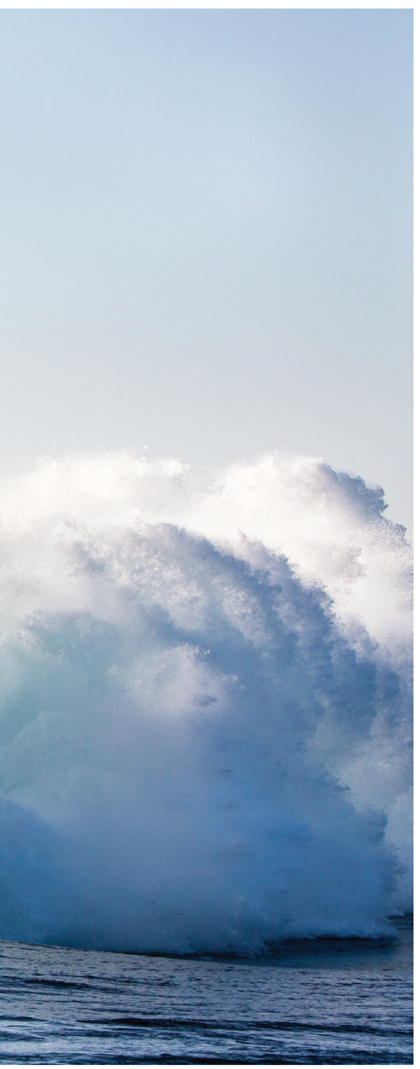
2020 Fourth Quarter
Corporate Insights

Making Waves: the evolution of SPACs



A building wave of SPAC liquidity in 2020

The remarkable volatility of the equity markets during 2020, driven by uncertainty around the Coronavirus pandemic, seems to have also unleashed an equity product that had otherwise been very much in the background. Despite having been around for decades, with rising issuance over the last several years, SPACs have experienced a dramatic increase in activity this year. In this paper, the 17th in our ongoing series of **Credit Suisse Corporate Insights**, we explore the evolution of SPACs. We delve into the key characteristics of SPACs in comparison to initial public offerings (IPOs) and to other, more traditional forms of raising equity capital, and we highlight lessons learned through some recent case studies.

SPACs – What they are and how they work

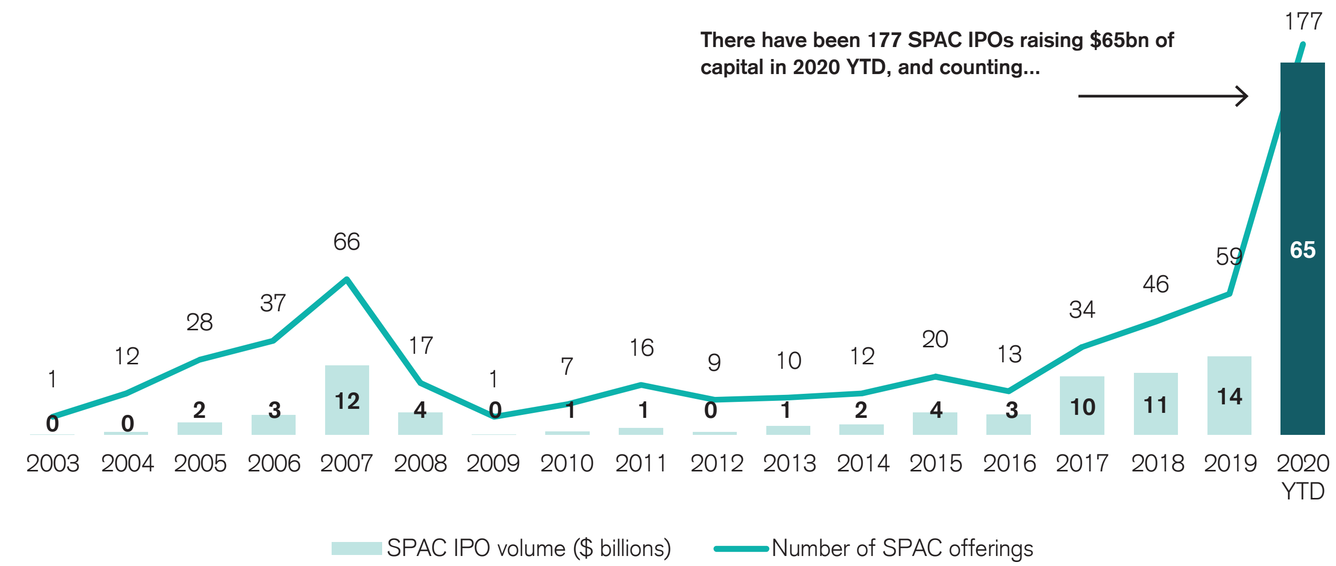
So, first of all, what is a SPAC?

A SPAC, or a Special Purpose Acquisition Company, is a publicly-traded shell company with no operations or assets, which exists for the sole purpose of merging with a target operating company. A SPAC goes public after clearing some relatively modest regulatory hurdles, which can be simpler than those for an IPO of a more conventional operating business. After going public, the SPAC then has a set time frame to find and merge with a target business and – by doing so – take the target business public, thereby providing an alternate route to a public equity offering for private companies. In that respect, a SPAC followed by the merger with a target company, is in fact a type of IPO.

But where did this product come from? And why has its popularity surged during 2020? Historically, SPACs were an uncommon and rarely used investment product. In the 1980s and 1990s, blank-check companies became associated with lack of regulatory oversight and, on occasion, even fraudulent activity.[1] The ensuing backlash from market participants led to reforms that transformed the product over the years. The reformed SPAC product of the early 2000s evolved to increase protection for investors.[2] And yet, the product did not meaningfully accelerate as a means of achieving a public listing even then. Across the span of the last twenty years, most companies still preferred to pursue the traditional IPO route to go public and as such, SPAC IPOs accounted for just a small percentage of total IPO activity. This prevalence of conventional IPOs over the last two decades was supported by the relatively buoyant equity markets, which rose by 72% from 2000 to 2008 and again by 356% from 2010 to February 2020.[3]

Despite their decades-long existence, SPACs have only seen a surge in issuance in the last three years, followed by a dramatic increase in 2020 specifically (Exhibit 1). To put the rampant growth of SPACs in 2020 into context, the average growth from 2017 to 2019 was about $2 billion in comparison to the growth from the end of 2019 to today which has been an astonishing $51 billion. Furthermore, the total SPAC IPO volume from just the third quarter of 2020 ($33 billion), is over 2.5 times the volume during all of 2019 ($13 billion).[4] As of November 2020, there have been 177 SPAC IPOs accounting for $65 billion in capital raised year to date.[5]

Exhibit 1: SPAC IPO volume and number of offerings per year[6]



As the SPAC market has rapidly grown this year, we are beginning to see some key themes emerge. We highlight three observations on recent SPAC activity below.

