UK FINANCE QUICK BRIEF

UK FINANCE

FACTS ABOUT SPACS

WHAT IS A SPAC?

Special purpose acquisition vehicles ("SPACs") are companies with no trading operations. They are established solely for the purpose of raising capital in order to finance the future acquisition of another business or businesses.

HOW DOES A SPAC WORK?

A SPAC is typically established by sponsors to raise funding from the public markets through an initial public offering of its shares ("IPO") and listing on a stock exchange – the SPAC itself will be listed at this stage but at this point will not yet have acquired a company. The funds raised at IPO are retained for use later by the SPAC to acquire a suitable company. This step is known as a De-SPAC transaction.

IPO:

Initial public offering of shares in a company in conjunction with a public listing on a stock exchange.

SPONSOR:

The founder(s) of a SPAC, generally being well-known investor(s) with expertise in a particular industry (e.g. Biotech).

SPACs do not have an operating business model when established, but their management works to identify and then negotiate with potential acquisition targets.

Once established, SPACs seek out acquisition targets and are often used to implement reverse takeovers of unlisted private businesses, resulting in the target company effectively having become a listed business without carrying out its own IPO.

ACQUISITION:

Purchasing most or all of another company's shares to gain control of that company.

NOTABLE FEATURES OF SPACS:

- Sponsors usually have arrangements in place to incentivise and reward them in respect of a successful acquisition.
- Warrants will typically also be issued to the sponsors and other investors exercisable after completion of the acquisition as additional incentivisation.
- Typically, a SPAC's operating period is limited to 24 months within which it must complete a transaction, this may be subject to extension with investor approval.

WHY ARE SPACS USED?

SPACs are attractive structures for investors seeking to achieve an accelerated listing process in combination with an acquisition or series of acquisitions.

Key benefits include:

I. Increased speed of acquisition as the SPAC funds are already in place prior to commencing negotiations.

II. Increased deal certainty as the risk associated with a separate IPO process in respect of the combined business is avoided.

HOW ARE SPAC INVESTORS PROTECTED?

Typically, market practice has built in various investor protections to the structure of SPACs. These vary by jurisdiction but typically include:

I. Option for shareholders to redeem their investment either at par or at a pre-determined amount once they have full information about the SPAC's proposed acquisition.

II. A shareholder vote on the proposed acquisition.

III. The funds raised at IPO being ring-fenced through escrow or trust arrangements pending an acquisition.

WHERE ARE SPAC MARKETS GROWING?

SPAC structures have been in use for years across global equity markets but have become an increasingly prominent feature in the United States in recent years.

231 US SPACs in 2020

Total **$81.2**bn raised

In the US in 2020, 231 SPAC vehicles (that have each raised the US$ equivalent of £75m or more) were listed raising an aggregate total of $81.2bn, and a similar amount has been raised in Q1 2021 alone.

European markets, particularly Amsterdam, have also seen increased use of these structures in recent years. By contrast, no SPAC vehicles raising £75m or more were listed in the UK in 2020.

WHY ARE SPACS LESS COMMON IN THE UK AND WHY ARE WE HEARING SO MUCH ABOUT THEM NOW?

Currently, the UK rules mandate that trading in a listed SPAC is temporarily suspended at the point where a target acquisition is announced by the SPAC. In practice, this means that investors in UK SPACS are effectively "locked in" for several months until a prospectus is published, prior to completion of the acquisition.

This rule is based on the FCA's policy position that even where all the information required under the Market Abuse Regulation has been announced, until a prospectus is published for the acquired business investors are unable to adequately assess the SPAC's financial position and prospects. SPAC investors regard it as very important to be able to trade their securities without interruption following the announcement of an acquisition.

This has contributed towards a view among some SPAC sponsors when considering where to list that the UK is not as flexible as other global listing destinations. The changes proposed to the SPAC rules in Lord Hill's listings review, which aims to make the UK a more attractive and competitive destination for SPACs to list, are designed to address this issue and, as a result, the FCA has recently consulted on implementing rule changes in this area. The change would bring the UK in line with the United States or Amsterdam where there is no equivalent requirement for suspension of trading. You can access UK Finance's contribution to Lord Hill's call for evidence here.

DID YOU KNOW...

- Over 50 SPACs have listed in the UK in the last five years, with more than $2 billion raised by SPACs on the London Stock Exchange since 2017.
- The largest UK SPAC IPO in the last decade was J2 Acquisition Holdings, which raised $1.25 billion in its 2017 London debut.[1]

1. https://www.londonstockexchange.com/reports?tab=main-market