Understanding SPAC Transactions: What It Takes To Be SPAC Ready

Moderator	Panelists
Allan Goodman, Goodmans (Ontario, Canada)	Erez Abu, Herzog Fox & Neeman (Israel) Roxanne Anderson, AZB & Partners (India) David Coll-Black, Goodmans (Ontario, Canada) Megan Foscaldi, Locke Lord (Massachusetts, USA)

Members of WLG's Venture Capital Group discussed SPAC transactions during a recent Q&A. Here is some of what they discussed.

1. **What is a SPAC and what are some of the benefits of going public as a target of a SPAC? (Megan Foscaldi)**

SPAC stands for Special Purpose Acquisition Company, and it's a newly formed company – no assets, no operations. The newly formed company is taken public by its management team (which generally has expertise in a particular target industry) to raise money for the purpose of acquiring a target company – usually with a limited time horizon (typically we've been seeing a period of about 24 months that the newly formed company has to acquire the target company). Once the target is identified, they begin the de-SPAC process. In connection with the acquisition of the target, there is a redemption right for stockholders who hold shares of the SPAC if they don't like the target that's been identified or don't think that there is sufficient value in the transaction.

Speaking to the benefits, generally companies can raise higher cash proceeds in a SPAC IPO as compared to a traditional IPO. There's also some more marketing flexibility to disclose future projections, which is particularly beneficial for targets that may be pre-revenue. And you can also leverage if you're working with an experienced sponsor and going public with a SPAC that has a management team that has a lot of expertise in a particular industry. There is also more price certainty than in a traditional IPO. A traditional IPO is priced at the market on the date of the IPO that can be subject to a lot of market conditions and things that are not necessarily able to be predetermined. If you're going public via SPAC merger, you are locking in your merger price with the SPAC. Those are some of the key benefits and reasons why I've seen targets choose this process versus a traditional IPO process.

2. **Can you briefly provide an overview of the development of the Canadian SPAC market? (David Coll-Black)**

There was an initial push for the SPAC market back in 2008, but due to the financial crisis, that didn't take off. The first wave of SPACs was really in 2015, with five or six SPACs, followed by a few other waves over the years. It is becoming more consistent in Canada, however smaller than the US due to the capital markets being smaller. It's still developing but becoming a consistent and more familiar product for the Canadian market.

3. **Looking at SPAC transactions from a target perspective, what makes them an attractive proposition? (Roxanne Anderson)**

Having the ability to access international markets is hugely attractive in the Indian context, particularly for some of the newer sectors such as consumer tech, for example, where the markets are just not as deep and developed in terms of pricing. Also, the ability to potentially access pipe investments, coupled with this highly shortened and much simpler route than what we have in India. In terms of the eligibility requirements for an IPO in India, they are not particularly to achieve; it can be quite cumbersome. So, having the ability not only to access international markets in a shorter and more straightforward route is what really has started getting people excited.

4. **What are the immediate challenges target companies face when considering a SPAC route? (Erez Abu)**

There are various challenges, some are substantial, and some are more of a practical nature. Initially, companies would need to consider what is the appropriate route for them, be it a SPAC, IPO, investment, or sale, and if a SPAC is the preferred route, commence the process. In commencing the process, companies would need to engage advisors, such as lawyers and bankers, who will assist with soliciting proposals from various SPACs, analyzing the proposals and then consider the suitability of each proposing SPAC. The engagement terms with such advisors are a challenge. A company would also need to start preparing the materials required for the process and for becoming a publicly traded company – including setting up a virtual data room and marketing materials and, a bit later in the process, preparing suitable financial statements and the prospectus.

5. **What are the recent trends that you are seeing in Canadian de-SPAC transactions? (David Coll-Black)**

First, just in the last few years, SPACS are really being viewed as a viable path to going public as an alternative to IPOs. Second, SPACS are now pursuing targets in multiple jurisdictions, so there is vast geographic reach. Lastly, targets really are in the driver's seat now, and can negotiate the best possible deal for target groups.

6. **What are the key investor and management dynamics to consider in a merger with a SPAC? (Megan Foscaldi)**

There are a few things that are important to consider. First, is the redemption risk in the SPAC context. Companies need to be aware going through the process that this is not strictly an M&A transaction where the goal is to maximize value and should think of a de-SPAC merger as a capital markets process. Also, there are obviously tax considerations that the company should be aware of, and consideration should be taken as to what jurisdiction the SPAC is organized in. Then there is the education factor for the target's management and directors – after a target company goes through this process, the resulting surviving company will be a public company, and there are requirements they'll have to understand being a public company.

Listen in to the full webinar