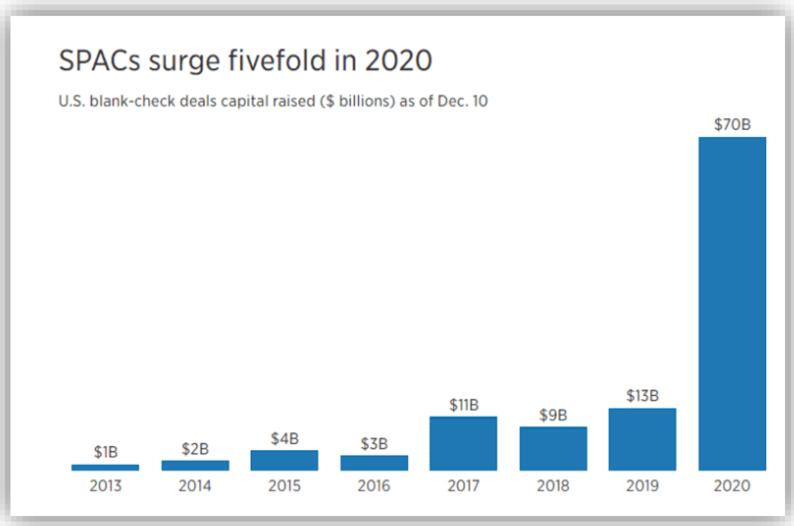
OCEAN WALL

April 2021

SPECIAL PURPOSE ACQUISITION COMPANY "SPAC"

In December, Goldman Sachs named 2020 as 'The Year of the SPACS' and stated they believed 2021 could be even bigger. Issuance of over 200 SPACs with a combined value of $70bn in 2020 was over 5 times greater than that issued in 2019 and accounted for more than half of the US IPOs raised. 68% of SPAC mergers were in tech, consumer discretionary and healthcare (mostly biopharma). YTD to end of February 2021 has already seen 175 SPACs raising over $56bn.

The driver behind this seems to be the wish to be aligned with growth stocks continuing to outperform value stocks – and therefore Sponsors and Investors are now firmly in a 'growth' mindset.



Lockdown also saw a global growth in retail trading and a pickup in hyper-growth stocks which coincided with the SPAC listings of electric vehicle firm Fisker and sports betting Draft Kings and therefore intense interest in these companies which saw a huge uptick in share price after their respective 'mergers'.

SPAC Parties

Sponsor:	The Sponsor is absolutely key to the success of the SPAC. They need a prominent name and strong track record of experience in the sector they will be acquiring in and they need to demonstrate the ability to deliver successful transactions.
Initial Investors:	Initial Investors who invest in the SPAC IPO.
'PIPE' Investors:	Private Investor in Public Equity "PIPE" Investors (normally Fund Managers) who give a Forward Purchase Commitment to come in alongside the Initial Investors if the Target Company cost price is higher than the initial funds raised in the SPAC IPO,

or to replace some of the Initial Investors if they chose to redeem – therefore guaranteeing a minimum cash threshold.

Target Company: The Private Company that the SPAC mergers with. This is an ‘unknown’ at the time of the SPAC listing.

Combined Company: The Company that is formed as a result of the merger of the SPAC and the Target Company.

