Twitter Thread by Jalil Rasheed

Jalil Rasheed
@jalilword

Special Purpose Acquisition Company (SPAC) has become very popular globally, especially in USA. SPACs are known as blank cheque companies, because its a shell company with cash. What is it? How does it work? This is a thread.

(1) A group of people, known as the promoters / founders will list a company (SPAC) on the stock exchange. They are the key management who are also shareholders of the SPAC.

(2) SPAC is a listed company, but has no assets, no business, nothing. It only has cash raised from IPO. Shell company with lots of money.

(3) Once listed, the SPAC will use this money to acquire another company and merge it into the SPAC. Once merged, the company is no longer a SPAC, as it now has assets & a core business and operates like any listed company.

(4) The money raised from IPO will be kept in a trust, until an acquisition is identified, closed & approved by regulators & shareholders. The operating expense of the SPAC is borned by promoters until the SPAC turns into company.

(5) There is a period allocated from time of listing to when an acquisition should be made and this can range from 1.5 years to 3 years, depending on jurisdictions, and how the prospectus is structured.

(6) If an acquisition is not made during this period, the SPAC will be folded, and investors money returned back to them, with any interest gained during that period of cash being placed in trustee account.

(7) Before SPAC is listed, it goes through same process as other companies being listed. Hence it is untrue that SPACs are faster / easier way to list. It is as onerous as the real thing if you do your homework.

(8) When filing for SPAC, extra scrutiny is placed on the promoters, their reputation, experience, track record & ability. It is essentially the people that you buy into when entering SPAC

(9) SPAC must specify what kind of assets they are looking to purchase in their prospectus (before listing). Once identified, it will require approval of the regulator and at least 75% shareholders approval (depend on jurisdiction).

(10) SPACs have raised a lot of money in USA lately. Some interesting ones are Redball, founded by Billy Beane (character in the movie Moneyball) who is teaming up with John Henry (LFC owner) to purchase established sports franchises

(11) The investor base of SPACs are mainly fixed income investors, who are using this low interest rate environment as opportunity to ‘roll the dice’ on something with no risk (at worse you get money back) or share upside of equity if a good acquisition is made.

(12) So it works like a Fixed Income instrument (cash with some low yield, liquid, and you dont lose your money). Upside is if SPAC gets a good asset, share price rises. So you then get equity upside as well. You can choose to exit if you feel the asset is not good

(13) Finally, SPAC share price is always fixed. In US most have been US$10 / share (there was one for US$20 / share). Mainly for easy calculation, and fact that there is nothing in the company to base a valuation on.

(14) Detailed write up on SPACs by @happypankaj https://t.co/WcJfiBzwjk