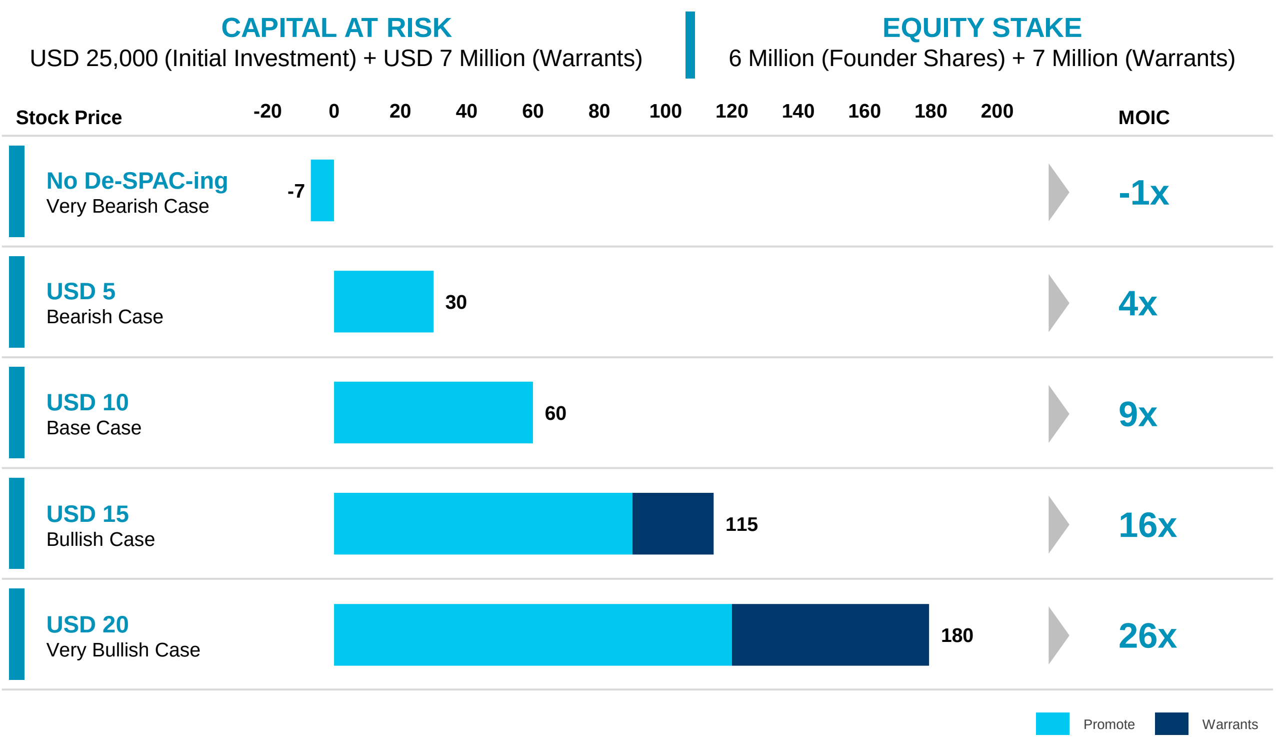
Note: bear, base, and bull case have been calculated in-line with USD 113 billion worth of IPO proceeds expected to be raised in APAC in 2025, based on amount raised in 2020
Source: Dealogic, Statista, PwC, Quinlan & Associates estimates

WALLET OPPORTUNITY

Sponsors typically invest a nominal sum, such as USD 25,000 upfront, to secure a 20% equity stake in the form of "Founder Shares," in addition to purchasing warrants at a unit price of USD 1, which generally carry a strike price of USD 11.5, given typical listing price of USD 10 per share. Such favourable terms can result in massive upside with minimal downside (barring litigation risk).

Consequently, the robust deal flow via SPACs has resulted in a wallet opportunity worth as much as 26x multiple of invested capital ("MOIC"), highlighting the strong potential of SPACs to become a rainmaker for sponsors, as well other stakeholders such as PIPE investors, underwriters, law firms, and retail investors (see Figure 16).

FIGURE 16: ILLUSTRATIVE WALLET OPPORTUNITY FOR SPONSORS (USD MILLION)



Note: SPAC IPO size is assumed to be USD 271.2 million (industry average), at typical price of USD 10 per share, USD 1 per warrant
Source: SPACInsider, Financial Times, Quinlan & Associates estimates

SECTION 3
SALIENT CHALLENGES

While SPACs offer immense potential to all stakeholders involved, as evidenced by the sheer growth in market size, there remain a number of key challenges that stakeholders must contend with, including: (1) exorbitant underwriting fees; (2) target sourcing difficulties; and (3) lacklustre post-de-SPAC-ing returns (see Figure 17).

FIGURE 17: SPAC CHALLENGES

1 High Underwriting Fees

While SPACs may offer a cheaper alternative to traditional IPOs, they still suffer from very high underwriting fees charged by investment banks

2 Target Sourcing Difficulties

The ability of a sponsor to source noteworthy targets is hindered by a number of different factors that could hamper quality control

3 Lacklustre Post-de-SPAC-ing Returns

While they may be bringing lucrative corporations public, post-de-SPAC returns have been somewhat underwhelming

Time Limit

SPACs are required to merge with / acquire a company within a specified timeframe

- **Approval**: In order to proceed with de-SPAC-ing, shareholder approval is key
- **Liquidation**: If a SPAC is unable to de-SPAC in time, it will have to liquidate

Supply-Demand Mismatch

The tremendous growth in number of SPACs makes it difficult to source high quality targets

- **Competition**: The growth in SPACs is fast outpacing the growth in targets
- **Paucity**: The number of leftover worthy targets are bound to decline with time

Due Diligence Shortcomings

An over-reliance on sponsors can leave SPACs vulnerable to due diligence shortcomings

- **Trust**: Given the over-reliance on sponsors, trust is a crucial factor
- **Competency**: Sponsors need to be able to competently scrutinise targets

Dearth of Expertise

The lack of expertise in foreign markets and innovative sectors can be to the detriment of a SPAC

- **Geographic**: Sponsors may lack a robust offshore network to gauge foreign targets
- **Sectoral**: Subject matter expertise is key to gauge innovative companies

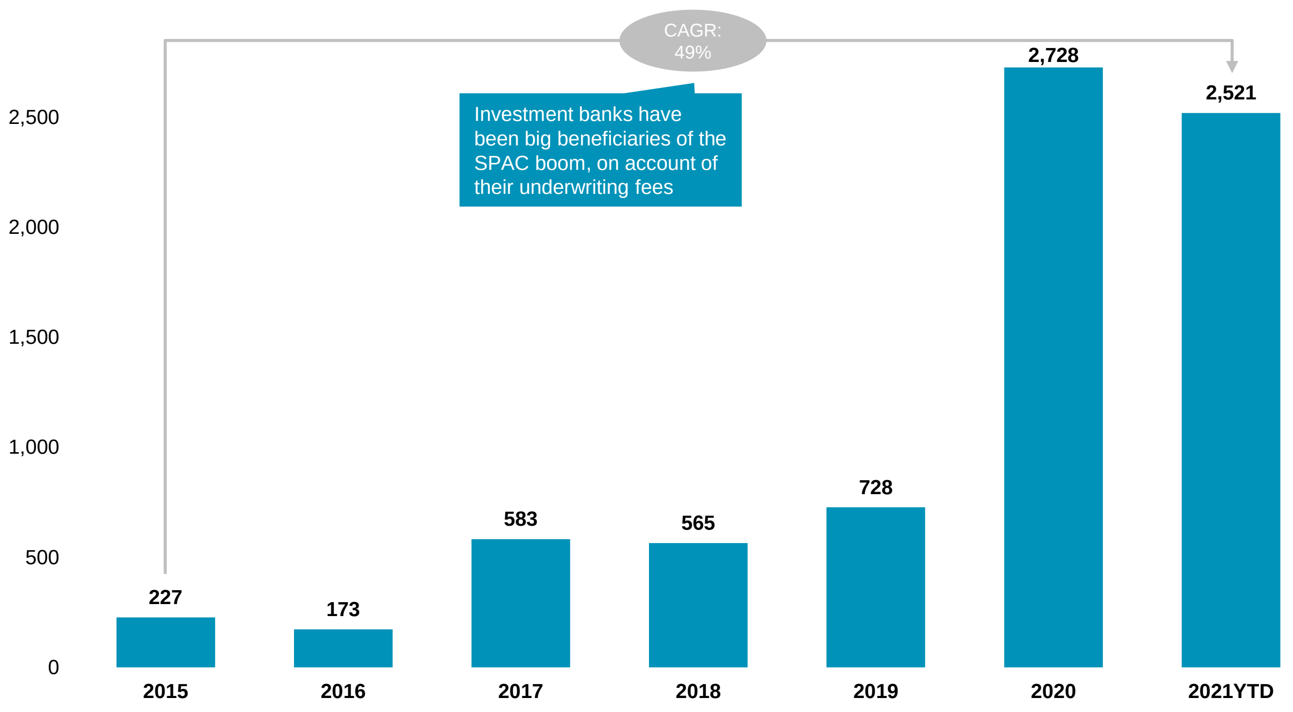
Source: Quinlan & Associates analysis

HIGH UNDERWRITING FEES

While SPACs may herald the promise of being a more economical route to going public than traditional IPOs and DPOs, they too are plagued by heavy underwriting fees being charged by investment banks, typically in the form of a 2.0% initial fee and 3.5% success fee, as a proportion of the proceeds raised.