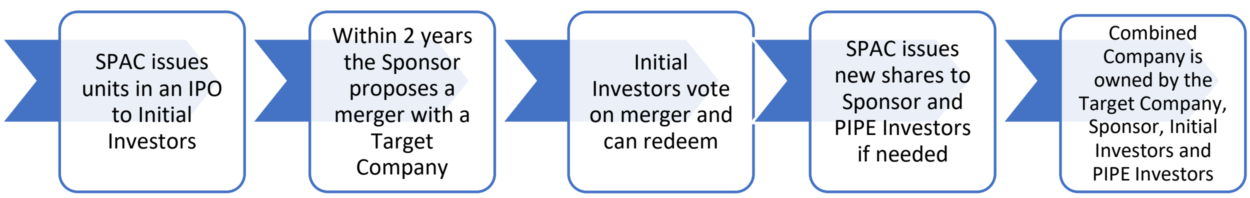
SPACs mechanism

A SPAC (Empty Shell or Blank Check) is listed and investors will be issued with units. Each Unit has a nominal cost of $10 and consists of one share and one partial warrant (exercise price: $11.50, 5 year term and forced exercise at $18, usually ½ or 1/3 of a warrant per share). The SPAC will have a stated intention to merge with a target company who will be in a particular, pre-specified, sector of the market. The Sponsor will be a proven expert in this sector and has a set timeframe in which to make the acquisition – normally 2 years. In addition, the Target Company is normally a sole company which will account for at least 80% of the invested capital held in trust. At listing – both the shares and the warrants will be listed and traded separately. The Capital is held in a trust account – giving investor protection.

Typical SPAC Structure - $10.00 Units

Composition of Units	• 1 Common Share • ½ or ⅓ Warrant • Trade separately
Warrant Strike Price	• $11.50
Warrant Exercise Period	• 5 year life from the date of the consummation of the business combination
Call Provision	• ≥ $18.00 for any 20 trading days within a 30 day period, if underlying shares registered
Liquidation Value per Share	• $10.00 (plus accrued interest – less taxes)

If, after 2 years, there has been no approved acquisition (any proposed acquisition requires shareholders’ approval) then the SPAC is liquidated and funds returned to investors – minus the listing costs and plus interest earned – at a minimum liquidation value.