1. High-growth and sizable SPACs have been grabbing the headlines. Many SPACs that have gone public recently have focused on high growth and disruptive technology equity stories. For example, Chamath Palihapitiya's Social Capital Hedosophia, merged with Virgin Galactic in a transaction valued at $1.5 billion in July 2019 to create the world's first and only publicly-traded commercial spaceflight company.[7]

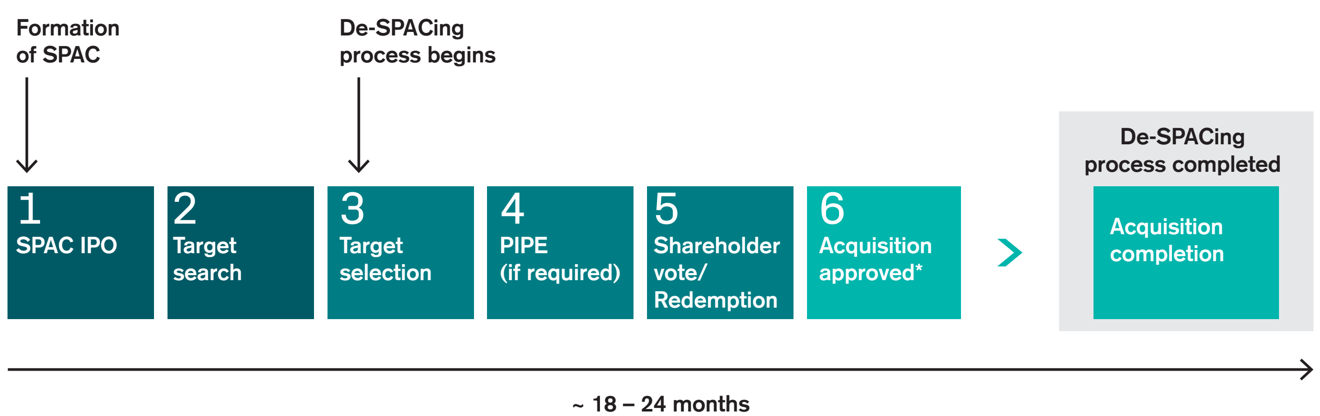
2. Not all SPACs are headline-grabbing; high quality businesses with lower growth prospects have also been going public via SPACs. While recent media headlines tend to focus on high-growth, blockbuster SPAC mergers of companies such as DraftKings, SPACs have also served as a means to go public for less high profile, but still high quality targets. For example, Collier Creek recently merged with Utz Quality Foods, a family-owned, high cash flow leader in the snack industry founded in 1921, with over 40 years of consecutive growth.[8]

3. Mission-oriented SPACs: One example of a topical mission that SPACs are targeting is that of Environmental, Social and Governance (ESG), which has become top-of-mind for many companies, investment funds and individuals. And SPACs are no exception. For example, in September 2020, Switchback Energy Acquisition Corporation announced its $2.4 billion merger with ChargePoint, a company that provides Electric Vehicle charging solutions.[9]

The SPAC lifecycle, explained

Let's first look at the SPAC process, and then compare it to other exit opportunities for private companies. The process of a SPAC can be divided into the following phases: the formation of the SPAC, IPO, target selection, raising additional capital, shareholder vote / redemption and completion of the acquisition (Exhibit 2).

Exhibit 2: Illustration of a successful SPAC / de-SPAC process



* If acquisition is rejected, the SPAC can search for another target (time permitting), or funds are liquidated and returned to investors

1. Formation of the SPAC and its IPO: The sponsors, who may be operating executives, investment professionals, or both, choose to form a SPAC. The SPAC completes the regulatory filings necessary to go public, which are relatively simpler than those needed for a traditional IPO process. This simplicity is because the company is a "shell" with no formal operations, and the value of the company will be roughly equivalent to the net value of the cash it raises. The SPAC founders then go on a roadshow to attract interested institutional investors and raise capital. Once the fundraising roadshow is complete, the SPAC issues units to the investors. Units usually consist of one share of common stock plus a fraction of a warrant. Warrants function much like options, in that each warrant provides the holder the right to buy additional shares in the future at a discount.[10] Importantly, each share also comes with a redemption right, allowing investors to receive a return of their investment (plus interest). Investors can exercise their redemption rights if they do not approve of the target company selected by the SPAC founders. The proceeds from the sale of the units are then placed in a trust, untouchable until either a transaction is approved or the SPAC liquidates.[11] So what do the SPAC founders get for fronting the initial investment to cover offering expenses, working capital and conducting the target search? They typically receive private placement warrants and more importantly, founder's shares, or "promote". Although the size and form of the promote can vary, it typically represents 20% pro forma ownership of the pre-business combination entity. Once the SPAC's IPO is complete, the SPAC's units trade on the open market, under a ticker related to the name of the SPAC itself. Now that the target company is a publicly-traded business through its combination with the SPAC, any investor (including retail investors) can buy and sell its shares, but note that at this stage the SPAC's shares are traded in the market *before* the SPAC identifies a target.

2. Target search: After the SPAC goes public, the sponsors begin to search for a company to acquire. In most cases this is a private company, but there have been rare instances where a SPAC has targeted a segment of a public company.[12,13] SPACs usually have just 18 to 24 months to identify and acquire a target company (unless the life of the SPAC is extended), otherwise the SPAC liquidates and the capital raised is returned to investors. The structured timeframe creates a sense of urgency for the SPAC sponsors to quickly find and combine with potential targets; in more conventional M&A paths, there is no time limit on a suitor's potential acquisition of a target. This unique feature of SPACs may be beneficial to target companies, since the constricted time frame and considerable capital raised could tilt negotiations slightly more in their favor.

3. Target selection / de-SPACing process: The de-SPAC process refers to the process of a private company becoming public via combination with a SPAC. Once a target company is identified and announced, the de-SPACing process begins. De-SPACing is arguably the most important and intense phase in the lifecycle of a SPAC. During this time, the SPAC sponsors and target owners negotiate and the target's valuation and transaction structure are determined. Although the negotiation is between the seller and the SPAC sponsor, valuation and terms must ultimately be validated by the public.

4. PIPEs: The initial proceeds raised by SPACs typically cover 25% – 35% of the purchase price or funding needs of the target (although this is by no means structural or required).[14] After the SPAC and the target agree on transaction terms, structure and valuation, they can go to the market to raise additional capital to complete the acquisition. This additional capital is usually raised by **PIPEs** (Private Investments in Public Equity). PIPEs are additional equity commitments from either institutional investors who participated in the SPAC, or from new institutional investors. PIPEs offer these investors an opportunity for greater upside and more exposure, since they are purchasing additional equity. In return for this commitment, the PIPE investors receive a set price (rather than market), which is typically at a discount. PIPE investors make their investments without redemption rights – unlike the investments made in the SPAC at IPO. However, since they make their investment once a target has already been identified, there is less uncertainty around their investment and the objective of that SPAC.