On the back of the boom in deal volumes witnessed in recent years, investment banks serving as underwriters have garnered USD 2.7 billion in fees in 2020 and are on pace to exceed that figure in 2021, with fees growing at a robust CAGR of 49% since 2015 (see Figure 18).

FIGURE 18: SPAC UNDERWRITING FEES (USD Million, 2015-21YTD)



Note: data is accurate as of 26 September 2021
Source: Dealogic, Quinlan & Associates analysis

Although the 2.0-5.5% fee range for SPAC underwriting may pale in comparison with traditional IPO underwriting fees, which can range from 5.0-7.0%, several investment banks have thrown their hat into the ring and are fiercely competing with each other to wrestle away market share. This intense competition has seen the top 10 SPAC underwriters by fees generated garner a whopping 78.7% of the market share in 2020, with the likes Credit Suisse and Citi far outstripping their rivals, achieving double digit market shares of 16.2% and 12.4% respectively (see Figure 19). Despite this fierce tussle, we do not expect there to be a decline in the fees being charged by underwriters.

FIGURE 19: SPAC UNDERWRITING MARKET SHARE (2020E)

UNDERWRITER	REVENUE (USD)	MARKET SHARE	UNDERWRITER	REVENUE (USD)	MARKET SHARE
Credit Suisse	710 Million	16.2%	UBS	283 Million	6.5%
citi	543 Million	12.4%	Deutsche Bank	250 Million	5.7%
Goldman Sachs	407 Million	9.3%	Morgan Stanley	249 Million	5.7%
Cantor Fitzgerald	335 Million	7.7%	J.P.Morgan	193 Million	4.4%
Jefferies	298 Million	6.8%	Bank of America	181 Million	4.1%

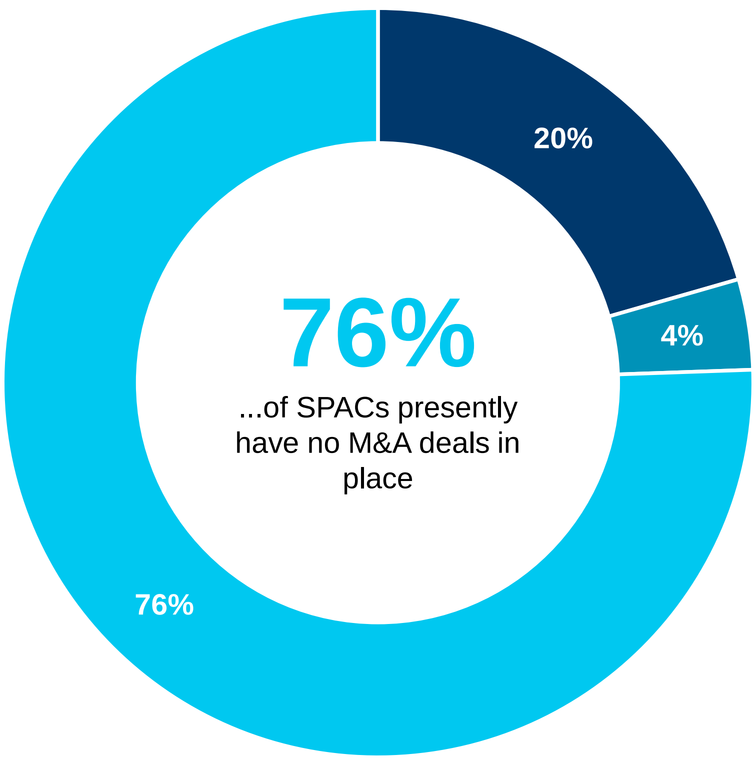
Note: outside of the top 10 SPAC underwriters by fees gained, the rest collectively account for 21.3% of underwriting fees levied
Source: Dealogic, Quinlan & Associates analysis

TARGET SOURCING DIFFICULTIES

Arguably the biggest challenge facing SPAC sponsors is crafting an effective target sourcing strategy.

There are four difficulties that sponsors commonly face when attempting to source a worthy target company to take public, including: (1) time limit; (2) supply-demand mismatch; (3) due diligence shortcomings; and (4) dearth of expertise (see Figure 21). As a result of these difficulties, more than three-fourths of SPACs are still actively hunting for targets as of 15th September 2021 (see Figure 20). With a glut of sponsors searching for companies to take public, target sourcing difficulties are bound to only get worse.

FIGURE 20: ACTIVE SPACS IN THE MARKETPLACE (%, 2021E)



121
SPACs with Pending M&A Deals

23
SPACs with Rumoured M&A Deals

445
SPACs with no M&A Deals in Place

Note: data is accurate as of 15th September 2021
Source: Bloomberg, Quinlan & Associates analysis

TIME LIMIT

As highlighted in Section 2, SPACs are bound by a pre-defined timeframe within which they must either merge with / acquire a target company or suffer liquidation and return all proceeds back to investors. This essentially makes de-SPAC-ing a race against time.

Even if a sponsor is able to find and convince a target company to be merged / acquired, they still require shareholder approval to proceed with de-SPAC-ing. If shareholders are not impressed by the target company that has been sourced by the sponsor, they can effectively block the de-SPAC-ing process and send the sponsor right back to square one, to source another viable target company. Should the sponsor be unable to source a target company that receives the nod from shareholders before the expiry date, which typically lasts two years, then the proceeds raised must be returned to shareholders. This "ticking time bomb"-like nature of the SPAC lifecycle can pose a considerable challenge to sponsors.

SUPPLY-DEMAND MISMATCH

The ongoing boom in the SPAC market has led to growing competition amongst sponsors to source the highest quality targets. This is emphasised even further with more than 400 SPACs actively searching for a target at the time of this writing.[4] In addition, the number of SPACs being incorporated is outpacing the growth of the target pool of companies; as time wears on and an ever-growing number of target companies go public via SPACs, the number and quality of "leftover" target companies will likely be on the decline.

This can potentially leave younger SPACs in the lurch, forcing them to either scavenge over the scraps, i.e., lower quality targets, left behind by their predecessors, or expand their geographic and sectoral horizons to cast a wider net.

DUE DILIGENCE SHORTCOMINGS

A key vulnerability of the SPAC model is its over-reliance on the SPAC sponsor. Investors that are placing their hard-earned wealth in the hands of sponsors need to be able to place their trust in – and believe in the competency of – the sponsor. However, as we will showcase in Section 4, there have been numerous instances of due diligence failures on the part of SPAC sponsors.

DEARTH OF EXPERTISE

SPACs, especially non-operator-led ones, can often lack sufficient technical expertise in their quest to source innovative target companies and conduct thorough due diligence. This is largely down to: (1) geographic; and (2) sectoral expertise constraints.

SPACs do not suffer from any significant technical limitations when it comes to taking a corporation belonging to an offshore market public. However, they may not have sufficient exposure to – and knowledge of – the overseas markets that this foreign corporation operates in. This can result in a stark lack of market knowledge that can hamper the due diligence process when dealing with foreign target companies. Even if the target company belongs to a geographic region that the sponsor has relevant knowledge of (and perhaps even a presence in), there can still be question marks surrounding their subject matter expertise in the sector that the target company belongs to. The importance of possessing granular expertise becomes even more amplified when it comes to taking start-ups that deal in cutting-edge technological innovation public, as their potential to fulfil their promise can often be flaky.