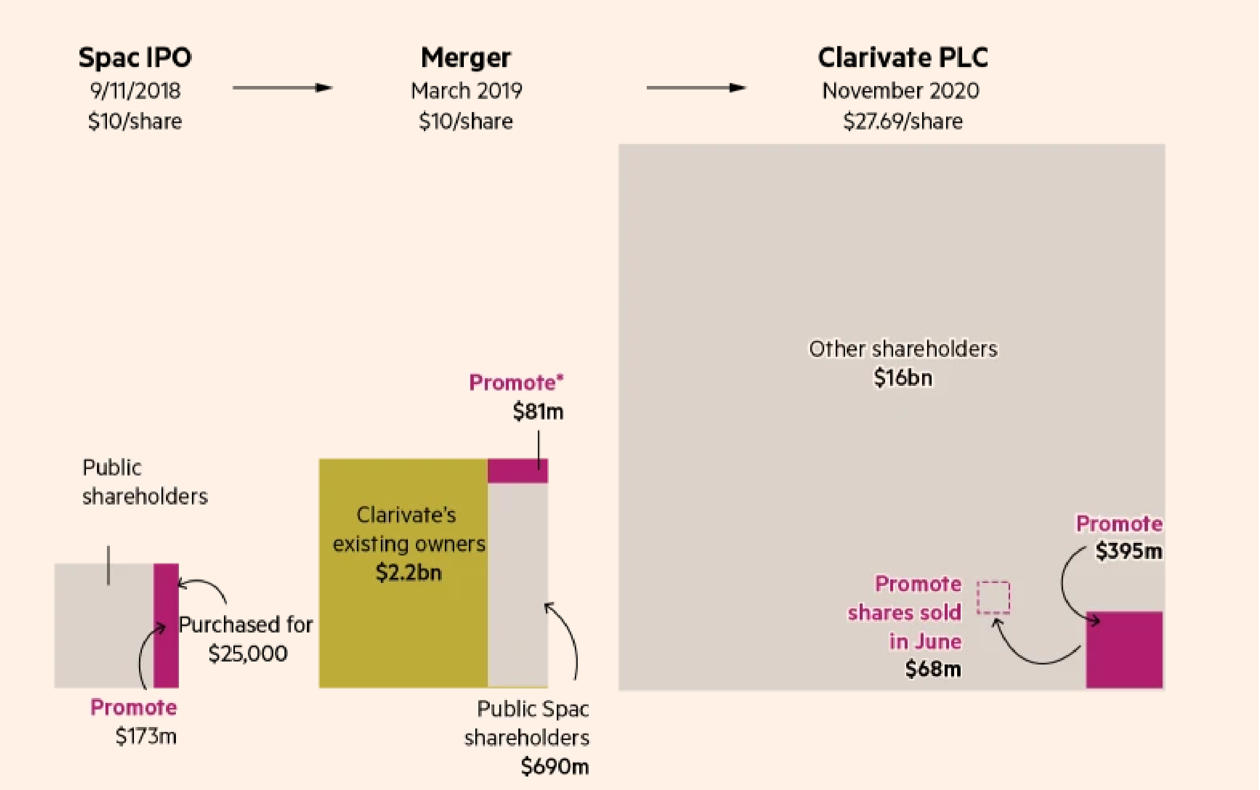


What is in it for the Sponsors?

The SPAC vehicle allows the pre-funding of a Sponsor's acquisition strategy, allowing greater flexibility that with traditional private equity. The Sponsor will have greater credibility with a seller – 'cash buyer'. It also allows the possibility to leverage the cash in trust and fund larger acquisitions.

The Sponsor can take around 20% of the shares (known as 'promoter' or 'founder' shares) in the merged company – which they buy at a pre-agreed price. They will often receive warrants too as part of their 'fee' package. There is incentive for the Sponsor to find a Target Company because without that merger happening they don't get their 'fee' – this does lead to questions as to whether there should be a mechanism that aligns the Sponsors better with the Investors. Although Investors do get to approve any proposed acquisition – most Investors have invested in the first place because they have faith and belief in the Sponsor thereby making it very rare that acquisitions do not get approved. However, more recently Investor have started to win additional concessions in exchange for their vote to approve a merger.

Sponsors will also work with other parties – banks, brokers, specialist sector investors - in the search for their Target Company. These parties will be paid their 'finder's fee' in shares in the Combined Company – much like the Sponsor.



*reflects promote shares held back for vesting
Source: FT research

What is in it for the Target Company?

There are a number of significant advantages for a private company to become public via a SPAC:

1. They will avoid the expensive costs of an IPO (investment banks alone can charge between 3%-7%).
2. They allow the Target Company to capture better valuations and avoids the IPO 'pop'.
3. Its less risky and quicker. Investor appetite can be satisfied quickly rather than go through a long IPO timetable (typically 6 months) only to find the market conditions and investor appetite has gone.
4. Allows the Target Company to partner with a well-known Sponsor and their team – who have expertise in their sector.

What is in it for the Investors?

The reason that the pandemic saw such a take up of SPAC opportunities by investors was because of the low federal rates and poor market performance. Investor had to start to look elsewhere to get returns. If cash is yielding almost nothing, and due to Federal Reserve's average inflation targeting plan, is likely to remain at almost nothing for at least 3 years then SPACs offer a low-cost opportunity for investors.

An opportunity to gain access to investments in acquisitions and buy-outs typically otherwise restricted to private equity funds.

SPAC Investors earn a low – de minimis – yield while they wait for the Sponsor to find a Target Company. They have a put option to redeem their shares if they don't like that potential target but often Investors will hold on to their warrant – allowing them to continue to participate in any uptick in share price after the merger. Investors can redeem even if the majority approve the merger.

Investors have to have faith in the Sponsor – believe in their abilities and gain reassurance from their track record in the particular sector – and SPACs give them an opportunity to invest in that belief.

What are the downsides of SPACS?

