INTEGER WEALTH GLOBAL

Special Purpose Acquisition Companies (SPAC's) Work (Originally a PwC Publication not under copyright)

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How Special Purpose Acquisition Companies (SPAC's) Work

Special Purpose Acquisition Companies (SPACs) have become a preferred way for many experienced management teams and sponsors to take companies public. A SPAC raises capital through an initial public offering (IPO) for the purpose of acquiring an existing operating company. Subsequently, an operating company can merge with (or be acquired by) the publicly traded SPAC and become a listed company in lieu of executing its own IPO.

A recent PwC Deals blog explores why companies are joining the SPAC boom, including recent trends and the potential advantages. Here we discuss how SPAC mergers work and the related accounting and reporting issues.

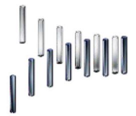
This approach offers several distinct advantages over a traditional IPO, such as providing companies access to capital, even when market volatility and other conditions limit liquidity. SPACs could also potentially lower transaction fees as well as expedite the timeline to become a public company.

However, the merger of a SPAC with a target company presents several challenges, including having to meet an accelerated public company readiness timeline as well as complex accounting and financial reporting/registration requirements that may differ based upon the lifecycle of the SPAC involved. The target company's management team will need to focus on being ready to operate as a public company within three to five months of signing a letter of intent.

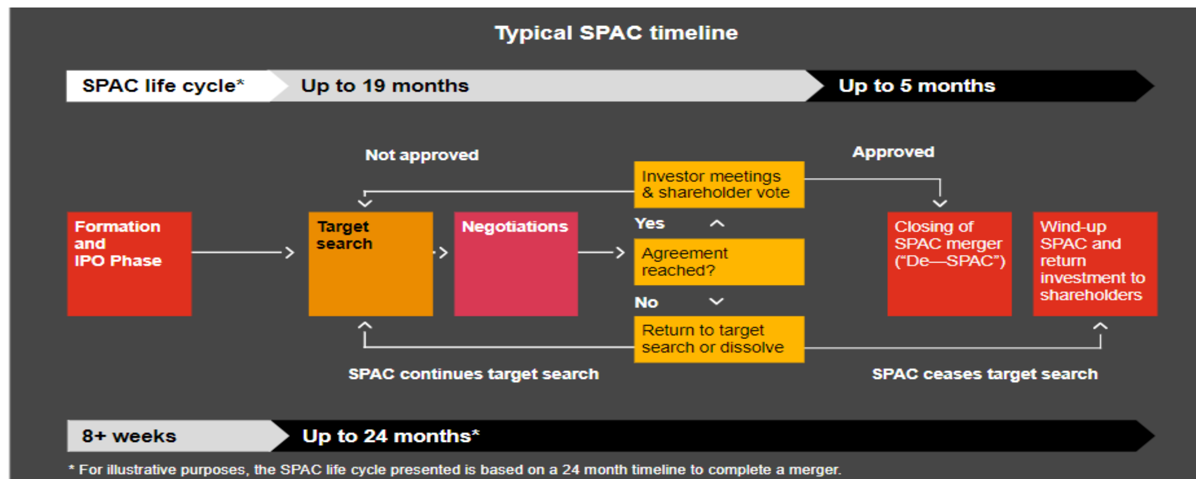
SPAC formation and funding

Generally, a SPAC is formed by an experienced management team or a sponsor with nominal invested capital, typically translating into a ~20% interest in the SPAC (commonly known as founder shares). The remaining ~80% interest is held by public shareholders through "units" offered in an IPO of the SPAC's shares. Each unit consists of a share of common stock and a fraction of a warrant (e.g., ½ or ⅓ of a warrant).

Founder shares and public shares generally have similar voting rights, with the exception that founder shares usually have sole right to elect SPAC directors. Warrant holders generally do not have voting rights and only whole warrants are exercisable.



Typical SPAC timeline



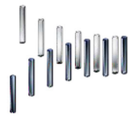
A SPAC's IPO is typically based on an investment thesis focused on a sector and geography, such as the intent to acquire a technology company in North America, or a sponsor's experience and background. Following the IPO, proceeds are placed into a trust account and the SPAC typically has 18-24 months to identify and complete a merger with a target company, sometimes referred to as de-SPAC'ing. If the SPAC does not complete a merger within that time frame, the SPAC liquidates and the IPO proceeds are returned to the public shareholders.