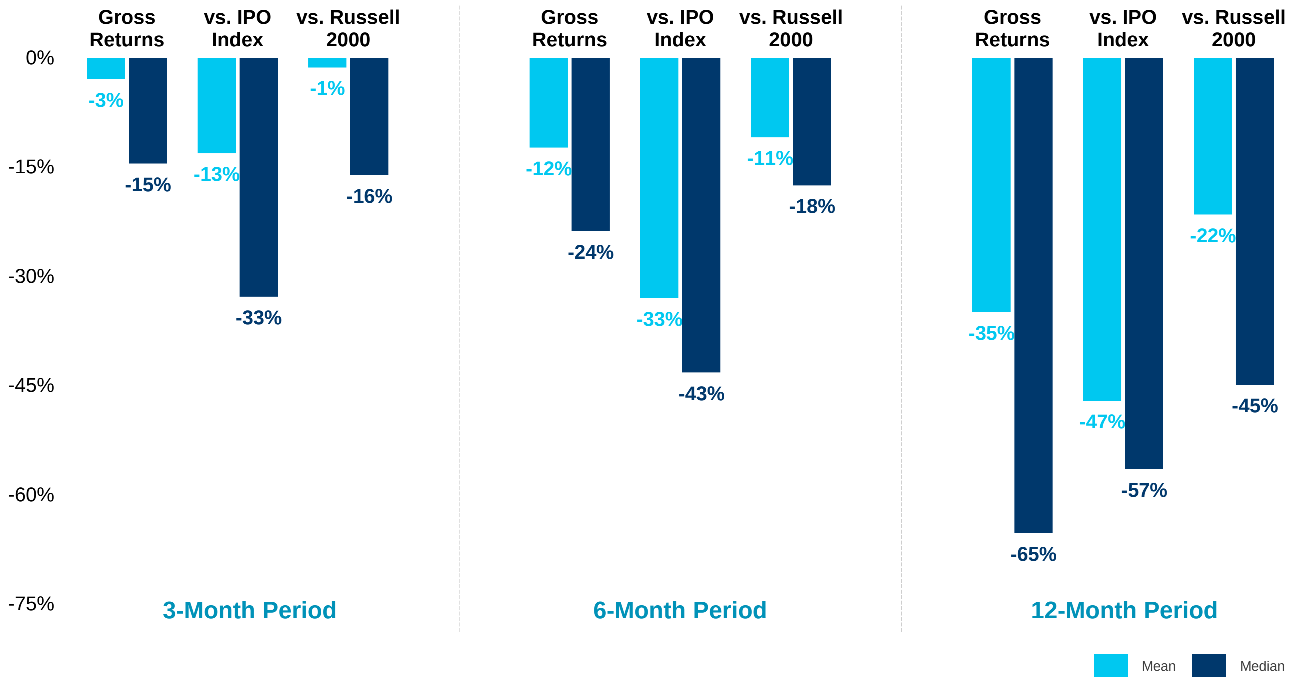
[4] SPAC Insider, 'SPAC Statistics', accessed on 2nd November 2021, available at: https://spacinsider.com/stats/

LACKLUSTRE POST-DE-SPAC-ING RETURNS

While SPACs may be drawing plaudits from multiple different stakeholders all round, there are concerns regarding their post de-SPAC-ing performance in the stock market, with some feeling that they may be leaving retail shareholders holding the bag.

SPACs have been found to be delivering negative gross returns over a three-, six-, and twelve-month period, underperforming not only the IPO index but also the Russell 2000 index as well (see Figure 21). One of the chief causes behind this jarring underperformance may be the high level of dilution that takes place, with sponsors taking 20% of the stake upfront, in addition to warrants being handed out.

FIGURE 21: POST DE-SPAC-ING RETURNS (%, JANUARY 2019 - JUNE 2020)



Source: Harvard Law School Forum on Corporate Governance, Quinlan & Associates analysis

SECTION 4
CASE STUDIES

The challenges outlined in Section 3 are further demonstrated by a number of case studies that we have identified, including: (1) The Electrum Group; (2) Nikola; and (3) Akazoo.

These examples reinforce the target sourcing difficulties that sponsors face: (1) time limit; (2) supply-demand mismatch; (3) due diligence shortcomings; and (4) dearth of expertise (see Figure 22).

FIGURE 22: SPAC CASE STUDIES

	akazoo	THE ELECTRUM GROUP	NIKOLA
SPAC SPONSOR	Modern Media Acquisition Corp.	Electrum Special Acquisition Corp.	VeritoIQ Acquisition Corp.
CAPITAL RAISED	USD 209 Million	USD 200 Million	USD 200 Million
IPO DATE	11th May 2017	11th June 2015	16th May 2018
TARGET COMPANY	Akazoo S.A.	N/A	Nikola
DE-SPAC-ING DATE	24th January 2019	N/A	3rd June 2020
DESCRIPTION	The sponsor extended the business combination deadline multiple times and then failed in their due diligence duties	The sponsor was unable to source a viable target company for shareholders to approve, leading to liquidation	Nikola came under fire for lack of adequate disclosures and so did the sponsor's due diligence efforts
DIFFICULTIES			
TIME LIMIT	✓	✓	
S-D[1] MISMATCH	✓	✓	
DD[2] SHORTCOMINGS	✓		✓
DEARTH OF EXPERT[3]	✓	✓	✓
	Akazoo S.A. was found to be misrepresenting its performance and recently reached a USD 38.8 million settlement with the US SEC	Due to the liquidation, sponsors lost USD 7 million used to purchase the warrants, while underwriters lost out on their USD 5 million success fee	The Chairman, Trevor Milton, stepped down, with the company facing multiple lawsuits post the release of an expose by Hindenburg Research

✓ Applicable

[1]Supply-Demand, [2]Due Diligence, [3]Expertise
Source: Reuters, Bloomberg, Hindenburg Research, Woodruff Sawyer, SPACInsider, Quinlan & Associates analysis

AKAZOO S.A.

Modern Media Acquisition Corp. ("Modern Media") raised over USD 200 million in an IPO dated 11 May 2017, aiming to source a target company from the media, entertainment, or marketing services industry.

The ensuing journey was a rollercoaster that saw them: (1) struggle to find a viable target; (2) extend the business combination deadline twice; (3) disgorge almost all of their initial proceeds; (4) secure a PIPE deal to keep the SPAC from facing liquidation; (5) de-SPAC at the "eleventh hour" before having to liquidate; and (6) finally see it all come crashing down when their target company was found to be fraudulent (see Figure 23).

FIGURE 23: CASE STUDY – AKAZOO S.A.

		TIME LIMIT	SUPPLY-DEMAND MISMATCH	DUE DILIGENCE SHORTCOMINGS	DEARTH OF EXPERTISE
Target Identification	• Modern Media faced significant struggles in sourcing a viable target to combine with	✓	✓		✓
Combination Deadline	• On two separate occasions, shareholders had to vote to extend the business combination deadline	✓	✓		✓
Proceeds Reimbursement	• With Modern Media's inability to source a viable target on full display, most shareholders pulled their capital	✓	✓		✓
PIPE Deal	• Falling below the USD 53 million capital bottomline, Modern Media was forced to secure a PIPE deal				
Akazoo De-SPAC-ing	• Just days before their latest business combination deadline, Modern Media managed to de-SPAC successfully	✓	✓	✓	✓
Due Diligence Failure Exposed	• The target company, Akazoo, was revealed to be fraudulent, exposing Modern Media's due diligence failure		✓	✓	✓

✓ Applicable

Source: Reuters, Woodruff Sawyer, Quinlan & Associates analysis

From the outset, the sponsor, Modern Media, struggled to identify a suitable target within the stipulated time limit, leading to not one but two extension votes to delay the liquidation of the SPAC, with the first vote witnessing shareholders redeem USD 61 million and the second experiencing even more withdrawals, worth USD 140 million. This left Modern Media in a lurch, as they were not only left with a lack of adequate capital to support de-SPAC-ing, but also fell below the minimum requirement of USD 53 million in capital, forcing them to raise USD 47 million as part of a PIPE deal.

Having secured two extensions and newfound capital to rescue the SPAC from liquidation, Modern Media identified Akazoo S.A. ("Akazoo") as a target to take public via de-SPAC-ing, announcing the deal on 24 January 2019, successfully receiving the nod from shareholders on 28 August 2019, and initiating trading on 11 September 2019, just narrowly before the business combination deadline of 17 September 2019. While Modern Media may have appeared to have pulled the metaphoric "rabbit out of the hat" with the Akazoo deal, celebrations quickly turned sour.[5]

Akazoo presented itself as "a leading music streaming service specialising in emerging markets with 4.3 million premium subscribers in 25 countries throughout Europe, Southeast Asia, South America, and Africa." However, in April 2020, Quintessential Capital Management ("QCM") released a report calling out Akazoo for running a fraudulent accounting scheme.[6]

