MAM Insight No. 11

In this Issue

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SPACs De-Mystified

Overview

Special Purpose Acquisition Companies ("SPACs") gained a lot of interest since we first discussed them last year (MAM Insight No. 6 - September 2020). 2020 was quite transformative for these blank check companies with no less than 248 IPOs raising over USD 83bn. They represented nearly half of the total US IPO market last year and out-raised all previous years of SPACs combined **(Chart 1)**.

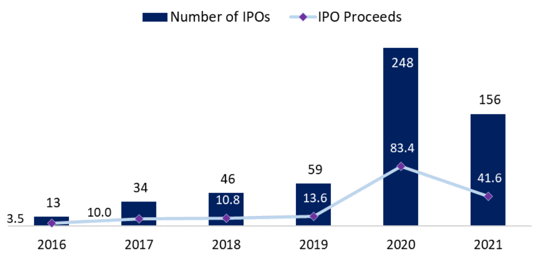
The high pace of issuance created a pool of nearly USD 110bn in SPAC trust accounts, a five fold increase from a year ago. To put it into perspective, SPACs typically seek to acquire targets that are at least 3-5 times the size of their trust accounts. As a result, the current pool of SPACs could take public over USD 500bn of total enterprise value.

The success of previous deals did not go unnoticed. The innovative electric battery maker, QuantumScape, decided to list through a SPAC merger last year. Subsequently, shares rose +400% through Q4 2020, drawing a lot of attention. Today, SPAC deals are enjoying a more constructive reception than in the past with over two-third of deals closed in H2 2020 trading at least 30% above their original merger price. Any company considering a public listing is now discussing such transaction in board meetings.

Why are they drawing so much interest? From a company perspective, these blank check companies offer a relatively quick, efficient, and inexpensive way for private firms to raise capital and become publicly listed. The shortened timeline allows to take advantage of high market valuations, at a lower cost and burden than traditional IPOs. Additionally, it allows private firms to partners with the SPAC's management, usually individuals with extensive private equity experience who have the ability to advise on adequate market strategies. On the other hand, from an investor's perspective, it often allows to invest in small to medium sized companies that would have otherwise remained private and inaccessible to the greater public. The investment universe in so -called "growth stocks" was becoming increasingly crowded and narrow with FANG stocks concentrating a lot of capital thanks to their high revenue and growth profiles.

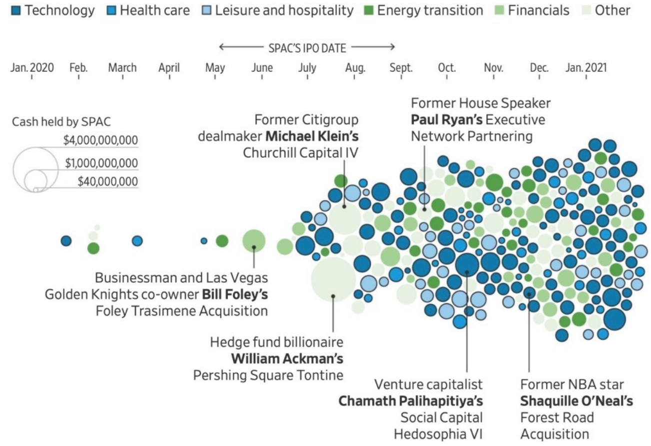
SPACs focus on merging with high growth companies that are traditionally in the tech, medtech, and energy transition sectors **(Chart 2)**. SPAC transactions are widening the investment universe. For instance, up until recently, anyone looking to invest in electric vehicles had to chose between Tesla, at sky high valuation, or EM exposed firms like BYD or Nio. Choices were limited.

Chart 1. Number of SPACs and IPO Proceeds



Source. MAM Research

Chart 2. SPAC Targeting Mergers, by sectors



SPACs undoubtedly changed the investment landscape. We observed the listing of charging station networks (i.e. Charpoint, EVGo, EVBox), EVs (i.e. Arrival, Proterra, Lion Electric, Lightning eMotors), self-driving sensor companies (i.e. Innoviz, Ouster, Luminar), and many more. The same trend is identifiably among the tech, healthcare, space exploration, and most of the sectors currently represented in the current "mega trends".

However, it does raise a few questions, especially on the risks associated with trading SPACs. Notably when we consider the amount of recent transactions.

