SPACs vs. Traditional IPOs
By Ruchi Agrawal

SPACs, explained
A special purpose acquisition company (SPACs) is formed to raise capital through an IPO for the purpose of acquiring an existing company. It’s a shell company that attempts to acquire a private business and take it public. SPACs generally do not have any business operations and even stated targets for acquisition at the time of their IPO.

Here’s how it works
After raising money from investors in an IPO, the SPAC then find a target company and try to strike a merger and acquisition deal. SPAC buys private company’s entire IPO at a negotiated price. It then gives cash to the company which in return gives its shares to the SPAC. The shares are then distributed to its investors who become owners of the newly public company. SPAC have two years to complete an acquisition or they will have to return their money back. Money raised is kept in an interest-bearing trust account from which the funds cannot be disbursed for any purpose other than to complete an acquisition or to return it back to the investors.

Notable SPACs 2020
Pershing Square Tontine Holdings:
Capital Raised: $4 billion

Churchill Capital Corp. III
Capital Raised: $1 billion

Therapeutics Acquisition
Capital Raised: $118 million

Companies going public via SPAC
Virgin Galactic
Acquired by SPAC: Social Capital Hedosophia

DraftKings
Acquired by SPAC: Diamond Eagle Acquisition Corp

Nikola
Acquired by SPAC: Vector IQ Acquisition Corp.
Underpricing – a flaw to the Traditional IPO process

The Cost ($ Billions) of Underpricing (1st Day Net Gain)

<table>
<thead>
<tr>
<th>Year</th>
<th># IPOs</th>
<th>Day 1 Underpricing</th>
<th>$$$ Underpriced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-2019</td>
<td>8,610</td>
<td>20.7%</td>
<td>$197.89B</td>
</tr>
<tr>
<td>2016</td>
<td>75</td>
<td>16.6%</td>
<td>$2.07B</td>
</tr>
<tr>
<td>2017</td>
<td>107</td>
<td>15.0%</td>
<td>$4.24B</td>
</tr>
<tr>
<td>2018</td>
<td>134</td>
<td>21.4%</td>
<td>$7.95B</td>
</tr>
<tr>
<td>2019</td>
<td>112</td>
<td>27.0%</td>
<td>$7.97B</td>
</tr>
<tr>
<td>2020 (1H)</td>
<td>58</td>
<td>31.0%</td>
<td>$7.8B</td>
</tr>
</tbody>
</table>


Why SPACs are so popular

Having wider access to capital, liquidity and experienced managers, as well as greater market certainty and flexibility to structure deals in their favor are some of the benefits of SPACs. SPAC financial statements can be prepared much easily and, in less time, as compared to traditional IPO. Roadshows and marketing the SPAC IPO is not necessary. Compared to a traditional IPO, SPAC is much less risky for the company. Instead of launching a deal and seeing what price it can get, the company negotiates with just one person (the SPAC sponsor), fix a price and announce the deal.

Are SPACs the new IPO?

Even though SPACs may be the most tempting, four software companies announced plans for traditional IPOs. Airbnb Inc, Asana Inc, Palantir Technologies Inc. said it would do a direct listing.

Some useful reads

SPACs Closed in 2020
https://spactrack.net/closedspacs/

IPO Calendar/Statistics
https://stockanalysis.com/pos/statistics/

SPAC IPO Transactions Summary
https://spacinsider.com/stats/

Mallard Acquisition sec report: https://sec.report/CIK/000185795
Student Spotlight

Salman Jasim
Spring - 19, MSF

‘Make friends and acquaintances not just from a professional point of view. Try genuinely to know their story and help them however you can’ says Salman

By Abhishek Sharma

Salman did his bachelor’s from University of Dhaka before working as a Portfolio Analyst at NRB Bank Limited. He shifted to the United States to pursue his master’s in finance and joined UTD in spring 2019. Salman who would be graduating this semester is currently working full – time as a reporting analyst at Flagstar Bank.

Salman is a perfect example of how with even an imperfect resume and without bagging an internship like peers, but with hard work and perseverance, one can achieve a full – time job and make dreams come true. Salman has been super active in campus activities and have worked in many positions including as a student assistant at University Housing before becoming a tutor at finance trading and tutoring lab and eventually the lab manager. Salman also served as the treasurer at GFMC. It is thus no wonder, that working in multiple capacities and with a sense of duty that goes beyond expectations, he was nominated for the Student Employee of the Year 2019-20

Salman is an ardent believer of networking but with a sense of altruism. He always maintained that nothing comes close to making genuine friends and helping them without expecting anything in return. Maintaining professionalism with a humane aspect definitely is a way of finessing work – life balance.

Revealing his formula for success, Salman stressed upon optimism, hard work and hope. ‘Work hard and have the dedication to strive till the end. There is always light at the end of the tunnel’ – words which are applicable for all students seeking an internship or a job.

Definition: Direct Listing

Direct Listing is a process by which companies do a public listing by directly selling shares to the public without any underwriters. The companies saves fees and can avoid the lockup agreement. However there are certain risks for the company like there is no greenshoe option. Direct Listing allows for greater liquidity and transparency.

Two notable companies that went public using a direct listing are Spotify and Slack.

Quiz:

Which of the following is considered an institutional investor?
(a) Accredited investor
(b) Sovereign wealth fund
(c) Separately managed account

Last quiz answer: The Wooden wall built by Dutch colonists to defend New Amsterdam

Word Scramble:

1. USETRSPCPO
2. IIAGEOTNNTO
3. TIDEGISNL
4. ARWNTRSA
5. ROWFDAR

Last Word scramble answer: Underwriter, Acquisition, Investors, Due diligence , Wall Street

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