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How SPACs Are Changing the IPO and M&A Markets

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How SPACs Are Changing the IPO and M&A Markets



Moderator
Craig Lilly
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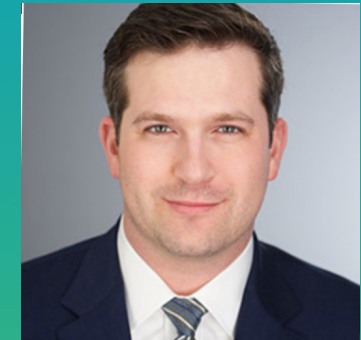
Jonas Grossman
President
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Tina Pappas
Managing Director
Jefferies



David Boris
Co-CEO and CFO
Forum Merger II Corporation



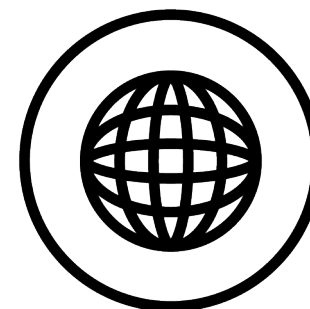
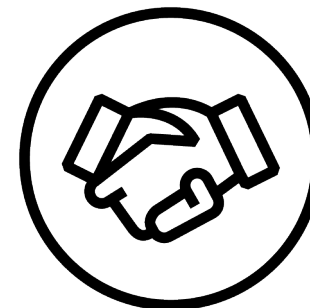
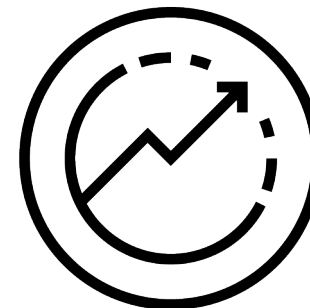
Jared Kelly
Partner
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2020 – The Year of the SPACs: The New Deal and Capital Markets Frontier

- 70 SPAC IPOs this year as of August 12th, compared to 59 in CY2019 and 46 in CY2018 for entire year. There are more SPACs going public than any other IPO sector.
- SPAC IPOs have raised over \$31.2B in 2020 versus \$13.6B in CY2019. SPACs represent over 40% of all dollars raised in the 2020 IPO market (versus 15% in prior years).
- Recent News:
 - ▶ Churchill Capital Corp. III announcing an \$11B deal with health-care company MultiPlan Inc., the largest SPAC merger to be signed in 2020.
 - ▶ Hennessy Capital Acquisition IV's proposed acquisition of Canoo, a high growth EV company displays the SPAC's industry emphasizing high growth emerging technology targets (such as the EV market – other EV SPACs include Nikola, Fisker and Lordstown Motors)

2020 SPAC Trends

- ▶ More serial SPAC founders/ sponsors (e.g., Gores Group, Fortress, Churchill Capital, Social Capital)
- ▶ Larger SPACs and SPACs focused on tech unicorns that would be candidates for IPOs (e.g., rumors regarding Airbnb, Hims, Topgolf etc.). Virgin Galactic, DraftKings and Nikola are some of the notable companies to recently opt for SPAC debuts
- ▶ SPACs with more established sponsors, specialized management teams, better quality targets which will attract a different type of investor (e.g., TPG, Goldman and Carlyle have sponsored SPACs)
- ▶ Asia-focused SPAC IPOs has nearly doubled since 2017 with the involvement of well-regarded investors such as New Frontier Group and CITIC Capital.
- ▶ 100+ SPACs at the transaction stage will result in intense deal competition
- ▶ Generalists will struggle unless they elevate themselves with their financing strength, deft deal structuring and nimble decision making.
- ▶ More variation in deal terms – e.g., Pershing Square SPAC will forgo the typical 20% “promote”, consisting of founder shares provided to the sponsor for nominal consideration (and purchase warrants at FMV exercisable in 3 years)



What is a SPAC?

- A SPAC is a special purpose acquisition corporation (also known as a blank check company) formed for the sole purpose of effecting a merger, share exchange, asset or share purchase or other similar business combination with one or more businesses (“BC”).
- A SPAC generally has 24 months from IPO closing to complete BC, or it must return all funds in trust account to the SPAC's public shareholders.



Advantages of SPACs

For Sponsors

Broader base of potential investors

Easier capital raising versus a private raise (with ability for secondary raise and debt financing)

Very attractive upside (and no investment netting & other limitations versus a fund structure) – 20% plus warrants

Public platform to monetize deal flow

Potential for Sponsors to complete multiple or serial SPACs (e.g., Gores Group, Churchill, Social Capital, etc.)