5. Shareholder vote / Redemption: Any acquisition the SPAC proposes is subject to approval by shareholders, which enables investors to choose whether or not they approve of the target company selected by the SPAC founders. This is typically a non-event as shareholder approval is obtained for most transactions. Notably, the vote and the redemption decision are not mutually exclusive – meaning that investors can vote to approve the transaction, while electing to redeem their shares to recoup their original investment.[15] If a transaction "fails" due to either a lack of shareholder approval (a rare circumstance), or investor redemptions, then the SPAC is able to look for another target. However, the SPAC still has to adhere to the time frame set at its IPO. In the event of SPAC liquidation, the funds are released from escrow and all proceeds are returned to public shareholders on a pro rata basis.

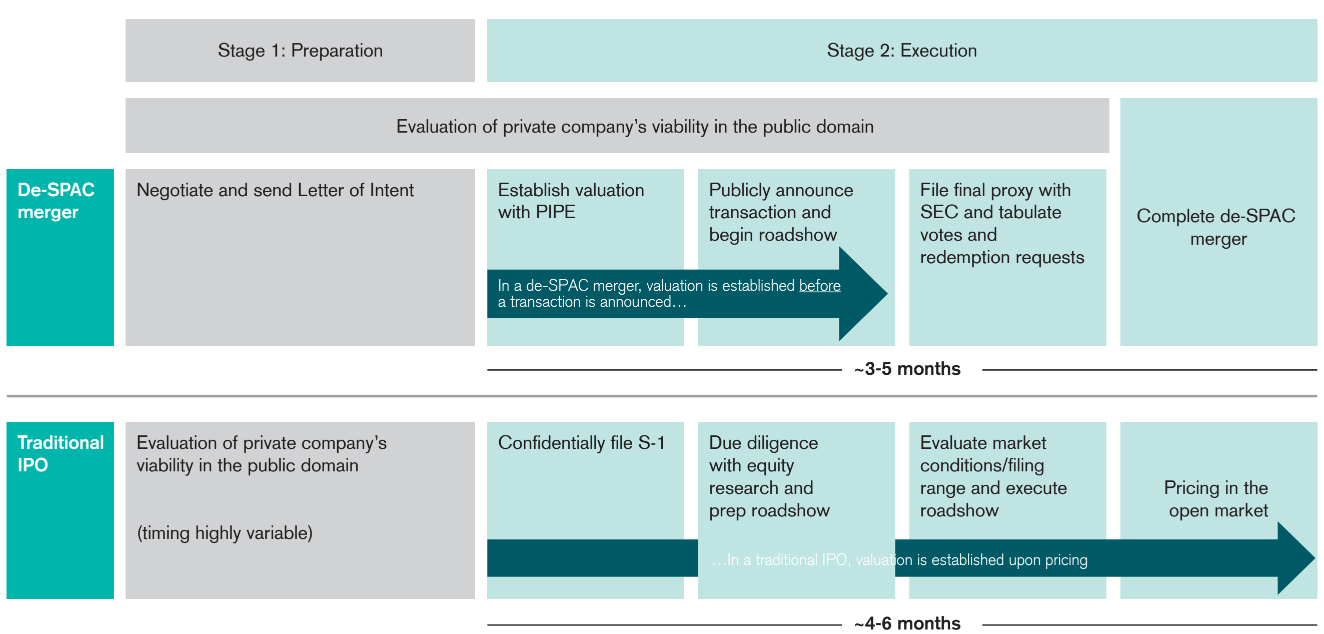
6. Acquisition of the target: If the shareholder vote is successful, and the transaction is approved (including on a regulatory basis), the SPAC and its target merge. In the combination process, SPACs adhere to merger proxy rules (not S-1 rules), so they can include projections of the company's performance in their conversations with potential investors, including with potential PIPE investors. Once the merger is complete, the SPAC changes its name and exchange ticker to new ones reflective of the acquired target and the de-SPACing process is complete.[16] The shares then freely trade, just like any other public company.

Alternatives to a SPAC – traditional IPO

A merger with a SPAC can offer a number of potential advantages over a conventional IPO, which can include **price certainty, use of business forecasts or projections, rapid execution, immediate liquidity, structural flexibility** and **managerial expertise**. Companies going public and raising capital via SPACs get earlier feedback on valuation from institutional investors. This rapid market feedback mechanism is a big reason behind the current de-SPAC explosion in 2020, as volatile markets have led to a search for more price certainty for public exits. In an IPO, price discovery happens at the end of a lengthy process of SEC filings and a roadshow. In a SPAC, price is pre-negotiated between the parties (including PIPE investors) and tested with the market prior to announcement. However, the SPAC proceeds are not committed until closing (due to the existence of investors' redemption rights). This relationship likely explains the proliferation of PIPEs recently – which deliver value and cash certainty.

Since a SPAC is already public, the process for a private target to go public can be more efficient than in a conventional IPO. With a SPAC, private companies can become public in a matter of 3-5 months, whereas a conventional IPO may take 4-6 months... though that IPO could take much longer due to variabilities in the process and preparation (Exhibit 3). Additionally, while both processes require audited financials, the SPAC process provides a wide latitude to share projections. Putting aside any managerial expertise of the SPAC founders, its ability to approach the market quickly with business projections can be a major execution benefit relative to an IPO. Also, by avoiding many of the IPO gating items (early regulatory filings, equity research, etc.), a merger with a SPAC can be completed more quickly – delivering funding for growth, M&A, debt pay-down or secondary proceeds.

Exhibit 3: Illustrative de-SPAC merger vs. traditional IPO timeline



As we just mentioned, target companies are permitted to disclose business forecasts, or projections during the de-SPACing process. Company management has discretion about the level of forecasts needed, and the disclosure of short-term financial projections can help improve investor perception of the company. This feature is particularly advantageous for highly disruptive companies, which may have struggled to go public via a traditional IPO. In the July 2019 merger of *Virgin Galactic* with Social Capital Hedosophia Holdings, the challenge was to raise capital for a pioneer in human spaceflight and space research. But Virgin Glactic is pre-revenue and certainly not (yet) profitable. However, the company and SPAC were able to present long-term projections to potential investors, in combination with creative marketing tactics, including sponsoring a trip to its manufacturing facility and to its Spaceport so investors and analysts could get a full picture of the company's ambitious goals – while also adding a "wow" factor that a regular-way IPO process could not have provided. This process enabled Virgin Galactic to raise several hundred million dollars in fresh capital for its commercialization plans, while also providing liquid currency with which to access the public markets.