Is the incentive to do a SPACs entirely honourable? Clearly not. The explosion in SPAC deals is a symptom of both historically high valuations, especially in the tech sector, but also FOMO. It is a good way for management in private companies to "cash-in" and PE specialists to make relatively quick money. One should assume a SPAC is pursuing a merger transaction at or close to record valuations. Hence, future returns can be limited.

Are target companies mature enough? Not necessarily. We observe a mix of both mature companies (e.g. those that could have been listed through a regular IPO, but instead decided to go public through a reverse merger) and "business plan" or "idea" companies to the like of those we find in the biotech, battery, EVs, and many other sectors (i.e. companies with no revenues until several years down the line). Therefore, the quality of companies listed with SPACs can vary substantially.

The frenzy around SPACs is unlikely to abate anytime soon. We do not want to "paint the entire SPAC universe with the same brush". In reality, we believe SPAC represent a clear investment opportunity but can just as easily become a threat for investors. As such, a clearly define strategy and discipline is nothing short of essential when investing in SPACs.

MAM SPAC Investment Strategy

Essentially, our strategy is to take advantage of the strong potential performance of SPACs while limiting the potential downside. In order to do this, our simple strategy revolves around 3 key steps, performed on each of the 360+ SPACs currently listed or filing for IPO.

1. Selecting SPACs targeting mergers in high growth areas of the market such as energy transition to ensure broad market enthusiasm. We usually do this exercise by looking at individual S-1 filling.
2. Focus on SPACs with outstanding management teams, usually from reputable private equity firms or with a strong track record of delivering value to shareholders. This is a more qualitative assessment and requires reading through the management's experience in the S-1 filing. Then, we also run "Google Hits" analysis on top executives to cross check their online popularity.
3. Invest at a reasonable price. SPACs have the unique feature of providing investors with some level of protection until the business combination is consumed. The IPO price is typically set at $10 a share. Should the SPAC fail to find a target before its liquidation date or if investors vote against a merger proposal, investors can redeem their shares for cash. The SPAC has to pay back the IPO price of $10 , net of operating expenses.

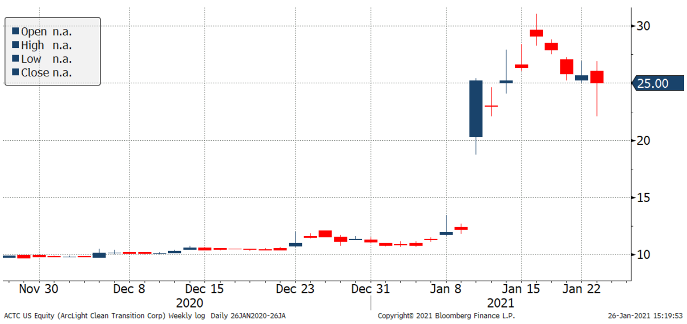
The upside comes from investing in a SPAC before the business combination agreement ("BCA") news is out. However, this cannot be done at all costs. Investing in high quality SPACs with a price of $13 before the BCA news, which is increasingly frequent nowadays, exposes investors to a c.-23% downside should the merger talks fall through, or investors vote to redeem their shares. As a result, it is important to remain disciplined and buying high quality SPACs closer to NAV (e.g. $10 per share), even if this means placing limit orders in the market and waiting for an eventual pull-back in prices.

Investing in SPACs post-merger news entails a different strategy altogether. It requires a strong understanding of the future business prospect and valuation upside. It also require some patience as BCAs take on average 3-4 months to be consumed. During said time, SPACs tend to trade sideways if not slightly lower. Nonetheless, we keep track of the "De-SPAC" and newly listed companies

Example - Arclight Clean Transition

Last year, in the early stages of our research, we caught Arclight Clean Transition. It is a blank-check company focused on opportunities created by the accelerated transition towards a sustainable use of energy and natural resources. The founder, Daniel Revers has 30 years of energy finance and private equity experience. A key management member besides the Founder is Dr. Audrey Lee, with 5 years of experience in clean energy. Dr. Lee was the vice president of energy services at Sunrun. She currently serves on the board of Pinnacle Engines, commercializing advanced engines for reduced petroleum usage and greenhouse gas emission. Dr. Lee also volunteers as Co-Chair and Co-Founder of Clean Energy for Biden. This was very hard to ignore. ACTC has a super experienced management team that has a defined goal, with Biden connections. The shares were still trading at $11. With a 9% downside to the $10 level, we thought the risk-reward was compelling. We were able to buy ACTC at $11.30 in the Best Ideas certificate. Twelve days later, it announced a merger with Proterra, a leading US maker of electric buses at a compelling valuation level. Shares of ACTC spiked to $25 the next day. We admittedly sold a little early on that day at $20 per share for a performance of +77% in a couple days. Shares are still trading around $25 per share. We like the company and may revisit a long position closer to the merger meeting in March/April 2021.