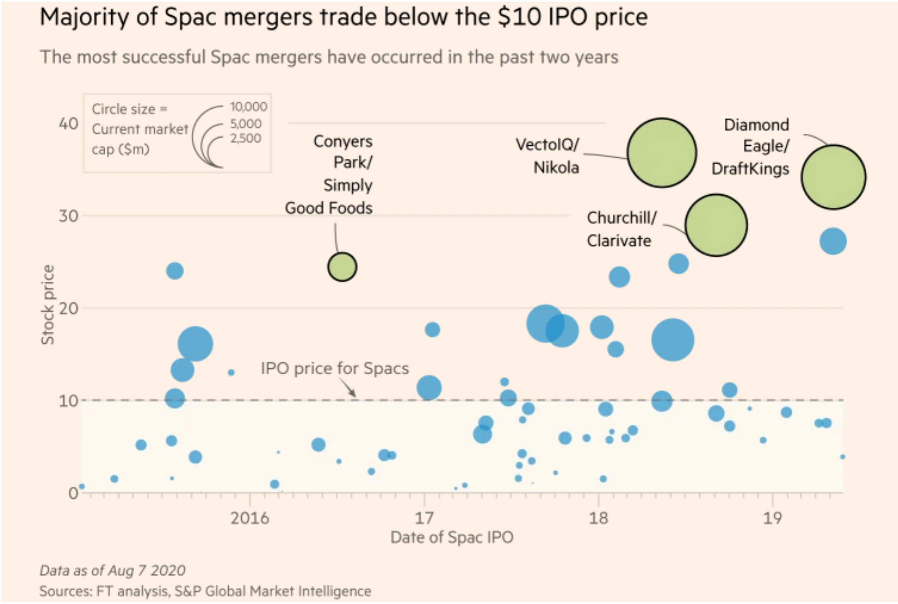
There have been questions as to the level of protection for Investors – particularly as the due diligence done by a Sponsor on a Target Company may fall way short of that which would normally be required for the same company to IPO directly onto an exchange.

Cost of Investor Dilution: "… for each share purportedly worth $10, there is $6.67 in cash and $3.33 in dilution overhanging the merger." Investors end up paying IPO costs but also get value dilution as a result of shares given to other parties – such as a the 'Promotion' Shares given to the Sponsor.

Investors pay the IPO fees – even if the SPAC closes without merging with a Target Company.

Questionable returns for investors. Renaissance Capital reviewed all SPACS done between Jan and July 2020 and the average return was 13.1%. However, when you removed the 2 most successful SPACS – Draft Kings and Nikola – then the average return fell to -10.5% vs IPO average rate over the same period of 6.5%.

See chart over:



Changes afoot

SPAC structures have started to address the misalignment between the Sponsor and the Investors.

Retail investors have voting apathy and there are now modifications to the shareholder vote to lessen the effect of 'no voters'.

Allowing investors to vote 'Yes' to the merger but still exercise their call option.

European Participation

Amsterdam is already picking up the slack on the European SPAC interest with its flexible rules and increasingly international reputation – 2020/2021 has seen the IPO of 4 SPACs in quick succession and other Sponsors – such as LVMH Founder Bernard Arnault – have announced their intentions to IPO a SPAC this year. The Dutch Corporate Vehicle is well suited to a SPAC – allowing investors to easily exercise their redemption rights and take out their money if they disliked the company chosen for a merger. There is a feeling that it is a uniquely strong time to IPO in the European Market because there is still scarcity value here and you can also get access to US Investors.

London Stock Exchange currently has two main issues – firstly 'blank cheque vehicles' can only get a listing on the standard section of the exchange and a SPAC merger (or acquisition) is considered to be a reverse takeover and therefore shares are suspended. However, the SPAC explosion has put pressure on the LSE to undertake some well overdue changes and last week saw the release of Lord Hill's Listing Review where he addressed the restrictions which are preventing SPACs from listing in London – recommending a revision of the rules requiring trading suspension in SPACs whilst still providing protection for shareholders with voting and redemption rights.

The LSE has welcomed these recommendations and on 31st March 2021, the FCA announced that it was going into a 4 week consultation and would aim to bring in the new changes by early summer 2021. They have indicated that there is likely to be a minimum market capitalisation requirement and a redemption option for investors.