A de-SPAC merger provides greater flexibility and price certainty as compared to more traditional IPO processes. SPACs can raise additional capital through PIPEs, and secure financing to support company operations post-merger. This can assure target stakeholders that the liquidity necessary to acquire the target at the agreed-upon price and finance the company's future operations is fulfilled. Moreover, de-SPAC mergers can be flexibly structured and achieve differentiated outcomes for sellers based on their specific needs, giving target companies confidence in their future liquidity and flexibility to deploy the capital raised as they best see fit. An additional benefit for de-SPACing with a PIPE is the ability to raise more capital than in an IPO which is typically limited, as well as the greater opportunity to sell secondary shares, not just primary shares.

Unlike a typical IPO, merging with a SPAC can offer a private company additional managerial or industry expertise from the SPAC founder and their extensive professional networks. In January 2019, Churchill Capital Corporation announced its agreement to acquire *Clarivate*. Churchill was founded by Michael Klein and Jerre Stead, well-known operators in the information services sector. Stead took on the role of CEO of the business and helped Clarivate navigate the public markets using his prior experience, an invaluable asset to the Clarivate team and a concrete example of the strategic value that a partnership with a SPAC can provide to potential target companies.[17]

Like all monetization strategies, merging with a SPAC carries risks for corporates that need to be mitigated and weighed against the potential benefits. Beyond the usual execution risks, there can be valid concerns around the alignment of interests between the SPAC sponsor and shareholders, as well as uncertainty on available funding due to potential redemptions (although that concern can be mitigated by raising additional equity).

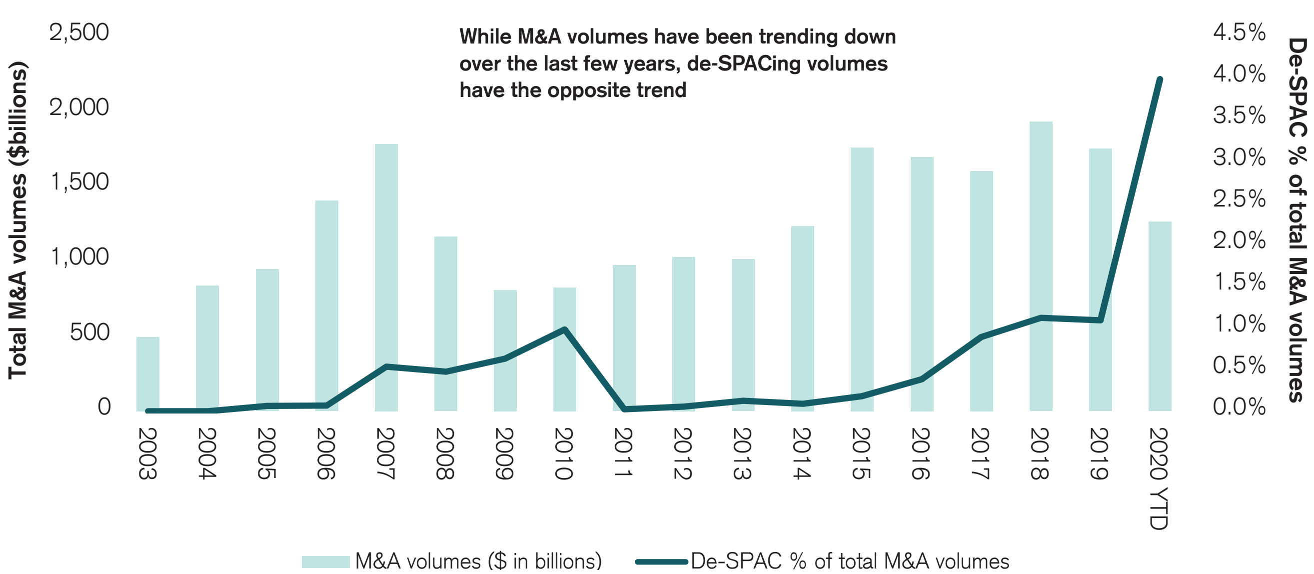
Additionally, it is important to keep in mind that merging with a SPAC is *not* a panacea for private companies that are not actually ready to go public. There are many factors to consider around what makes a company ready to be subject to the scrutiny of public market investors. Once a company becomes public – through any equity capital markets transaction – it will need to meet higher reporting requirements on a quarterly and annual basis and must adhere to more stringent and complex accounting rules for public companies, all of which require tremendous resources both in terms of management attention and financial cost. So, a SPAC does not provide a backdoor entry point for private companies that are not yet ready to subject themselves to these public market standards. Whether you choose to go public via a traditional IPO or a de-SPAC merger, private company management teams and SPAC sponsors must consider "is this a company that is fundamentally ready to be public?"

Alternatives to a SPAC – strategic sale (M&A)

In comparison to a traditional strategic sale, merging with a SPAC can offer numerous advantages to the selling company. These may include **secure upfront capital, greater confidence in the execution of the deal** and **potentially greater ownership retention**. However, there are certain features of M&A that de-SPACs mergers do not possess. For example, a strategic buyer could offer a potential target value-creating synergies. While the price certainty de-SPAC mergers offer can be comforting to a target, a traditional sale can offer more price tension, especially if there are multiple bidders on a target. Conversely, there are features of de-SPAC mergers that can be advantageous in comparison to traditional M&A. When it comes to valuation determination, a traditional M&A transaction of a private company may be linked to private market multiples, while a de-SPAC merger of a private company involves price discovery with the public markets. Consequently, differences in public versus private market valuations should be considered when comparing merging with a SPAC to a strategic sale.

Potential acquisition candidates seem to be taking notice of the advantages SPACs have to offer. As shown below, while overall M&A volumes have been trending down over the last few years, de-SPACing volumes exhibit the opposite trend. De-SPAC mergers – or completed SPAC acquisitions – increasingly represent a larger share of total M&A deal volumes. Given the enormous wave of SPAC money raised in 2020, we expect de-SPACs to play an increasingly important role in the M&A market in 2021 and beyond (Exhibit 4).

Exhibit 4: M&A volumes and de-SPACing volumes over time[18]



SPACs often target companies that are, on average, three to five times larger (on an enterprise value basis) than the capital initially raised by the SPAC itself.[19] Consequently, it is extremely common to raise PIPE financing once a target is identified, providing the target company with a source of substantial liquidity to continue its operations, execute on M&A or fund whatever other needs it may have. The capital raised can be used flexibly, in any way best suited for the target. In December 2019, *DraftKings*, a digital sports entertainment and gaming company, entered into a tri-party merger agreement with Diamond Eagle Acquisition Corp and SBTech, a provider of cutting-edge sports betting and gaming technology. Diamond Eagle was able to secure a $305 million PIPE to complement the $400 million it raised in the SPAC and complete the merger of the three companies[20]. The capital raised gave the parties involved security in terms of liquidity and the structure of the de-SPAC merger allowed for the proceeds to be used dynamically.