Chart 3. ACTC (Daily)



Source. Bloomberg, MAM Research

Our SPAC Watchlist

In the following pages, we highlight a series of SPACs that are currently part of our shortlist and watchlist. We are either current shareholders or have orders placed in the market to take long positions. As expressed through this note, we do not recommend to buy at any costs. Also, this is a speculative strategy. There is no guarantee of success. If you wish to discuss our current strategy, please feel free to reach out to us.

Burgundy Technology Acquisition

(Ticker. **BTAQ**) This is a technology sector focused SPAC led by two industry veterans: Leo Apotheker, the former CEO of SAP and Hewlett Packard, and Jim Mackey, the former managing director and chairman of software and technology investment banking at Citigroup. Moreover, the company accounts other board members and directors with interesting backgrounds. Frank Cohen is the chairman of Trackunit (telematics company) and Geektime (digital online technology news portal) who also happens to sit on the boards of SUSE (open source software company), Antuit (AI cloud SaaS retail focused company), Acumatica (small businesses cloud SaaS ERP), Beqom (compensation management software provider), Qvantel (digital business support system provider), and Omada (identity governance software company). He is a board advisor of C3.AI and Workday. Herve Couturier is a private investor and product strategy consultant who sits on the boards of Sabre (travel technology company), SimCorp (Danish investment management software provider), Infovista (network software), Unit4 (ERP software), Sportradar (sports data), and Kyriba (treasury management software). With its extensive network and industry expertise, management aims to evaluate software and technology companies with EVs between $750 million and $2 billion and large TAMs. They believe the inability for smaller but successful technology companies to raise capital through regular way IPOs or the bank market creates a long-term investment opportunity. This pool of target companies is overlooked by capital markets (incl. private investors) and offers significant upside potential for investors, thus presenting a compelling opportunity for growth and value creation.

Chart 4. BTAQ (Daily)

Source. Bloomberg, MAM Research

GS Acquisition Holdings

(Ticker. **GSAH**) This is a somewhat "generalist" SPAC. However, based on filings, managements seems to be primarily searching for opportunities in the diversified industrial, healthcare, technology, media and telecom, and alternative asset management sectors. The chairman, Raanan Agus, is a Goldman Sachs ("GS") veteran with nearly 30 years at the firm. He served as a director of GSAH I until consummation of its business combination with Vertiv in February 2020. The CEO, Tom Knott, has a 10-year experience investing in both public and private markets at GS. He was also the lead on all aspects of GS's co-sponsorship of GSAH I from its IPO to its merger with Vertiv. Today, their first SPAC consumed its business combination and is trading at a 100% premium to deal valuation. Moreover, we see several other interesting individuals among other board members and directors. Senator William Frist, a former heart and lung transplant surgeon who has been serving since 2007 as a partner at a PE firm focused solely on investing in and building leading healthcare businesses. Steven Reinemund is the former chairman and CEO of Pespi Co. and is a former director at Johnson and Johnson, American Express, Exxon Mobil, Marriott International, Vertiv, Walmart, Chick-fil-A, and United States Naval Academy foundation. Martha Sullivan, a former director of Sensata Technologies and Texas Instruments. Despite completion of the business combination of GSAH I before the market crash of March 2020, Veritiv went on to finish the year 2020 at $18.67. Three of the aforementioned individuals have been involved in the first SPAC, a positive sign. The company also stands to benefit extensively from an access to Goldman Sach's network and platform.