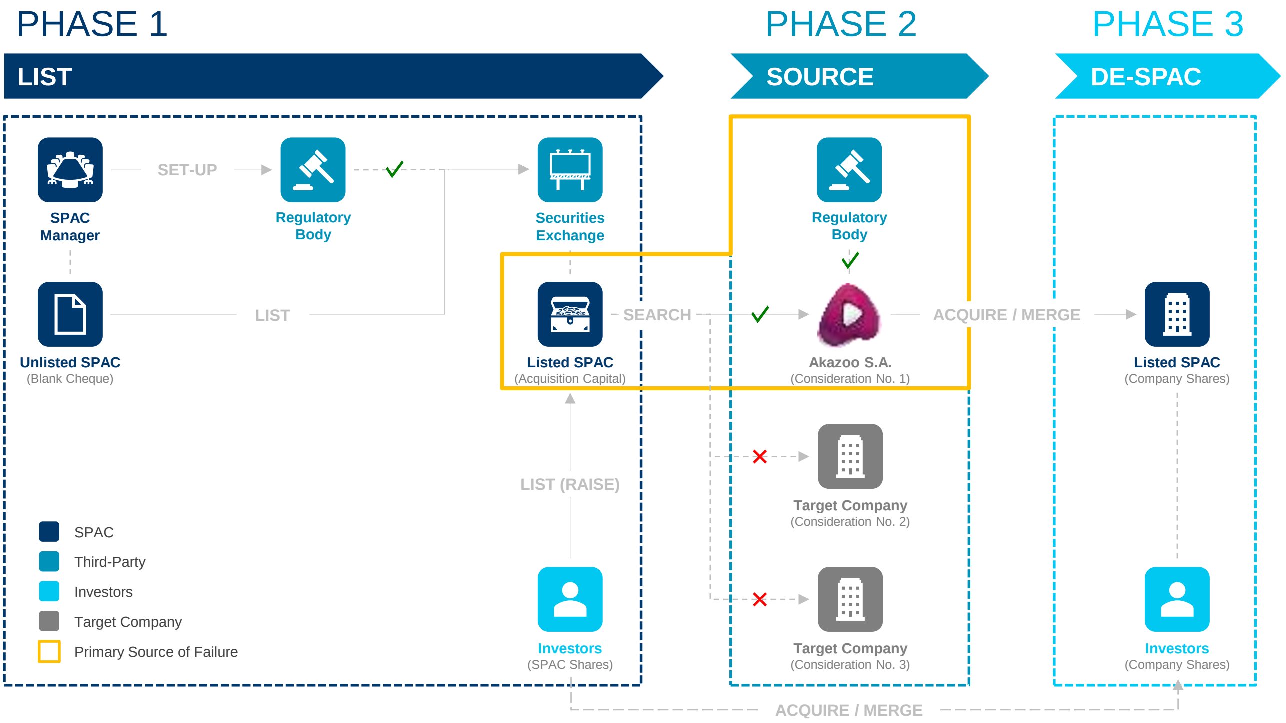
The resulting investigation vindicated QCM's allegations, with a board authorised special committee finding that "former members of Akazoo's management team and associates defrauded Akazoo's investors, including the predecessor SPAC acquiring entity Modern Media Acquisition Corp., by materially misrepresenting Akazoo's business, operations, and financial results as part of a multi-year fraud." This has led to Akazoo most recently agreeing to a USD 39 million settlement with the US Securities and Exchanges Commission ("SEC").[7]

THERE ARE FOUR DIFFICULTIES THAT SPONSORS COMMONLY FACE WHEN ATTEMPTING TO SOURCE A WORTHY TARGET COMPANY TO TAKE PUBLIC: (1) TIME LIMIT; (2) SUPPLY-DEMAND MISMATCH; (3) DUE DILIGENCE SHORTCOMINGS; AND (4) DEARTH OF EXPERTISE

[5] Woodruff Sawyer, 'When a SPAC Buys a Lemon: The Song and Dance at Akazoo', July 2020, available at: https://woodruffsawyer.com/mergers-acquisitions/spac-buys-lemon-akazoo/
[6] Quintessential Capital Management, 'You Only Live Twice', April 2021, available at: https://www.qcmfunds.com/wp-content/uploads/2020/04/Quintessential-Akazoo-FINAL.pdf
[7] Reuters, 'Music streamer Akazoo agrees to $38.8-mln settlement over SEC fraud charges', October 2021, available at: https://www.reuters.com/technology/sec-says-music-streaming-firm-reaches-388-mln-settlement-fraud-action-2021-10-27/

This case demonstrates the holistic struggle that SPAC sponsors contend with, with Modern Media racing against time to find a suitable target, pushing them to engage with a fraudulent entity in the form of Akazoo without conducting proper due diligence and suffering from a lack of expertise in the foreign markets (where Akazoo claims to have had a robust presence in). All-in-all, this highlights the importance of constructing a sound target sourcing strategy (see Figure 24).

FIGURE 24: PRIMARY SOURCE OF FAILURE – AKAZOO S.A.



Source: Quinlan & Associates analysis

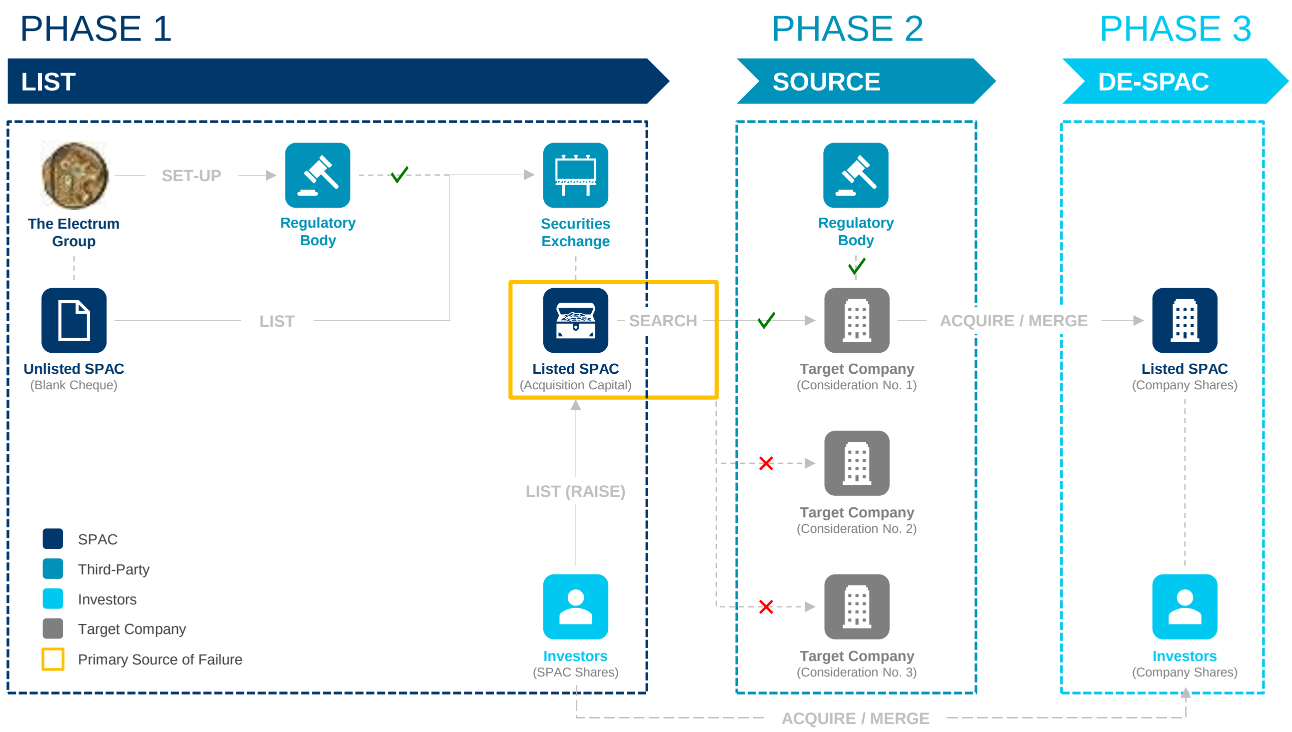
THE ELECTRUM GROUP

The Electrum Group-backed Electrum Special Acquisition Corporation first dipped its toes into the market back in 2015 but struggled to find a suitable target company to merge with / acquire, resulting in two occasions where shareholders had to vote to extend the time limit in quick succession.

Despite the being handed a lifeline, the sponsor continued to struggle with its target sourcing strategy, eventually resulting in its liquidation.

One potential cause behind Electrum Special Acquisition Corporation's inability to de-SPAC may have been its dearth of expertise. While a familiar face in financial markets, The Electrum Group specialises in natural resources like high-quality precious metal assets, as well as base metals such as copper, zinc, and nickel. This is in sharp contrast with the kind of "new-age" businesses that we are witnessing go public via SPACs. As a result, if the sponsor had been able to leverage the external expertise of a third-party with competency in other areas of business, they may have succeeded in sourcing a viable target company to take public (see Figure 25).