Double Eagle Acquisition Corp's merger with *Williams Scotsman* ("WillScot") in November 2017 demonstrates another way that SPACs can be used to achieve differentiated outcomes. The acquisition was done as a carve-out, with Double Eagle acquiring WillScot from Algeco Scotsman. The deal provided $800 million of capital for the de-SPACed company to deploy, which was used for a number of acquisitions post-close, exemplifying the dynamic way in which SPACs can be used to execute a roll-up strategy.[21]

Target company stakeholders can also have greater confidence in the completion of the merger as opposed to traditional M&A transactions. One common myth around SPACs is that the shareholder vote presents a significant risk to a transaction closing. In reality, rejections by SPAC shareholders are rare. Since 2010, we have not found any SPAC transaction voted down for SPACs above $100 million. The promote held by sponsors carries significant voting weight, so the need for additional votes in favor of a transaction can be fairly minor, setting the odds of approval quite high.[22] Additionally, investors have incentives to vote a transaction through, since their warrants will suffer if the SPAC fails or has to liquidate, and their redemption rights are separated from their vote.[23]

While there should be less of a concern around the successful outcome of a shareholder vote, there is still a possibility of a deal falling through due to too many redemptions.

As opposed to a traditional sale, SPACs hold the option for the selling party to maintain a meaningful stake in the new entity post-merger. In a typical M&A process, the seller often surrenders ownership and involvement in the entity once sold. In a de-SPAC merger, the target company is combined with the acquirer and the selling shareholders can retain sizable stakes in the company. In the June 2020 combination of Collier Creek's SPAC with *Utz Quality Foods*, two of the SPAC sponsors were Chinh Chu, former Blackstone Co-Head of Private Equity and Roger Deromedi, former Chairman of Pinnacle Foods and former CEO of Kraft Foods. Their involvement offered Utz extensive strategic experience from an investment and operational perspective. Furthermore, Utz had long been family-owned and the merger was structured such that the Rice and Lissette family, the founding owners of Utz, would retain over 90% of its current equity stake, representing more than 50% economic ownership in the combined entity.[24] By combining with the Collier Creek SPAC, the founding family was able to retain its majority stake in the combined company and use the proceeds from the de-SPAC merger to de-lever its business.[25]

Considerations of a SPAC IPO for sponsors, companies, and investors

SPACs offer a unique and wide array of benefits, which vary depending on the party involved. For **SPAC sponsors**, SPACs offer significant upside for relatively low upfront cost. The sponsor funds the working capital expenses of the SPAC and searches for the target, and can commit any additional capital should they choose to. In return, sponsors receive the "promote", on top of the pro-rata shares they receive based on their contributed capital. This sizable stake increases the likelihood of material upside for the sponsor.

For **private companies**, transacting with a SPAC offers many potential advantages. First and foremost, SPACs offer materially faster price discovery and less variability in execution timing than IPOs. SPACs also enable private companies to more explicitly communicate their forward-looking narrative via projections and business forecasts, and innovative marketing that would not be possible in a traditional IPO. Transacting with a SPAC can provide experienced operational support to the company post-acquisition. SPAC sponsors and investors can leverage buy-side relationships in order to raise more capital for the target, they can hold board seats or take on managerial roles in the target and serve as strategic advisors, and they can leverage their established presence in the market or specific industry to the target's advantage. Lastly, SPACs offer great flexibility in how they can be structured or financed in order to achieve differentiated outcomes as desired by the target.

For **institutional investors**, there is downside protection when investing in a SPAC, and potential further upside beyond the common shares they own from the warrants they receive, however they can only realize sizable profits if the SPAC is successful and completes an acquisition. If they do not like the target company chosen to be acquired, they can get their money back plus whatever interest accrued during the time it was held in the trust, however their incremental returns will be relatively low since the cash held in the trust is invested in short-term U.S. government securities (i.e. U.S. treasuries). If they approve of the target, they can exercise the warrants they receive in the IPO stage of the SPAC, allowing them to benefit from any share price appreciation post-acquisition. Conversely, if the SPAC does not successfully identify a target company to acquire in the pre-determined timeframe, institutional investors receive their initial investment back in its entirety. After the de-SPAC merger is completed, the success of their investment is dependent on the success of the newly public company.

For **retail investors**, the risk-reward tradeoff of a SPAC is unique. In a traditional IPO, retail investors are often restricted from individually investing prior to the company's debut on the public market. This restriction prevents them from reaping a large portion of the upside available to those who can purchase shares before an IPO. With SPACs, retail investors can invest *before* the SPAC has announced a target, allowing them to enjoy the potential uplift in share price once a merger is announced. Investors must get comfortable with relying on the prestige and credibility of the team behind the SPAC, and with having little influence on what company the SPAC decides to purchase. For retail investors, the bet is made on the SPAC sponsor.

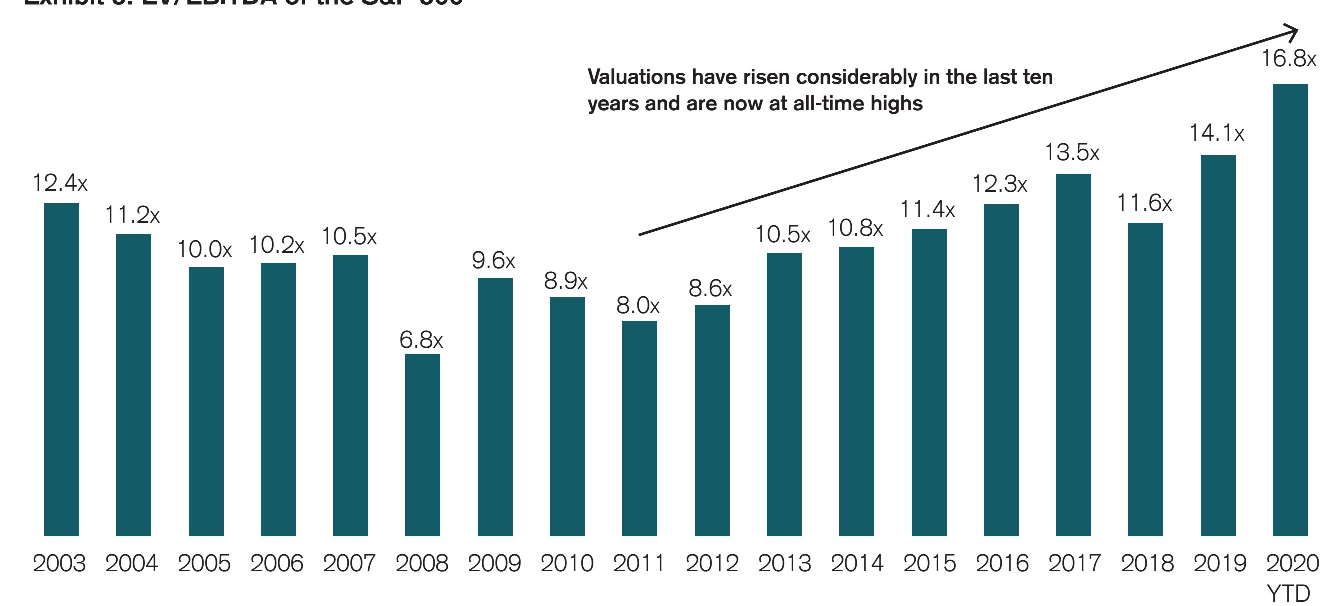
What's driven the 2020 SPAC explosion?