Chart 5. GSAH (Daily)

Source. Bloomberg, MAM Research

Natural Order Acquisition

(Ticker. **NOAC**) This blank check company is looking for a target focused on technologies and products related to plant-based foods and beverages, protein substitutes, and ingredients. Specifically, its target market includes companies that use plant based, cell based, or precision fermentation technologies to develop food products that eliminate animals from the food supply chain. All of these technologies are referred to as "plant-based" or "alternative". In other words, this SPAC will target companies to the likes of Beyond Meat or Impossible Burger. The management team is very experienced. Indeed, Natural Order Acquisition was founded by Mr. Paresh Patel and Mr. Sebastiano Cossia Castiglioni who have been investing for more than 20 years in public and private emerging growth companies while focusing on leading emerging technologies and sustainable, plant -based food companies. Since April 2019, Mr. Castiglioni has also been a partner in the Blue Horizon Group, one of the world's leading investors in plant-based firms.

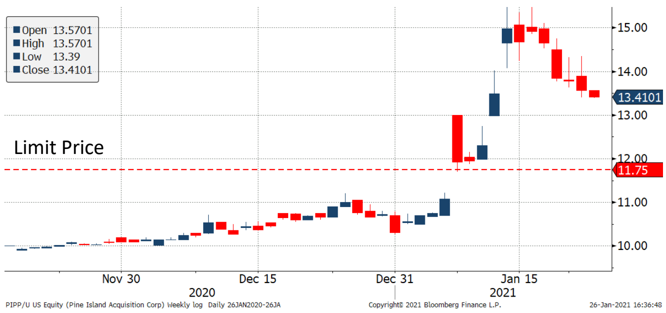
Chart 6. NOACU (Daily)

Source. Bloomberg, MAM Research

Pine Island Acquisition

(Ticker. **PIPP**) This blank check company is probably one of the most intriguing ones out there. It was established by Pine Island Capital Partners. Pine Island Capital Partners is a private equity firm founded in 2018 by John A. Thain, the former CEO of Merrill Lynch/NYSE and a wall street veteran. Pine Island Capital Partners spends the majority of its time focusing on the aerospace, defence, and government services sector. Pine Island Capital Partners has close ties to industry leaders, an unusual access to information, and often a unique knowledge about specific companies, programs, and global market dynamics. The firm's management team is filled with individuals connected to the US government. The Pine Island Capital Partners team includes four former Senators, a former House Majority Leader, a long-time board member of a major aerospace company, a former Chairman of the Joint Chiefs of Staff, a former Chief of the US Central Command (CENTCOM), a former US Chief of Protocol, a former US Ambassador to the United Nations for Special Political Affairs, and a former Undersecretary of Defence. Aside from this exhaustive and impressive list of resumes, there are already large investors positioned on PIPP. Ken Griffin (Citadel) has 6.9% of the SPAC and Isreal Englander (Millenium) has 5.2% of the SPAC. This SPAC is attracting the attention of a lot of people.

Chart 7. PIPP/U (Daily)

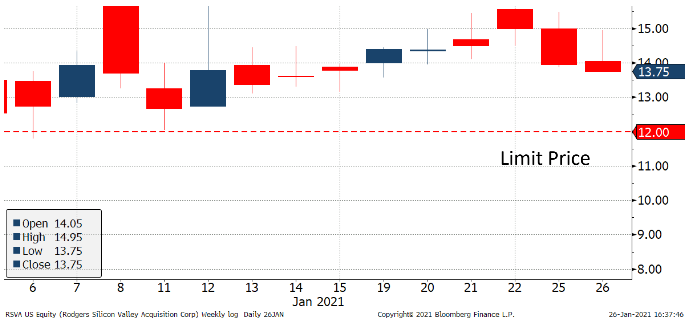


Source. Bloomberg, MAM Research

Rodgers Silicon Valley Acquisition

(Ticker. **RSVA**) This blank check company also happens to be an ESG pick. It is looking for a target in green energy, electrification, and storage with a rather strong technology bias. The founder and CEO of the company, Thurman Rodgers, is a veteran in the private equity and venture capital sector in the US. As CEO, he grew the Cypress Semiconductor start-up from zero to $1.8bn in annual revenues. As president, he led the turnaround of the start-up SunPower Corporation all the way until its IPO. As director, he initiated and helped leading the turnaround of Enphase Energy, a publicly traded solar company from $1.35 per share in the first quarter of 2018 to $82.59 in the third quarter of 2020. His track record is nothing short of impressive. He would bring tremendous value to any private company that would proceed and decide to merge with Rodgers Silicon Valley Acquisition. Such quality management makes this SPAC an interesting investment opportunity, but also explains why it already trades at a premium.