FIGURE 25: PRIMARY SOURCE OF FAILURE – THE ELECTRUM GROUP



Source: Quinlan & Associates analysis

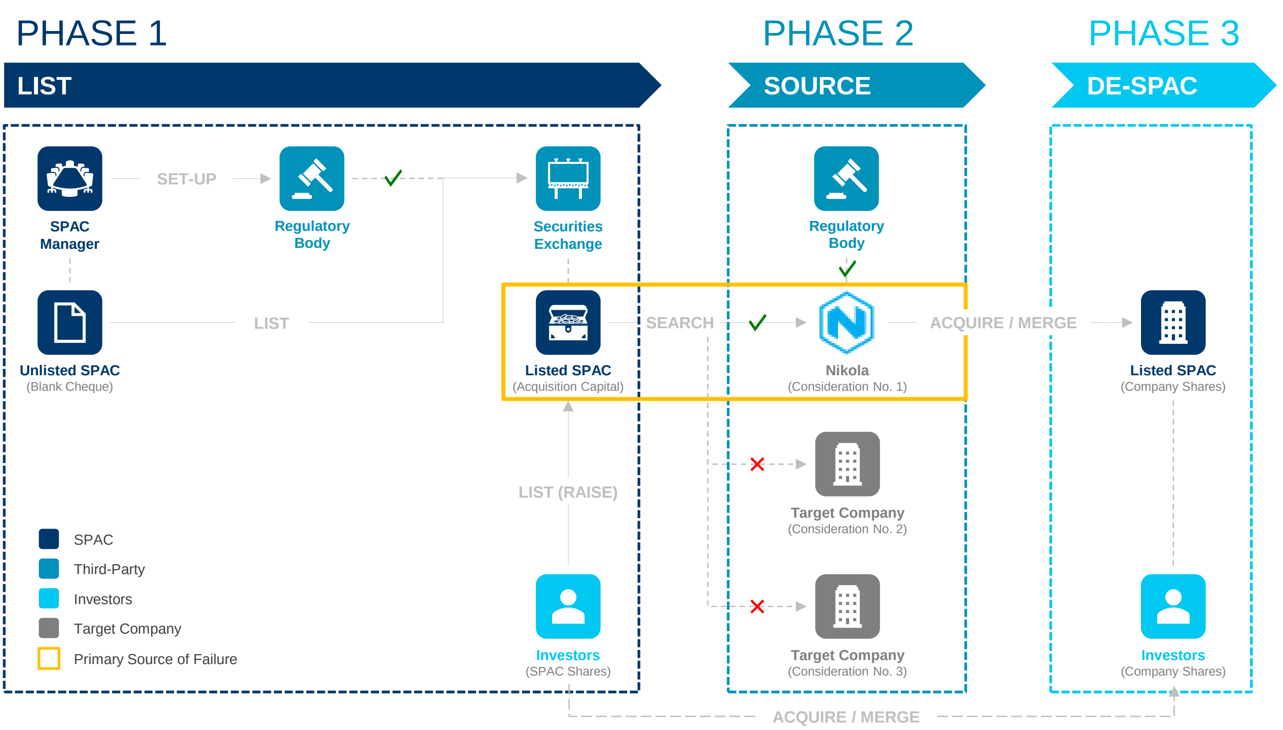
NIKOLA

In March 2020, Nikola, a rambunctious hydrogen battery-powered automaker, announced that it was going public via a reverse merger with the SPAC led by VectoIQ Acquisition Corp., followed by the completion of the same in June 2020. With a staggering valuation of USD 3.3. billion, the company listed with much fanfare amidst a period that was seeing alternative fuel vehicle makers hoarding the limelight, led most notably by Tesla.

However, the company that was initially being touted as a potential "Tesla Killer" was soon found to be built upon a house of cards, following a report released by Hindenburg Research that cited knowledge of misrepresentations made by the company's Founder and Executive Chairman, Trevor Milton. For instance, the report stated that in a video titled "Nikola One in Motion", which showed the company's semi-truck driving on a road at high speed, the semi-truck had in fact been filmed rolling downhill after being towed to the top at a creative camera angle to cover the sloping of the landscape.

It may have arguably been a sense of overexuberance regarding alternative fuel vehicle makers that resulted in a failure on part of the sponsor to conduct proper due diligence on Nikola before bringing the now embattled automobile pioneer to public markets. In addition, with hydrogen-powered batteries being an up-and-coming area of technological innovation, the jury is still out on the future potential of this novel arena (see Figure 26). Had the sponsor conducted thorough due diligence and leveraged relevant external expertise in the hydrogen-powered battery space, this faux pas may have been avoidable.

FIGURE 26: PRIMARY SOURCE OF FAILURE – NIKOLA



Source: Quinlan & Associates analysis

SECTION 5
WINNING THE RACE AGAINST TIME

HOW SPONSORS CAN TRIUMPH

With sponsors facing a growing number of challenges, there is a pressing need for them to distinguish themselves from the rapidly crowding SPAC marketplace.

We have identified six key ingredients that sponsors can leverage to create a recipe for success: (1) operator-led; (2) network centrality; (3) geographic expansion; (4) versatile expertise; (5) robust governance; and (6) negotiation strategies (see Figure 27).

FIGURE 27: A RECIPE FOR SUCCESS

Operator-Led

SPACs benefit from the rich experience and expertise that former executives bring to the table

Negotiation Strategies

Effective negotiation can prove essential when having to face-off against fellow SPACs

Robust Governance

SPACs suffer from over-reliance on sponsors and bankers, making good governance a key issue

Network Centrality

The robustness of a sponsor's network connections can influence their ability to achieve de-SPAC-ing

Geographic Expansion

Turning to overseas markets may help provide access to a wider base of target companies

Versatile Expertise

Having a versatile team can help establish credibility, enhance due diligence, and broaden opportunities

Source: Quinlan & Associates analysis

OPERATOR-LED

SPACs that are led by experienced former C-suite executives at the helm are termed as "operator-led." These SPACs stand to benefit from the rich experience and expertise that these former executives possess in their respective domains, potentially making it easier for SPACs to source targets that belong to the industry of their operator. In addition, having an operator with deep industry knowledge can aid due diligence efforts and help screen out low quality targets. This is in sharp contrast to celebrity or investor-led SPACs, which may lack the domain knowledge and expertise that is on offer from operators (see Figure 28).

FIGURE 28: OPERATOR- VS. INVESTOR- VS. CELEBRITY-LED SPACS

	1	2	3
Funding Source	**Operator-Led** SPACs that are being led by experienced former C-suite executives at the helm	**Investor-Led** SPACs that lack both an experienced C-suite executive as well as a celebrity presence	**Celebrity-Led** SPACs that stand-out on account of their celebrity backing and lack former C-suite executives
Experience	✓	–	×
Expertise	✓	–	×
Leadership	✓	–	×
Media Coverage	–	–	✓
Preference	**Operator-led SPACs can greatly benefit from the operator's competency**	**Investor-led SPACs lack the domain knowledge and expertise of an operator**	**While they may garner greater media coverage, celebrity-led SPACs may lack expertise**

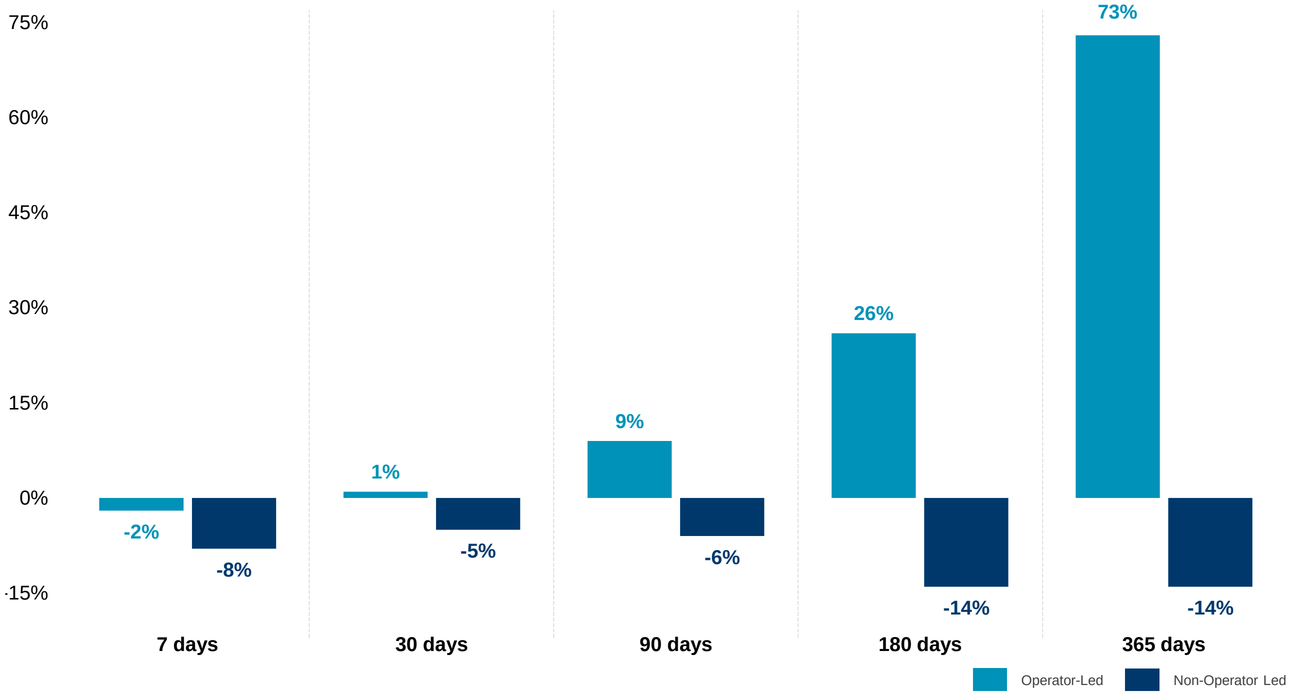
High ⟶ **Low**

Operator-Led SPACs are well poised for success; ✓ Favourable; – Dependent / Neutral; × Unfavourable

Source: Quinlan & Associates analysis

Post-de-SPAC-ing, these operators may also take-up leadership roles within the combined entity, adding their wealth of industry experience to the newly formed company. This is evidenced by the relatively strong post-de-SPAC-ing returns that are being delivered by operator-led SPACs, of 73% on average compared to -14% for SPACs that are not operator-led, over the course of their first year (see Figure 29).