So far, so good about SPACs and how they compare to conventional IPOs and M&A. So why are we hearing so much about them this year? We think there are four primary reasons that SPACs have boomed in 2020:

1. SPACs can provide a path to going public that offers pricing certainty in an uncertain market. From a private company standpoint, those looking to explore exit opportunities via IPO are faced with market conditions that are unpredictable at best. SPACs offer companies upfront price discovery and certainty regarding the proceeds raised.

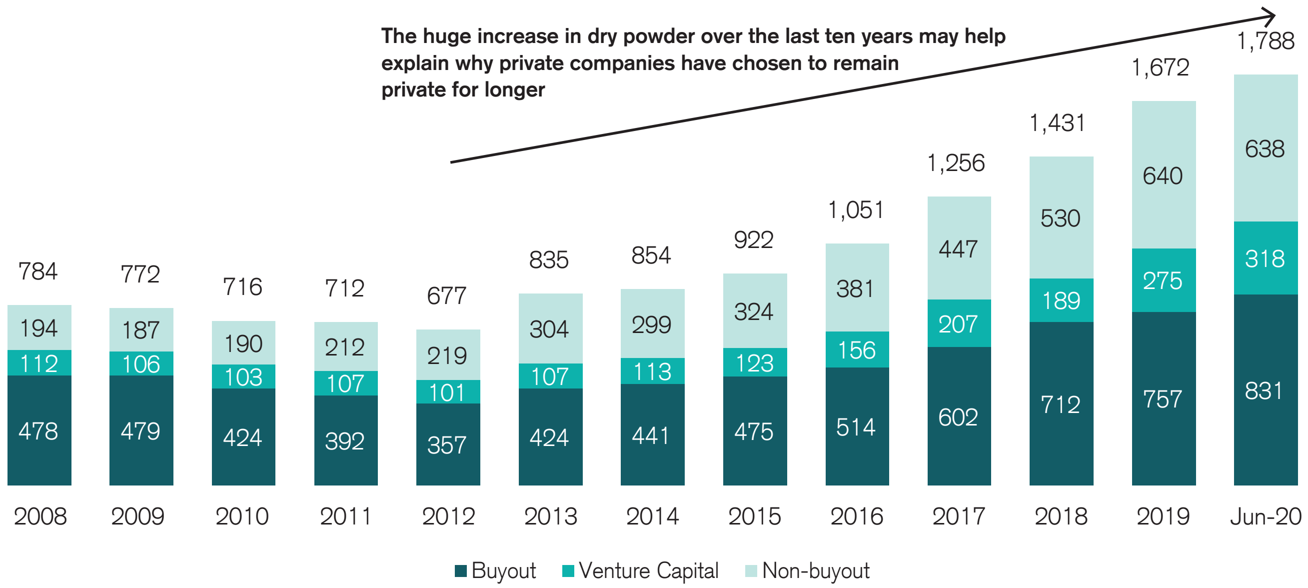
2. Public market valuations are at record levels which has widened the public-private valuation gap. As shown below, public market valuations have reached all-time highs, incentivizing private companies to act quickly and capitalize on the current market conditions. The many advantages of SPACs and the high potential valuations targets can receive are drawing them towards the public markets, with SPACs as the vehicle of choice.

Exhibit 5: EV/EBITDA of the S&P 500 [26]



3. More dry powder available. Private capital dry powder (unspent private capital) has remained at record levels, reaching $1.8 trillion as of June 2020.[27] The growing interest in private capital funding has increased amongst all types of funds (Exhibit 6), and SPACs can provide an exit opportunity for private capital.

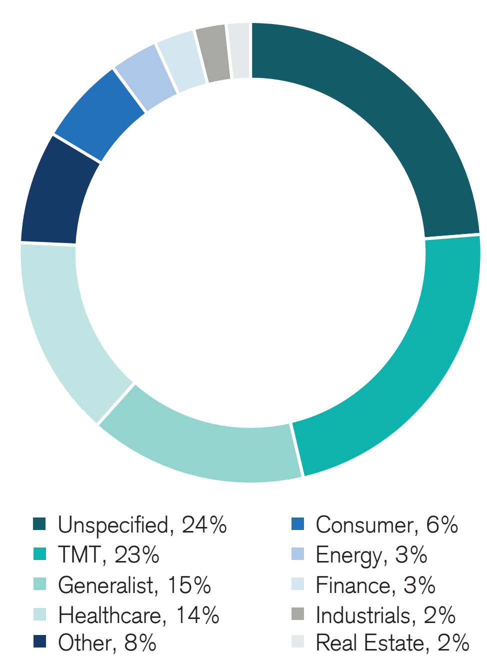
Exhibit 6: Annual dry powder[28]
$ in billions



4. Private companies have remained private for longer. As evidenced by the significant decrease in U.S. publicly-listed companies over the last 20 years,[29] and supported by the extensive capital supplied by venture capital funds and others looking to fund later-stage companies, the pool of companies available for SPACs to acquire has expanded, thereby also increasing an opportunity for SPACs to be formed.

We believe these four themes are the primary drivers behind the recent popularity of SPACs, but there are certainly other factors to consider as well. SPACs are being led by more and more credible sponsors, often founders who are experienced operators in the industries the SPAC is targeting. Leadership teams with industry-specific experience can be extremely helpful in providing guidance to and driving the success of the target company; behind the latest wave of SPACs are seasoned founders and management teams with extensive expertise in a variety of industries, which helps explain the diverse industry focus of SPACs today (Exhibit 7). The SPAC founders can utilize their operational expertise and take on leadership roles in the de-SPACed company, in positions ranging from board members to CEO, providing immense value to their targets.