Investors have liquidity of investment and downside protection until BC closing

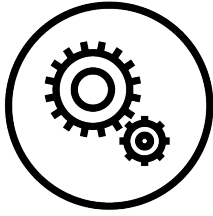
For Target Companies

Access to public markets including during instable markets such as COVID era

Public market provides capital access to fund growth, future acquisitions and operations

Flexibility In structure – equity rollovers, earnouts, cashout existing owners, etc.

SPAC will include financial projections in proxy statement for shareholder approval of BC

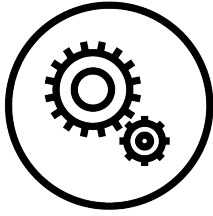


SPAC IPO Mechanics

All cash from IPO is placed in blind trust account

Trust amount is not released until closing of BC or upon specific date (generally 24 months) if SPAC fails to complete BC

Sponsors invest amount outside for trust for expenses/ reserves in exchanges for warrants and/or units. Sponsors acquire founder shares for nominal consideration

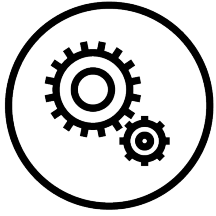


SPAC IPO Mechanics (continued)

Sponsors generally own 20% of outstanding common stock post-IPO subject to a 1 year lock-up

SPAC generally offers units, each comprised of one share of common stock and a common stock warrant to IPO investors

CS Warrant is intended to compensate investors for agreeing to have their capital held in trust until BC

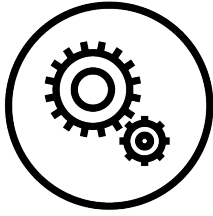


SPAC IPO Mechanics (continued)

SPAC generally cannot hold substantive discussions with a BC target until IPO closing

Post-IPO, SPAC begins to search for BC target

At BC closing, public shareholders may redeem shares for a pro rata portion of the cash in trust account with balance released to post SPAC company



SPAC IPO Mechanics (continued)

If the SPAC fails to complete BC by deadline (generally 24 months), all public shares are redeemed for cash held in trust

If SPAC fails to complete a BC by deadline, Sponsor shares and warrants are worthless

Additional SPAC Capital Aspects

- ▶ SPAC may sell additional equity or securities at time of, or following, BC
- ▶ SPAC may also raise debt financing at the time of the BC or raise equity thru PIPE
- ▶ Initial BC must have an aggregate fair market value of at least 80% of the value of the trust account under listing rules
- ▶ As competition increases, there will be downward pressure on Sponsor compensation
- ▶ Subject to NASDAQ/ NYSE listing Rules





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Craig Lilly is a leading legal advisor for strategics and private equity clients on domestic and cross-border technology acquisitions, mergers, divestitures, recapitalizations, consolidations, auctions, leveraged buyouts, and minority investments.

Craig's practice includes advising emerging technology companies on venture capital financings, corporate governance, public offerings and joint ventures. He also represents fund sponsors in connection with structuring and organizing investment funds, parallel investment vehicles, and offshore funds, and counsels boards of directors in crisis management situations.

Craig frequently writes and lectures on legal and business issues regarding mergers and acquisitions, private equity investments and corporate finance. He has been quoted in, or contributed to, articles and features in Bloomberg, The Wall Street Journal, The Deal Magazine, Financier Worldwide, Reuters, CFO.com and other major publications. He is a member of the Board of Directors of The Association for Corporate Growth – Silicon Valley and Financial Executives International – Silicon Valley Chapter. From 2006 to 2010, he was the California reporter for the American Bar Association Committee on State Regulation of Securities.



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Jared's practice focuses on corporate finance transactions across the capital structure, including equity and debt securities offerings, traditional bank finance transactions, high yield bond issuances and convertible debt instruments. He also counsels companies in the energy, fintech, media and manufacturing industries regarding disclosure and corporate governance. Jared has broad experience ranging throughout the company lifecycle, and routinely manages large scale projects such as initial public offerings, leveraged acquisitions and corporate restructurings and recapitalizations.

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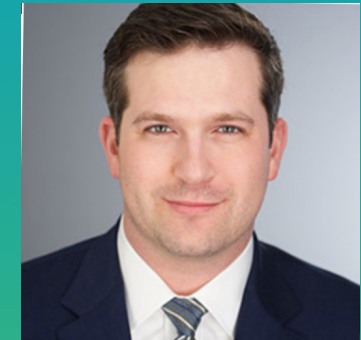
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