Once a target company is identified and a merger is announced, the SPAC's public shareholders may alternatively vote against the transaction and elect to redeem their shares. If the SPAC requires additional funds to complete a merger, the SPAC may issue debt or issue additional shares, such as a private investment in public equity (PIPE) deal.

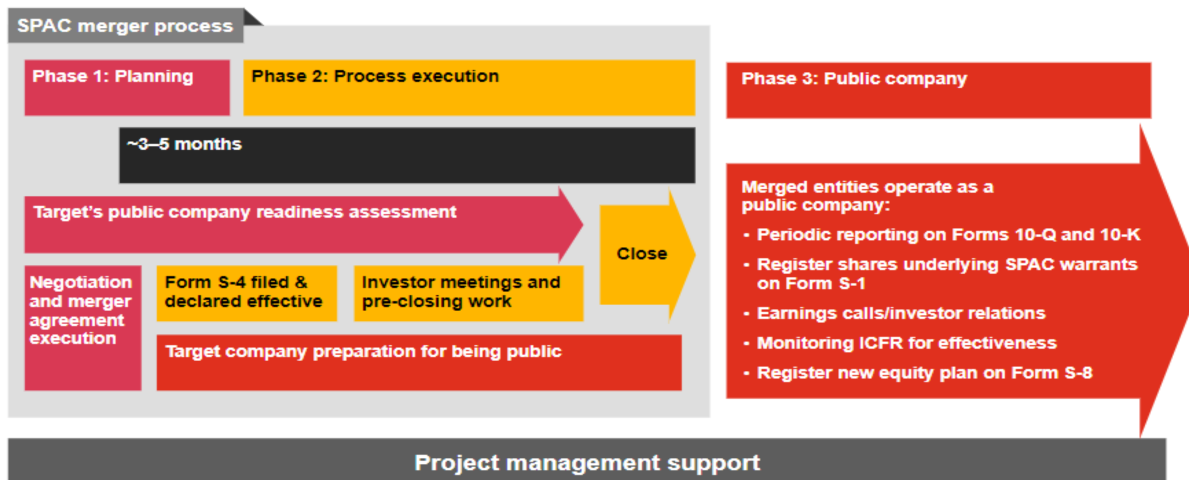
The SPAC merger

Once formed, the SPAC will typically need to solicit shareholder approval for a merger and will prepare and file a proxy statement (or a joint registration and proxy statement on Form S-4 if it intends to register new securities as part of the merger). This document will contain various matters seeking shareholder approval, including a description of the proposed merger and governance matters. It will also include a host of financial information of the target company, such as historical financial statements, management's discussion and analysis (MD&A), and pro forma financial statements showing the effect of the merger.

Once shareholders approve the SPAC merger and all regulatory matters have been cleared, the merger will close and the target company becomes a public entity. A Form 8-K, with information equivalent to what would be required in a Form 10 filing of the target company (commonly referred to as the Super 8-K), must be filed with the US Securities and Exchange Commission (SEC) within four business days of closing.



Overview of going public using a SPAC



Public company readiness

A target company in a SPAC merger will need to prepare itself for being a public company normally within a few months, which is a shorter timeline compared to a traditional IPO for substantially the same preparation, due diligence, prospectus-drafting and SEC engagement and oversight. Public company readiness for a target company should cover cross-functional topics such as: accounting and financial reporting, finance effectiveness, financial planning and analysis, tax matters, internal controls and internal audit, human resources (HR) and compensation, treasury, enterprise risk management, technology and cybersecurity.

The bottom line

SPACs continue to gain popularity as a potential liquidity option for many companies. The SPAC merger process with a target company may be completed in as little as three to four months, which is substantially shorter than a typical traditional IPO timeline. Accordingly, a target company must accelerate public company readiness well in advance of any SPAC merger. Further, given the compressed timeline of a SPAC merger, project management is essential in order to reduce execution costs, increase project efficiencies, and provide working group participants with enhanced accountability and transparency.

Thank you to PwC for the use of this article originally submitted on the PwC website at:

https://www.pwc.com/us/en/services/audit-assurance/accounting-advisory/spac-merger.html