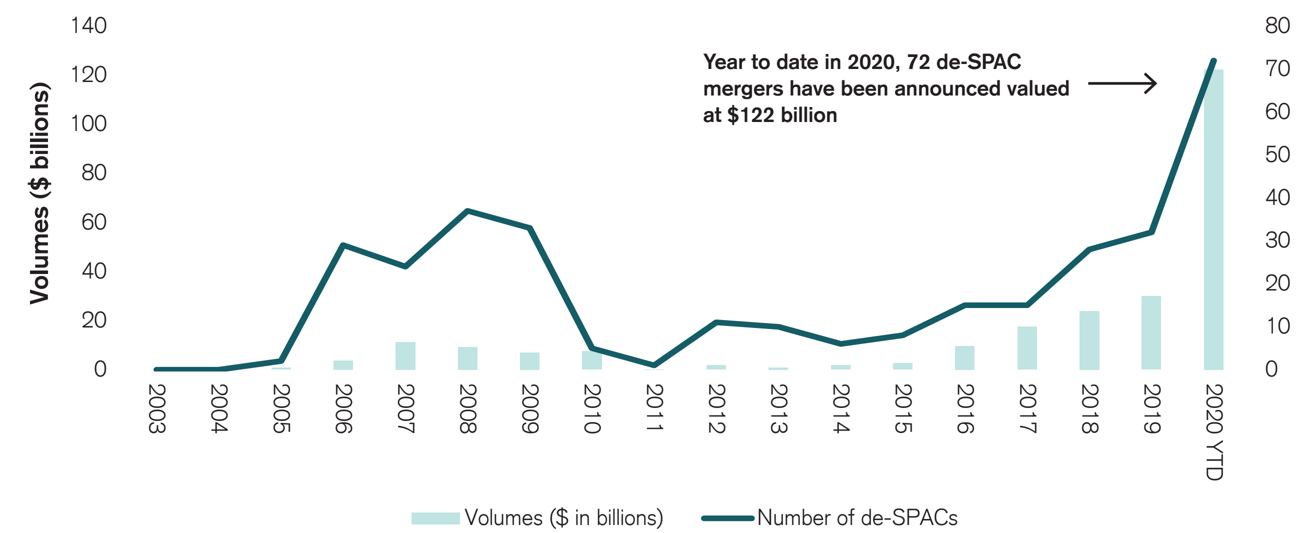
Exhibit 7: 2020 U.S. SPACs by industry[30]



The boom of SPACs in 2020 has spanned a wide variety of industries, specifically targeting TMT (Technology, Media and Telecommunications) and Healthcare companies

Additionally, the percentage of SPACs that fail to find a target and consequently liquidate has substantially decreased, adding to their credibility as an investment vehicle and to their reliability in getting deals done and taking companies public. Since 2015, the average percentage of SPACs that failed to make an acquisition and were forced to liquidate was just 5.9%, in comparison to an average of 27.3% from 2009 to 2014.[31] Aside from a lower level of liquidation, there is also an increased level of de-SPAC merger deals being completed. Year to date in 2020, 72 de-SPAC merger deals have been announced valued at $122 billion. (Exhibit 8)

Exhibit 8: U.S. de-SPACing deal count and volumes[32]

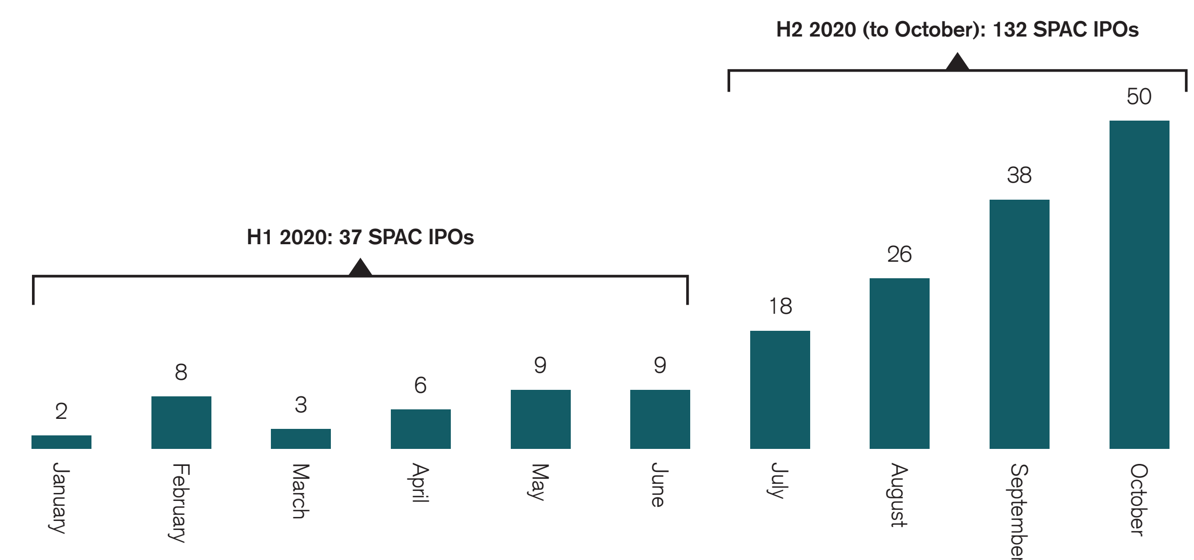


Recent SPACs have stipulations in place that align investor incentives to the target and increase investor confidence. In most cases, SPACs have lock-up periods, or periods of time when investors are restricted from selling their shares and warrants. The typical lock-up period for existing investors of the target company is six months, and one year for the SPAC sponsor, which can be subject to negotiation (such as early release potential if the stock performs well). The longer lock-up period ensures that investors (and particularly the SPAC sponsors who have a significant stake in the newly public target) are incentivized to see the company outperform.[33]

