

SPACs Use Public Equity to Keep the M&A Wheels Turning

Special Purpose Acquisition Companies (SPACs) have become an increasingly attractive investment vehicle for M&A professionals in recent years, showing significant growth in terms of both the volume and size of the companies. This trend is due to the unique features and flexibility that SPACs can offer to investors over hedge funds and other investment structures.

A SPAC, also known as a blank-check company, is a shell company that exists for the single purpose of financing an acquisition. The SPAC goes public through an IPO in order to raise cash that will be used for a future merger or acquisition. With the IPO cash in hand, the management team begins the search for M&A targets. Typically, the acquisition must be made within two to three years, or the SPAC will be liquidated.

Security units offered in the IPO generally consist of a common share and a warrant that sell together for \$8 or \$10 per unit. Nearly all of the money raised is held in a trust fund until a target has been identified and purchased. The SPAC itself generates minimal operating expenses.

The SPAC's management team members, typically highly regarded professionals with proven M&A track records, invest substantial

sums of their own money to purchase discounted IPO units. The management team, which is rarely compensated with salary while searching for an acquisition target, looks to profit through a large equity stake in the company once the acquisition has been completed.

While investing in a SPAC requires something of a "leap of faith," the vehicle offers several advantages over hedge funds and similar investment structures. For starters, the risk is relatively low, because units can be subsequently sold on the open market. (Indeed, units have begun listing on the NYSE and AMEX exchanges.) Secondly, investors have a say in the SPAC's activity, as a high level of shareholder approval is required in order to proceed with a proposed acquisition. Finally, if the SPAC does not make an acquisition in the allotted time frame, the vehicle is liquidated and investors recoup most or all of their original investment.

A perfect business partner in CSC

If you're considering forming a SPAC, Corporation Service Company can help. CSC's experienced service representatives can process entity formation filings and provide registered agent services. CSC can also pull the reports and filings on prospective acquisition targets required for due diligence. Our online deal



rooms provide a secure venue for efficient collaboration between the various parties while they work through the structuring and SEC filing stages.

When the IPO is ready to go to market, CSC Trust Company of Delaware (csctrust@cscinfo.com), a wholly owned subsidiary of CSC, can serve as a trustee and escrow agent, and offers a variety of investment solutions for the escrowed funds. We also monitor the annual filing requirements of the SPAC, file the necessary UCCs, and provide ongoing domain name and trademark services, to protect the company's brand and identity.