FIGURE 29: SPAC SHARE PRICE PERFORMANCE (%, 2019-21)



Source: Wolfe Research, Quinlan & Associates analysis

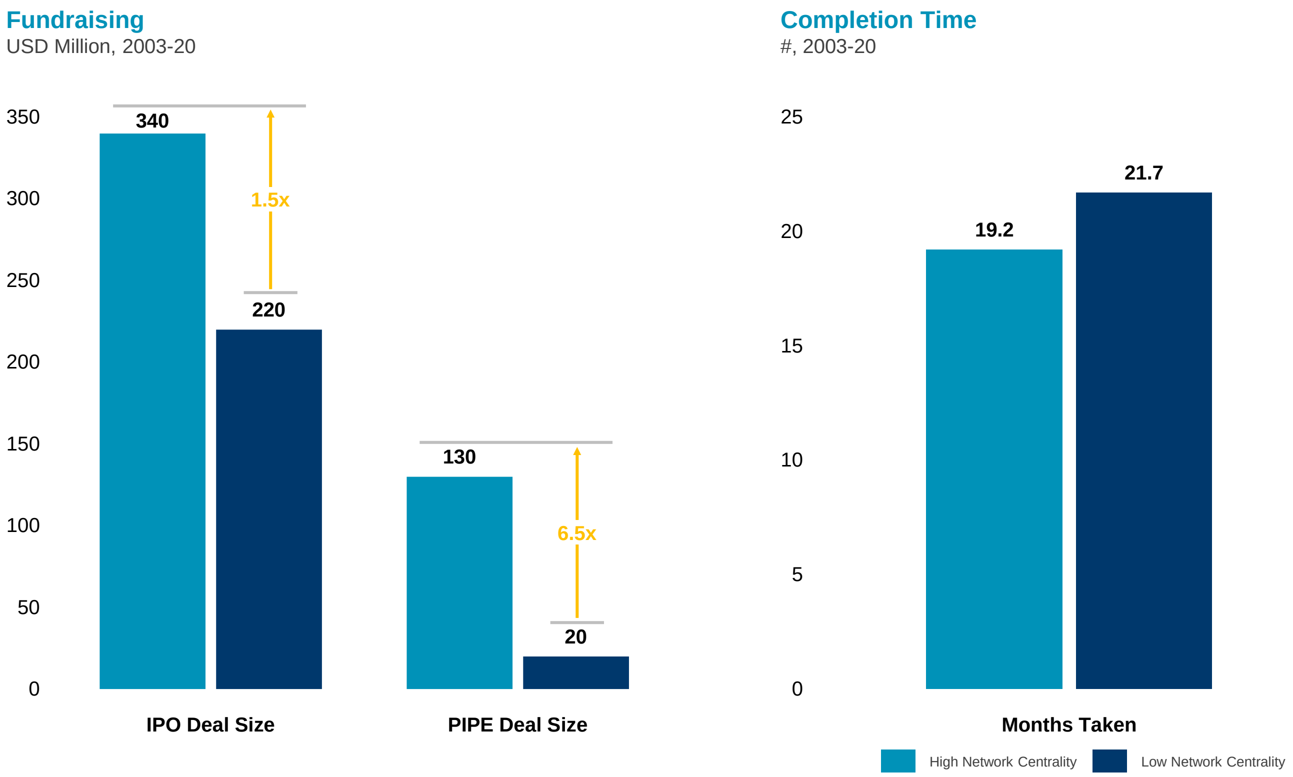
NETWORK CENTRALITY

The robustness of a sponsor's network connections can greatly influence their ability to achieve a satisfactory de-SPAC-ing deal.

A sponsor who possesses a deeper and wider network of connections across a wide variety of industries may be able to obtain a greater amount of information, eventually leading to more lucrative target companies and easier access to PIPE deals. In addition, the strength of a sponsor's network can also function as a barometer of their reputation in the industry as well.

Data collected from 390 SPACs that listed between 2003-20 has demonstrated that sponsors commanding high network centrality raised approximately 1.5 times higher proceeds from IPOs and 6.5 times more proceeds from PIPE deals, compared with sponsors suffering from low network centrality levels. Furthermore, high network centrality sponsors also managed to de-SPAC in a relatively shorter period compared to their peers (see Figure 30).

FIGURE 30: IMPACT OF NETWORK CENTRALITY ON SPONSOR PERFORMANCE



Source: University of Hong Kong ("HKU"), Quinlan & Associates analysis

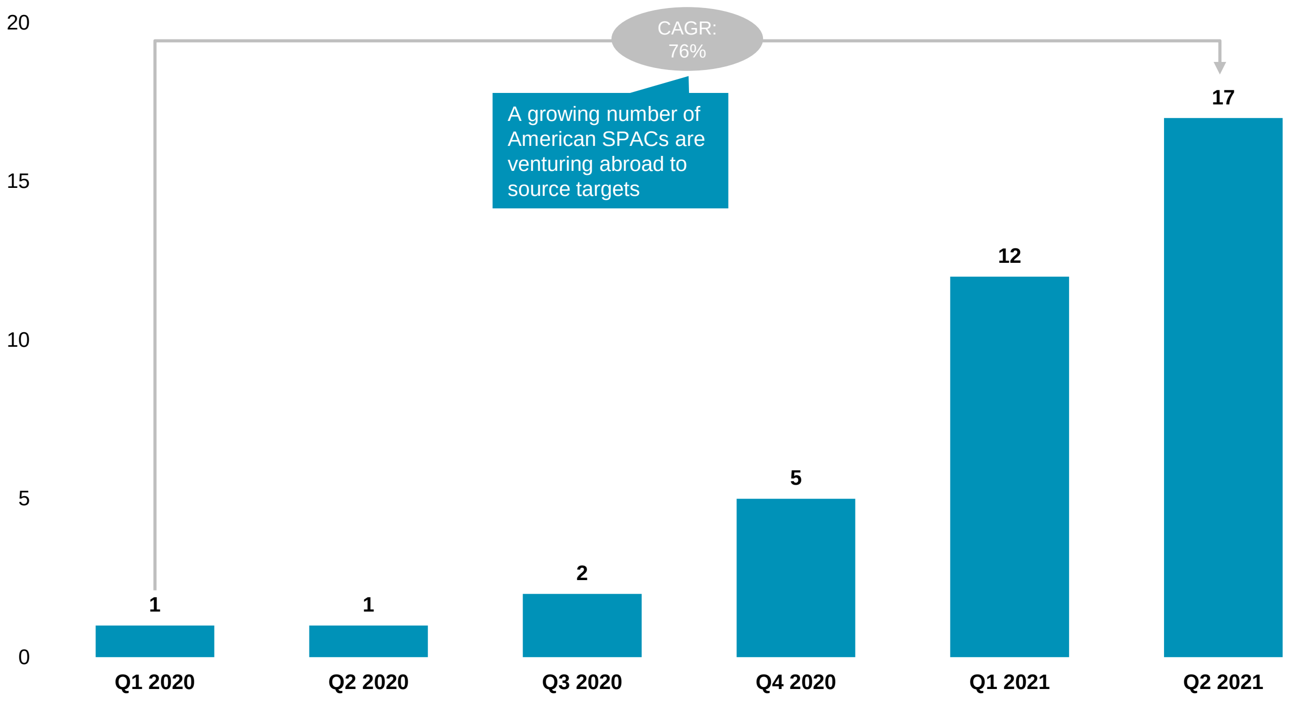
GEOGRAPHIC EXPANSION

With vast hordes of sponsors joining the SPAC battleground, especially in the US, turning to overseas markets may help gain access to a wider base of target companies. This can be especially effective if the sponsor is reaching out to a target company belonging to a country with comparatively less developed financial markets, as the sponsor may be able to offer deeper pools of liquidity and higher valuations, on account of its access to better developed financial markets.

Furthermore, by broadening their horizon to include overseas target companies, sponsors can capture lucrative foreign start-ups such as Singapore-based Grab, which underwent a USD 40 billion de-SPAC-ing. In fact, incorporating a SPAC in a location such as the Cayman Islands can prove especially favourable when intending to hunt for a foreign target company.

We are already noticing robust quarter-on-quarter growth in the number of non-US companies undertaking de-SPAC-ing activities in the US, rising by 17 times year-on-year ("YoY"), as of Q2 2021 (see Figure 31).