Looking forward

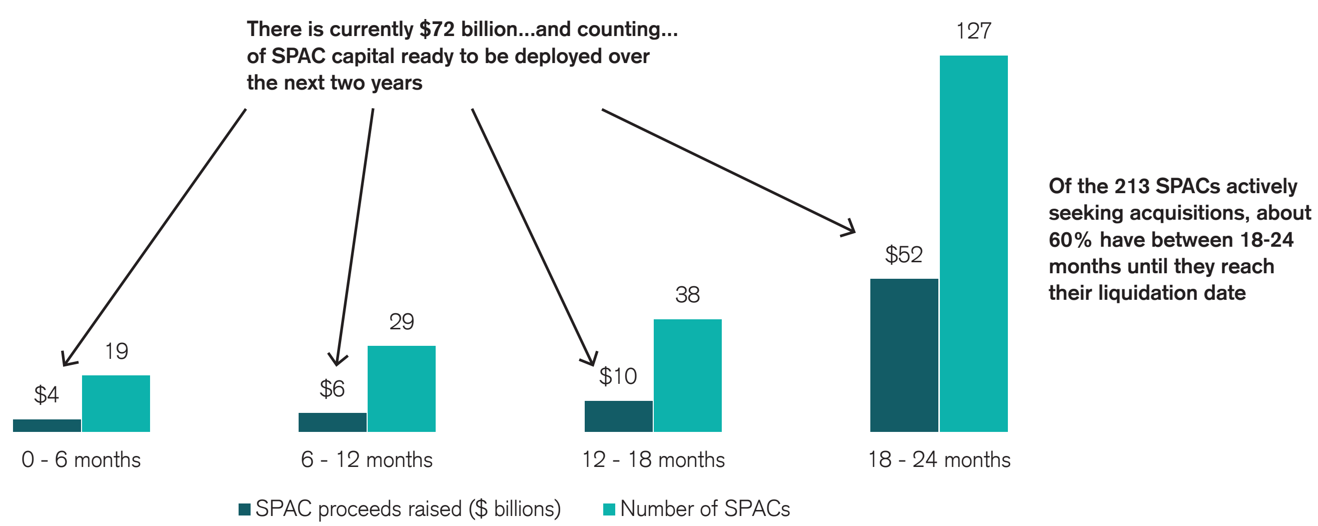
While nobody has a crystal ball to predict what the future market holds, a closer look at volumes during 2020 can help serve as a guide for which way the SPAC market is headed in the near term. In the second half of 2020 alone – through October – there have been over 130 SPAC IPOs in the US (Exhibit 9).

Exhibit 9: 2020 monthly U.S. SPAC issuance[34]



Even in the extremely unlikely event that the SPAC market ground to a complete halt today, there will still be substantial de-SPAC market activity for 2021 and beyond. Remember that SPACs have roughly two years to acquire a target company and complete their de-SPAC process. Of the 213 currently active SPACs, representing $72 billion in capital, about 60% have between 18 and 24 months until they reach their liquidation date (Exhibit 10).

Exhibit 10: Time remaining until liquidation and proceeds raised[35]

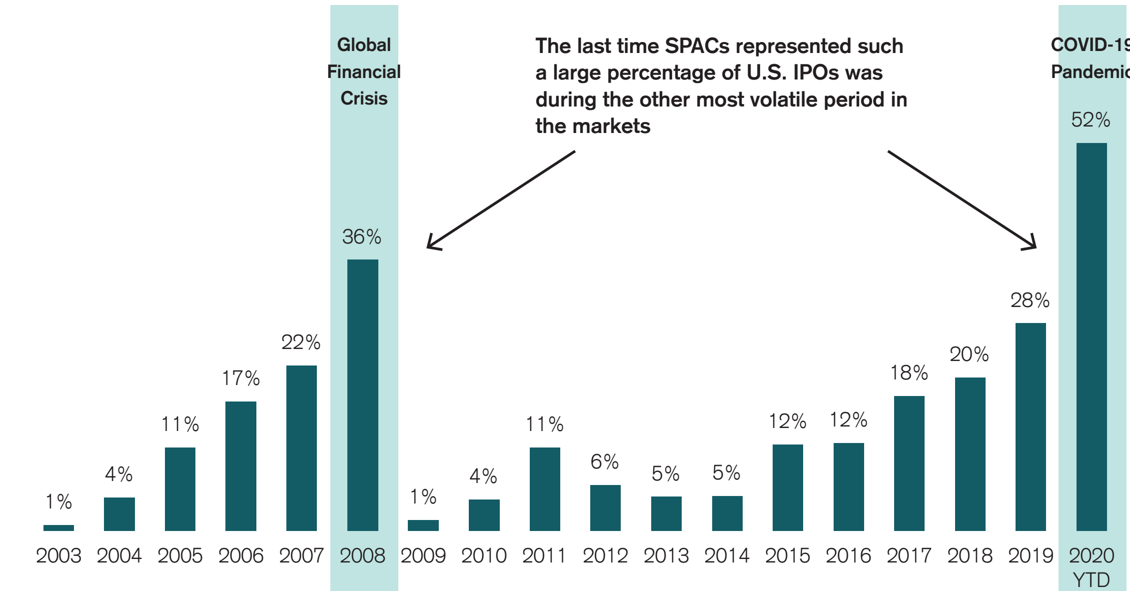


From a purchasing power perspective, these SPACs seeking acquisitions have raised a cumulative $72 billion from their IPOs alone. Since most SPACs acquire targets well in excess of their initial size, on average between three to five times, the total capital being deployed through SPACs could be in excess of *$350 billion in the next two years.* This sets the stage for the dominant presence of SPACs in the near term, and suggests that this wave of SPACs is still building and has yet to crest. If SPACs continue to emerge in the coming year, the amount of "dry powder" they possess to impact the M&A and equity markets will remain substantial.

While nobody in the current market believes that the SPAC market will grind to a halt, an unavoidable question remains… **is the current pace of activity sustainable?** We can turn to history to offer some clues.

From 2003 to 2019, SPACs represented an annual average of 13% of all U.S. IPOs, ratcheting up to over 50% in 2020 (Exhibit 11).

Exhibit 11: U.S. SPAC IPOs as % of total U.S. IPOs[36]



US SPAC IPOs per year	**1**	**12**	**28**	**37**	**66**	**17**	**1**	**7**	**16**	**9**	**10**	**12**	**20**	**13**	**34**	**46**	**59**	**177**

As exhibit 11 shows, the last time SPACs represented such a large percentage of U.S. IPOs was during the other most volatile period in the markets. This relationship might explain the record level of SPAC issuance in 2020. Might we now expect to see a quiet period to allow the capital markets to digest this massive surge a bit?

Perhaps. We continue to believe that good businesses and good opportunities will overcome any perceived market indigestion. These quality businesses will stand out on their merits, with strong business models, experienced and accomplished leadership teams and good M&A stories.

Lastly, we must recognize that since there are a finite number of targets of interest to a large and growing number of SPACs, the terms and structures of SPACs will likely need to continue to evolve in order to remain competitive and successfully complete acquisitions – a boon to any current owners of private companies. From an incentive perspective, some SPACs are changing the terms of the promote which sponsors receive and the warrants granted to institutional investors. Irrespective of what 2021 brings, SPACs will continue to make waves and become a mainstream path to the public markets for private companies. While the growth trajectory may not remain at 2020 levels, it is likely that we will see SPAC issuance at elevated levels relative to prior years. And with the liquidity we see raised, SPACs are likely to remain a prominent fixture in the exit strategy toolkit, alongside more conventional IPOs and strategic sales.

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