SPAC – Benefits for Companies and Investors

Benefits for Companies

- As a rule, higher sales prices can be achieved in SPAC transactions than in the case of a private equity transaction (PE must be able to resell company at a substantial profit).

- In the case of a SPAC, the sales price is bindingly fixed and the cash flow is not subject to uncertainty. This price certainty compares to the uncertainty caused by the price range in an IPO.

- A merger generates significantly lower direct costs than an IPO (underwriters, lawyers, offering memorandum, PR, auditing, stamp duty, roadshows, auditing)

- The merger process ties up significantly fewer resources of the company/seller; the target's management is not distracted by the whole IPO machinery (investment banks, lawyers, auditors, investor presentations, communications, roadshows, pre-roadshow, communications and presentation training/coaching, etc.).

- The timeline for a merger/merger is much shorter than for an IPO; a window of opportunity, for example when the sector economy is good, can be quickly exploited

- The deal certainty is high compared to an IPO or an M&A transaction (no competition law requirements, market distortions do not play a role, etc.). In addition, the sales process is detached from IPO-typical time windows after annual or half-year figures.

- In the case of complex business models, the need for explanation to a SPAC or its board of directors is less than to investors in an IPO. Moreover, in the case of mergers, in contrast to an IPO, detailed forecasts and targets can be communicated.

- Stress-free succession planning, especially for family businesses; the founders can remain in the company with a majority or minority stake. Extended structuring (e.g. cash/earn-out) for owners is possible, which does not exist with traditional IPO. The management of the target company can also be incentivized with liquid participation programs.

- The investors of the SPAC are known to the company and are not (co-)determined by the banks, as in the case of an IPO.

- The company benefits from the reputation and experience of the sponsor and the SPAC Board of Directors.

- Strong external and internal effect of a stock exchange listing and the resulting independence; transparency and clarity for customers, suppliers, pride of employees (cannot arise with PE solution, associated with high effort with IPO).

- Sellers are generally not subject to a lockup period.

- The lockup for the sponsor increases investment discipline and sustainability.

Benefits for Investors

- SPACs are an interesting alternative to counter investment pressure with further diversification.

- The investor benefits from the liquidity via the stock exchange during the SPAC lifetime. In addition, he has an upside opportunity via the warrants. The warrant compensates for the time factor as well as the missing IPO pop and allows the participation in a capital increase/cash-settlements if the exercise price is reached during the exercise period.

- The investor can vote on the proposed acquisition/merger objects. In case of a negative attitude towards the takeover/merger object, the risk-free exit is possible before the vote.

- In contrast to a random IPO allocation by the bank, the investor selects the size of his investment himself.

- The sponsor bears all costs and risks in connection with the IPO, the operation of the SPAC as well as for the search for the merger/merger object. The direct costs for the investor comprise almost exclusively negative interest or stamp taxes.

- The period for the search and selection of an acquisition/merger target is clearly defined (usually two years).

- The investor benefits from the experience and reputation of the SPAC Board of Directors and the sponsor.

- The fact that the sponsor as well as the SPAC Board of Directors are co-investors helps to build trust and underpins the entrepreneurial spirit.

- Targets/guidance may be provided as part of the acquisition/merger.

- Better takeover prices than in the case of an IPO candidate, as no financial intermediaries are interposed in the value chain.

- Studies show an excellent pre-merger performance and a clearly improving post-merger performance over the last quarters (USA) accompanied by an increase in the quality of takeover/merger targets.

- Sponsor lock-up of 6 to 12 months increases investment discipline.