FIGURE 31: NON-US COMPANIES DE-SPAC-ING IN THE US (#, Q1 2020-Q2 2021)



Source: PitchBook, Quinlan & Associates analysis

VERSATILE EXPERTISE

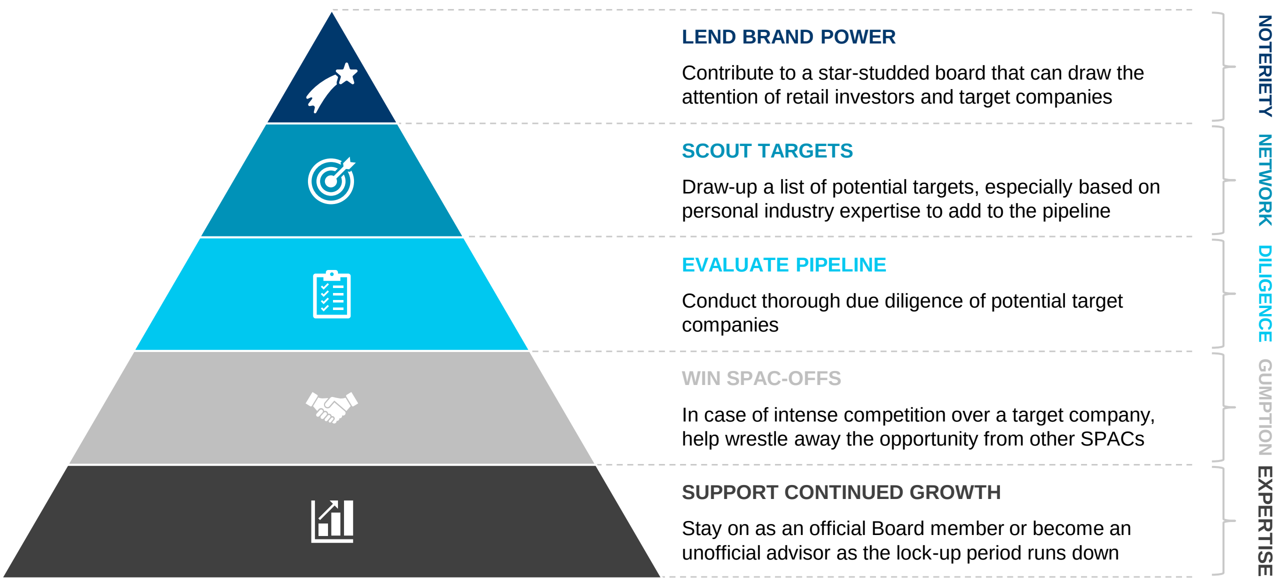
While being an operator-led SPAC, as recommended earlier, can indeed add more expertise, a single operator’s capabilities can also “pigeonhole” a SPAC into searching for target companies belonging only to the industry that the operator belongs to. We believe sponsors must go one step further and look to construct a much more diverse team.

By putting together a powerhouse group of individuals, with a depth and breadth of experience from different relevant industries, not only can a sponsor establish credibility, but also experience enhanced due diligence benefits as well. The board of directors of a SPAC plays a crucial role in proposing names of potential targets and during the vetting process for target companies.

ROBUST GOVERNANCE

SPACs suffer from an over-reliance on sponsors, making it extremely important to put in place suitable checks and balances. As the SPAC lifecycle progresses, the role played by a director consequently morphs as well, including wide-ranging responsibilities such as: (1) lending their brand power; (2) scouting for potential target companies; (3) evaluating companies in the target pipeline; (4) assisting during SPAC-offs; and (5) contributing to the continued growth of the newly formed entity (see Figure 32).

FIGURE 32: EVOLVING RESPONSIBILITIES OF SPAC DIRECTORS



Source: Quinlan & Associates analysis

These duties are vastly different from those performed by directors of others publicly listed businesses. For starters, the SPAC marketplace is witnessing a surge in celebrity directors, including athletes like tennis champion Serena Williams and musicians such as rapper Jay-Z, whose involvement naturally attracts the attention of retail investors.[8] However, bringing star power to the table is not the only responsibility of a director, as they also need to possess a strong business network, as covered earlier in the report, with which to attract potential target companies.

Once a pipeline is brimming with potential targets, the involvement of a director and the number of meetings being conducted may intensify, as the board sifts through the target companies, evaluating them by conducting due diligence. As mentioned, the mushrooming number of SPACs is increasing the likelihood of SPAC-offs taking place, which pit SPAC boards against one-another. Such instances can truly test the mettle of a board and their ability to successfully negotiate a deal in the face of stiff competition, a topic covered more broadly later in the report.

Should the de-SPAC-ing proceed without a hitch, the ever-changing role played by directors evolves once more. Typically, based on observation, directors do not continue to serve as official members of the board of the newly formed entity, even if they are given such an option. Instead, directors are commonly found to transition to the role of an unofficial advisor, not only to support the continued success of their company, but also to safeguard their vested interest as the lock-up period of their shareholders inches closer to expiry.

With such a diverse array of responsibilities, the characteristics of a director that are required to ensure robust governance across the lifecycle of a SPAC are also quite diverse, as outlined in Figure 32, including: (1) notoriety; (2) network; (3) diligence; (4) gumption; and (5) expertise. Naturally, it is difficult to find all these characteristics in one individual, thereby requiring sponsors to assemble a technocratic board of directors, possessing versatile expertise, as highlighted earlier.

However, even if an ideal board of directors is assembled, there remain certain areas of concern that should addressed. As explored in Section 4, there have been cases where the board of a SPAC has been caught asleep at the wheel, backing targets that turned out to be far less desirable than advertised. Such instances have resulted in litigation risks that have in-turn caused a spike in the demand for – and cost of – directors' and officers' ("D&O") liability insurance.[9] In addition, conflicts of interest can also pose a major risk to the sanctity of the SPAC marketplace, making it essential to monitor for related-party transactions between directors and target companies that could be a signal of vested interests.

To combat such governance risks posed by an over-reliance on the sponsor, SPACs often turn to banks for tasks that go well beyond underwriting. While bankers may need to be encouraged to facilitate the deal at hand, they should not be developing the business thesis for their SPAC client. This is especially important because banks may promote their own clients as potential targets, leading to conflicts of interest. This represents a bias that should be avoided by sponsors who are looking to build a reputation of the highest order.

[8] PYMNTS.com, 'Investors Flock to SPACs Based on Celebrity Backings', March 2021, available at: https://www.pymnts.com/news/investment-tracker/2021/investors-flock-to-spacs-based-on-celebrity-backings/
[9] Reuters, 'Demand for D&O Insurance Explodes with SPAC-related Activity and Future Litigation Concerns', April 2021, available at: https://www.reuters.com/article/bc-finreg-liability-insurance-explodes-s-idUSKBN2CE1RQ

NEGOTIATION STRATEGIES

With SPACs fiercely competing over a limited target pool, "SPAC-offs", i.e., instances where two or more SPACs compete over taking a private company public, are on the rise. Effective negotiation can prove essential when having to face-off against fellow SPACs.

We have identified seven key areas that SPACs need to focus on when entering negotiation discussions with target companies, including: (1) deal certainty; (2) valuation; (3) sponsor equity; (4) employee incentives; (5) representation ("rep.") and warranties; (6) closing conditions; and (7) registration ("reg.") rights / shares (see Figure 33).

FIGURE 33: AREAS OF NEGOTIATION

Negotiable Areas	Description	Importance to Target	Importance to Sponsor
Deal Certainty	• Backstopping against any financial shortfalls that may occur via a PIPE deal, clarifications regarding transaction modifications, etc.	✓✓	✓✓
Valuation	• The estimated valuation of the target company, at which the acquisition will take place. If placed too high, then redemptions may occur	✓✓	✓
Sponsor Equity	• Sponsors typically take a 20% stake as "promote," but may have to dilute their stake further down	✓	✓✓
Employee Incentives	• Details around structuring of the stock options plan, accelerated vesting of outstanding stock options, etc.	✓	✗✗
Reps. and Warranties	• The SPAC, as well as the target company commit, to a number of representations and warranties around financials, key contracts, etc.	-	-
Closing Conditions	• Discussions around key closing conditions such as shareholder approval, regulatory compliance approval, etc.	-	-
Reg. Rights / Shares	• Details around lock-up on trading of shares, distribution of registered tradeable share, or registration rights to certain target shareholders	-	-

Key Areas of Focus (Deal Certainty, Valuation, Sponsor Equity) | ✓✓ Very Important | ✓ Important | - Dependent / Neutral | ✗ Unimportant | ✗✗ Very Unimportant

Source: Forbes, Quinlan & Associates analysis

(OUT)SOURCING STRATEGY

While the above recommendations may have been the cornerstone of success for several SPAC sponsors, it is not feasible for all sponsors in the marketplace to be able to build-up their internal capabilities to such a mature level.

As such, sponsors may choose to outsource various parts of the SPAC lifecycle in a modular manner, as per their convenience, including: (1) executive search; (2) corporate governance structuring; (3) target screening; (4) geographic / sectoral expertise provision; (5) expert network connectivity; (6) due diligence services; (7) negotiation support; and (8) ongoing post-close support (see Figure 34).

