

SPAC – Frequently Asked Questions

Are SPACs entirely new?

No, the concept has existed for a long time, but was temporarily forgotten. In 2017, it was relaunched in the USA, and SPACs have been booming since 2020 (76 billion in the USA). SPACs are an attractive alternative for companies to the classic IPO, a trade sale or a sale to a PE company.

Why has it not been an issue for a long time, was it not good enough?

As with all innovative financial market concepts, there are initially bad and good experiences. Today, SPAC conditions have reached a reasonable level and there are enough examples of success. The conditions for sponsors, investors and companies must be equal for SPACs to achieve a higher quality.

Do SPACs have an offering memorandum?

Yes, all conditions (sponsor, BoD, warrants etc.) are described in detail in this document.

What is most likely to ensure success?

Experience shows that the quality of sponsor and board in particular is decisive for success. This is what the institutional investor world pays attention to today (see McKinsey study: "Earning the premium").

The performance of SPACs has not been stunning in recent decades. What has led to the renaissance?

The industry has matured, SPAC conditions have adapted to the market environment and the stock market landscape has also changed. Sponsors are investing real venture capital and accordingly the quality of sponsors has increased significantly. However, the track record of the "new" generation cannot yet be analyzed as it is too young.

What's wrong with IPOs? At least a clean due diligence is performed.

Today, the IPO process has exceeded reasonable limits in terms of requirements for the company (free float, minimum capitalization requirement, research efforts of the banks) and legal requirements. The main objective in the preparation of the documents is to show all risks and thereby avert liability claims. The costs of up to four law firms involved in an IPO transaction are enormous, as is the time involved. The added value, on the other hand, is modest.

Added to this is the effort involved in the three phases of pilot-fishing, pre-sounding and IPO roadshow, which is gigantic for operational management. This is highly inefficient, especially for small and medium-sized companies.

In addition, there is a high degree of price uncertainty and dependence on stock market sentiment right up to the end of the IPO.

What's better about a SPAC?

In a SPAC, the industry-experienced BoD and the sponsor do the due diligence. It is industry and finance oriented and very similar to the private equity process. In addition, the sponsor has "skin in the game" unlike advisors and lawyers in the IPO process. The process is time efficient and the company has deal certainty. This is attractive to both the selling company and the SPAC shareholders and blocks fewer resources.

If additional PIPE investors join during de-SPACing, third-party due diligence is additionally given.

Why are additional warrants issued? Surely this leads to a dilution of the new investors if the warrants are exercised?

The SPAC investors are compensated for their patience and trust. In Switzerland, they have to bear minus interest and they have their money quasi "blocked" for two years (even though trading is possible at any time). The warrants are a compensation for this, should the investment develop positively. Even if there is a dilution for new investors, in case of a positive performance all parties involved benefit and the company receives additional growth capital.

What are the costs to the sponsor of a SPAC?

The sponsor invests time and work like an entrepreneur. In addition, he bears all the costs as risk capital incurred during the foundation (consultants, lawyers), for fundraising (bank commissions), for being public (stock exchange costs, IR/PR, legal costs) and in the due diligence process of the merger candidate, as well as the running costs (office, administration, ongoing operations). Depending on the industry and the size of the SPAC, this can be between 3 and 10 million. In case of failure, the sponsor usually loses everything.

Who is eligible to be a sponsor?

As a rule, they are experienced investors and/or entrepreneurs. They must be willing to take a risk and finance a transaction. In addition, they must be prepared to accompany the target in the long term, even after the transaction, and to contribute their experience with regard to the capital market and operational issues.

How is the Board of Directors paid?

The BoD usually has no remuneration until de-spacing. It is fully involved in the entrepreneurial risk and invests venture capital. As with private equity, he has real skin in the game.

Who determines how many shares the sponsor and the BoD receive?

This is an agreement between the sponsor and SPAC, which is disclosed in the stock exchange prospectus. Usually it is between 10-20%, depending on the industry and size of the company.

Isn't 10-20% of the shares much too much for the sponsor? That's a big dilution for the other investors!

But the sponsor is also the only one to bear the real financial risk if there is no deal after two years. The fixed costs for the effort of launching and listing the SPAC must be compensated. The sponsor bears all the costs, so there is an incentive.

What approval rate is required for the merger to occur?

As a rule, this must be 50%. In reality, however, the sponsor is interested in ensuring that as many investors as possible are satisfied with the deal, otherwise the sponsor will have to cover the gaps left by the withdrawing investors.

Can it be just a merger or also an acquisition?

Both. In fact, it is a business combination that takes the form of a merger or acquisition.

What if SPAC's money isn't enough for a merger?

It is now standard practice for PIPE investors to take the share that cannot be covered by SPAC investors. Through an LOI, PIPE investors can do their due diligence and provide additional liquidity for the shares after de-SPACing. Also, a transaction may involve only a minority stake in a company.

Can I trade the SPAC shares and the warrants on the stock exchange?

Yes. This means that all investors will be able to participate directly in "Private Equity for All" after the IPO.

The money is paid into an escrow account. What does that mean exactly?

It is a specific, interest-bearing account whose funds cannot be tapped and are therefore safe. There are only minor technical costs, which are disclosed in the prospectus. The only exception is when the SPAC is purchased/merged or repaid to investors if no transaction occurs within 24 months.

Will I get back 100% plus interest of my stake if I don't agree to the merger?

Yes, although in Switzerland a small discount (max. 1-2% after 2 years) must be expected due to the negative interest rates. Otherwise the SPACs would be abused as a pure money parking station. The purpose of the recall ("I don't like the company/I don't believe in its potential") would be lost.

Is the whole company merged into the SPAC or not?

Yes, but it may well be that the SPAC holders will only own part of the company after the transaction, as the (part) selling shareholders want to remain invested.

Isn't the whole thing simply a money-making machine for financial jugglers?

Not at all. The first wave of SPACs was clearly too sponsor-centric, which hurt the reputation of the concept. Today, the market has addressed these early weaknesses. Sponsors with fair terms are now recognized as true venture capitalists.

SPAC investors can check the quality of the sponsor and the BoD in advance. Then they have a put option in their hands until the merger. The sponsor and the BoD bear the full entrepreneurial risk, for which they are adequately compensated in case of success. And last but not least, they must also convince the target company of the merits of the transaction.

Can't the sponsors just sneak off after the merger?

No, a lock-up generally applies to them subsequently, which protects all other shareholders.

What are the interests of sponsors in a long-term good share price performance?

Successful sponsors want to repeat the success. That's why, like successful private equity firms, they need a good fundraising track record to show for it. As an investor, it is important to check the sponsor's reputation as well as its invested venture capital.

Are SPACs authorized on the SIX?

Not yet, but efforts are underway to that end.

And elsewhere in Europe?

SPACs are approved in France, Holland, Germany and England.

Isn't there a risk that due to time pressure the SPAC will pay too high a valuation for the company? Valuations are currently very high on the stock market and time is ticking as soon as SPAC investors have paid in.

SPAC shareholders decide at a general meeting and must agree to the deal. If they consider the investment too expensive, they can withdraw their money.

Aren't activist sponsors a danger to the SPAC?

On the contrary, activist investors have a special focus on corporate governance and transparency, and know the industry very well. Their suggestions and interactions with the BoD/management benefit all investors.

Why are SPAC shares always placed at \$10 or EUR 10?

This has become established in the industry, there have also been placements at \$20.