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Spotlight on SPACs: The dog days of summer

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'Spotlight on SPACs' is a weekly column that tracks the latest news, data, and analysis on special purpose acquisition companies, drawing on proprietary intelligence from Mergermarket and Dealreporter, as well as data from Dealogic.

After a dry July, new SPAC issuance trickles into August

After zero special purpose acquisition company pricings on the US exchanges in July, there have been three to open August. The title of the most recent SPAC to hit the exchanges, **Embrace Change Acquisition** [NASDAQ:EMCG], is fitting of a market that has seen its share of ups and downs over the last two years.

But just because new issuance is flowing into the markets again, that doesn't mean SPACs are about to reclaim their glory of 18 months ago, said Bill Hicks, co-chair of **Mintz**'s capital markets practice.

"I don't think it's a sign of a revived SPAC market," Hicks said.

Given the intense regulatory scrutiny of the asset class, and an average redemption rate above 81% this year, investors and underwriters are reluctant to back blank check companies like they once did, he said.

Moreover, there are now 579 US-listed SPACs seeking acquisition targets, according to *Dealogic*, which Hicks and other advisors say has created a highly competitive market for both new and old participants.

While there is not an endless supply of public-ready businesses for these cashless shells to buy, there is a breed of targets seeking access to the public markets that have met key commercialization thresholds, said Will Braeutigam, national capital transactions leader at **Deloitte & Touche**. These targets need new capital to expand their businesses and they continue to evaluate SPACs as potential partners, he said.

With volatility in the public markets, traditional initial public offerings are down 90% compared to last year, he added. To avoid price risk, targets are engaging with SPACs since they can negotiate the valuation they receive in a transaction before their shares begin trading publicly, Braeutigam said.

There have been 62 completed SPAC mergers that generated USD 137bn to date this year, according to *Dealogic*. Braeutigam said he expects between 80 and 120 US SPAC mergers to close in 2022.

Although it won't match last year's record merger activity when access to capital was much cheaper, this year should see the second highest number of SPAC mergers in history, Braeutigam predicted.

Hundreds of SPACs created in 2020 and 2021 are running out of time to make buys, he noted.

"We are going to have transactions that are time-based forced through," said Heather Gates, a managing director at Deloitte. "In the next nine months, M&A activity could be off the charts."

The second half of this year should be active in both SPAC and traditional M&A, she said. Valuations have come down and buyout firms, large strategics, and SPACs have loads of "dry powder to put to work."

Based on her conversations with bankers, Gates said she expects the first half of 2023 to be busy in M&A. In the coming months, many expansion-stage businesses will be thirsty for financing, she said.

"Some companies raised huge rounds of funding last year," Gates said. "A lot of those will be fine, especially if they have businesses that fill a clear need." But other companies that didn't secure funding before this year's market turndown, "they may have to see some restructuring."

Hicks, however, is skeptical how active a role SPACs can play in M&A this year.

Targets only want to do deals with SPACs that still have money in the bank after shareholder redemptions, he said. The most common way to secure committed financing is through private placements in public equity (PIPEs) and those have become extraordinarily more difficult to line up compared to early 2021, Hicks said. Also PIPE investors typically receive favorable deals that dilute existing shares and reduce value, he added.

"It's not a good environment to do a de-SPAC," Hicks said. "It is tough."

In other SPAC news:

- **Locus Robotics**, a provider of autonomous mobile robots for fulfillment warehouses, is **ready for an IPO (https://www.mergermarket.com/intelligence/view/intelcms-dqff3k)** when market conditions improve, CEO Rick Faulk told *Mergermarket*. The Wilmington, Massachusetts-based company is "quickly approaching" USD 100m in recurring revenue and has nearly 400 employees, he said, adding it has the necessary ingredients for an IPO. "It's probably 12 months away," he said, adding that the robotics company would like to choose a banker about six months prior to listing. It plans to list on a US exchange, he said, and Locus has not ruled out merging with a SPAC as an entryway to the public markets.
- **Udinese Calcio**, **an Italian football club (https://www.mergermarket.com/intelligence/view/intelcms-6qgkpb)**, is looking to list on the New York Stock Exchange through a

merger with a SPAC, Italian-language *Il Sole 24 Ore* reported. The report cited financial sources who said that the operation was being carried out in partnership with **890 Fifth Avenue Partners.** The item said that the owner of Udinese is the Pozzo family. Udinese closed the financial year ending 30 June with a loss of EUR 36.8m, the report noted.

by Troy Hooper in Los Angeles

Grade: Confirmed

TARGETS

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Topics: Insights, IPO, SPACs

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