FIGURE 34: LEVERAGING EXTERNAL EXPERTISE

1 Executive Search

Source former c-suite executives with vast experience and significant expertise in key areas of relevance to the SPAC sponsor

Example: an M&A executive for transaction support

2 Corporate Governance Structuring

Build a governance framework that is in-line with regulatory requirements as well as investor expectations

Example: monitoring for conflicts of interest

3 Target Screening

Locate potentially lucrative targets for the sponsor to merge with / acquire, across various sectors and/or geographies

Example: Singapore's Grab's USD 40 billion SPAC IPO

4 Geographic / Sectoral Expertise Provision

Provide the sponsor with intimate knowledge of geographic / sectoral dynamics that are most relevant to the target sourcing exercise

Example: highlighting potential target regions

5 Expert Network Connectivity

Provide access to a community of diverse experts, in order to enable the sponsor to draw upon versatile sets of expertise

Example: experts in electric vehicle technology

6 Due Diligence Services

Conduct thorough due diligence on potential target companies to highlight any potential roadblocks or concerns

Example: vetting process for target companies

7 Negotiation Support

Assist in negotiating a win-win deal for both the sponsor as well as the target company, through understanding of each stakeholder's priorities

Example: proxy outreach

8 Ongoing Post-Close Support

Provide the newly formed combined entity with business consulting services in order to add value to the business

Example: strategy development projects

Source: Quinlan & Associates analysis

With greater external expertise involved in the sourcing of the target company, the sponsor will be able to focus more on execution related aspects of the deal. By utilising third-party experts and market intelligence to understand opportunities with the greatest return potential, sponsors can better capture the most lucrative deals available in the market. In fact, not only are specialised service companies better positioned to execute the requirements of a SPAC sponsor, but they can also add to the sponsor's credibility as well.

EXECUTIVE SEARCH

Due to the increased number of SPACs, the demand for board members has also shot up in recent times, making it harder to locate suitable executives to become a part of a board. Specialist third-party service providers can help identify the most ideal candidates for developing an operator-led SPAC team, while also saving the sponsor's time and resources by conducting initial screening on their own, to ensure that only relevant candidates are put forth.

CORPORATE GOVERNANCE STRUCTURING

With sponsors coming under increasing scrutiny due to the aforementioned sponsor-centric nature of the SPAC model, having a robust corporate governance structure is of growing importance. Specialist third-party consultants can help instal a sound corporate governance programme, which is likely to become more crucial with time, as regulators put SPACs under the microscope ever more closely.

TARGET SCREENING

With more and more high-quality target companies being snapped up with each passing day and by larger and larger peers, sponsors are in need of a market sizing and competitive benchmarking outlook, so that they can best map the geographies and sectors that have the most lucrative target companies available for taking public. Conducting such an exercise at the very outset, would help greatly streamline efforts before the hunt for individual targets commences.

GEOGRAPHIC / SECTORAL EXPERTISE PROVISION

Carrying on from the previous point, regarding the need for sponsors to broaden their horizon, doing so would require considerable expertise in particular areas that are of interest to the sponsor. As has already been showcased in the case studies discussed in Section 4 of the report, multiple sponsors have previously fallen prey to a lack of geographic / sectoral expertise, or even to a too niche area of expertise. This can shackle sponsors from casting a wider net to capture targets, unless they lean on third-party consultants with relevant expertise in various geographies / sectors.

EXPERT NETWORK CONNECTIVITY

Moreover, third-party expert networks can help sponsors overcome a lack of technical expertise, on their boards, in a particular field, by connecting them with notable experts. These experts, which could include former high-ranking executives, may also help sponsors that are not operator-led cover the gap demonstrated earlier in Figure 29 as well.

DUE DILIGENCE SERVICES

The race against time to de-SPAC carries a risk of poor due diligence that is difficult for the sponsor to overcome on its own, given that objectivity may begin to waver as the business combination deadline draws near. In such circumstances, an independent third-party consultancy is a must-have for conducting reliable due diligence on a potential target.

NEGOTIATION SUPPORT

At times, a cutting-edge may be required to push a deal over the line, as SPAC-offs continue to become more of a norm than an exception, as time passes by. With big guns being lined up by sponsors – left, right, and centre – supplementing one's armada with external support from an entity, such as an investment bank, may potentially prove to be the difference maker.

ONGOING POST-CLOSE SUPPORT

From a post-de-SPAC-ing perspective as well, external consultancies can help orient the growth of the newly formed entity in the right direction, in an effort to combat the current criticism that the SPAC model is facing due to the aforementioned lacklustre share price performance post-de-SPAC-ing. This could help companies that took the SPAC route to listing publicly position themselves as robust choices for long-term investors.

WE HAVE IDENTIFIED SIX KEY INGREDIENTS THAT SPONSORS CAN LEVERAGE TO CREATE A RECIPE FOR SUCCESS: (1) OPERATOR-LED; (2) NETWORK CENTRALITY; (3) GEOGRAPHIC EXPANSION; (4) VERSATILE EXPERTISE; (5) ROBUST GOVERNANCE; AND (6) NEGOTIATION STRATEGIES

SECTION 6
CONCLUSION

The shortcomings of traditional listing routes – namely, IPOs and DPOs – have, over the years, resulted in a significant shortfall between the growing number of businesses and the proportion that choose to list themselves publicly.

Against this backdrop, SPACs have burst onto the scene, offering an alternative route to going public that alleviates the problems posed by traditional listing routes, rejuvenating private companies' appetite for going public. This resurgence has led to the SPAC model witnessing growing adoption across the globe, with the US getting the ball rolling and Hong Kong and Singapore gearing up to be the latest markets to open up to SPACs, riding on robust macro fundamentals. As key Asian financial hubs warm up to the model, we anticipate proceeds raised via SPACs in APAC to reach USD 35 billion by 2025, representing nearly one-third of regional IPO proceeds.

Although the proceeds raised via SPACs have grown tremendously over the years, reach USD 133 billion YTD, resulting in a lucrative wallet opportunity for sponsors, the model still suffers from multiple drawbacks. Most notably, sponsors are struggling with target sourcing difficulties, as they race against time to de-SPAC. With cases such as that of Akazoo serving as a cautionary tale against haphazard approaches in the world of SPACs, we believe sponsors are in need of a new recipe for success.

The significant stock market outperformance showcased by operator-led SPACs have thrown the sponsor into the limelight, with network centrality, robust governance, negotiation strategies, and versatility of experience, emerging as key denominators for what makes a successful sponsor. However, with competition in the SPAC marketplace on the rise, there is a stark need for sponsors to expand their horizons by leveraging third-party specialist service providers. In leveraging external expertise, not only can sponsors make up for a lack of internal resources and capabilities in one fell swoop, but they can also enjoy greater freedom to focus on deal execution, leaving industry / market research and target screening responsibilities to third-party specialist as well.

Despite their decades long existence, it is clear that SPACs have gained a sudden surge in popularity only in recent years. In our view, not only is the SPAC model here to stay, but we see robust growth potential for the SPAC marketplace to make inroads into previously untapped parts of the world in a manner that is sure to be Spactacular.

SECTION 7
HOW CAN WE HELP?

Quinlan & Associates ("Q&A") has extensive experience working with leading global organisations on end-to-end corporate strategy development, operating model design, and implementation planning, and has also advised a number of our clients on strategic due diligence efforts, including the development of merger and acquisition ("M&A") plans.

Q&A's project work typically involves supporting our clients across the full strategy spectrum, including:

PRE-DE-SPAC-ING

1. INDUSTRY RESEARCH AND TARGET LANDSCAPE SCREENING

Support sponsors that are searching for potential de-SPAC-ing targets to add to their pipeline, as well as investment banks that are seeking a stronger grasp of the market / industry or competitive landscape:

- Map fast-growing geographic regions possessing a plethora of target opportunities
- Identify industries that offer the most lucrative opportunities to source targets, including market sizing and detailed competitive benchmarking
- Provide a recommended shortlist of potential de-SPAC-ing targets for the sponsor to merge with / acquire

2. COMMERCIAL DUE DILIGENCE

Assist sponsors and investment banks in conducting granular due diligence on target opportunities from a strategic, operational, and financial perspective:

- Review the legitimacy of the target company's claims and its broader industry
- Analyse the future prospects of the target company
- Gauge potential demand outcome that the target company may fetch if selected
- Determine competitive positioning, market size / wallet share outlook, and identify USPs of target vs. peer firms

POST-DE-SPAC-ING

1. STRATEGIC ADVISORY

Provide continued support to the post-de-SPAC-ing entity in the form of strategy development to support the newly formed company's growth aspirations:

- Help craft the company's strategy at the group, business-unit, and country-level, supporting its objectives with robust financial planning and analysis
- Provide an organisational strategy, including organisation design, regulatory positioning, corporate governance, and talent management insights
- Identify key revenue gaps and growth opportunities, including organic and inorganic pathways
- Identify new products, customer segments, channels, partnerships, markets, and pricing models to scale the company
- Explore ways to streamline costs with a view to improve the bottom-line

QUINLAN
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STRATEGY WITH A DIFFERENCE

ABOUT US

Quinlan & Associates is a leading independent strategy consulting firm specialising in the financial services industry.

We are the first firm to offer end-to-end strategy consulting services. From strategy formulation to execution, to ongoing reporting, communications, and employee training, we translate cutting-edge advice into commercially executable solutions.

With our team of top-tier financial services and strategy consulting professionals and our global network of alliance partners, we give you the most up-to-date industry insights from around the world, putting you an essential step ahead of your competitors.

Quinlan & Associates. Strategy with a Difference.

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