Chart 6. RSVA (Daily)



Source. Bloomberg, MAM Research

Reinvent Technology Partners

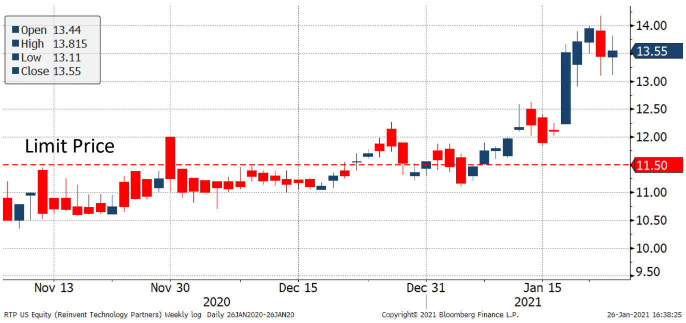
(Ticker. **RTP**) This is a technology sector focus SPAC. Filings indicate management may look at targets in the consumer internet, online marketplaces, ecommerce, payments, gaming, artificial intelligence, SaaS, digital healthcare, autonomous vehicles, and transportation segments. The company is led by two individuals with extensive industry and entrepreneurial experience.

Reid Hoffman co-founded LinkedIn. He served as its founding CEO and as its Chief and Executive Chairman until the company's acquisition by Microsoft for $26.2 billion. Earlier in his career, he was the COO, Executive VP, and served on the founding BOD of PayPal. He is a partner at Greylock, a leading Silicon Valley VC firm, where he focuses on investing in tech products that can reach hundreds of millions of people. He continues to serve on Microsoft's board and is either a director or observer for a number of private firms including Airbnb, Apollo Fusion, Aurora, Blockstream, Coda, Convoy, Entrepreneur First, Nauto, Neeva, and Xapo.

Mark Pincus founded several internet companies including Zynga, which pioneered social games to help establish gaming as a mass-market activity. He is the Chairman of Zynga's Board and previously served as Zynga's Executive Chairman and twice as its Chief Executive Officer, including when he returned in 2015 to lead its turnaround and reinvention as a mobile-first games company. Before Zynga, Mr. Pincus founded tribe.net, one of the earliest online social networks whose technology was acquired by Cisco Systems. He also founded Support.com, a provider of help desk service and support automation software, one of the first enterprise software companies to go to market with a subscription-based model. Support.com went public in 2001. Mr. Pincus also founded FreeLoader, Inc., a web-based, push technology news company, which was acquired by Individual, Inc.

The team has an extensive network and industry experience that will support it in its search for a target. We will highlight that in the S-1 filing, the terms gaming or game is mentioned no less than 68 times, which could hint at the specific segment they are focusing on.

Chart 7. RTP (Daily)



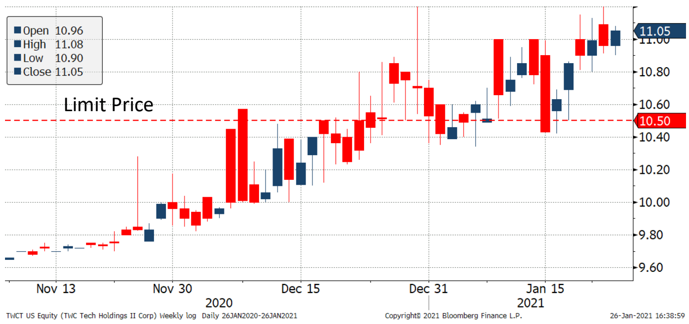
Source. Bloomberg, MAM Research

TWC Tech Holdings II

(Ticker. **TWCT**) This a technology sector focused SPAC. It was established by True Wind Capital, a San Francisco based private equity firm with $1bn of assets under management as of March 2020. It invests in leading technology companies with an international mandate, including software, fintech, industrial technology, medical informatics, internet, semiconductors, and computer services. True Wind Capital's team will use its investment experience, network, and technology sector expertise to find an attractive investment opportunity.

They will look for companies with a target enterprise value between $1 and 10 billion. Management includes Mr. Clammer (CEO) and Mr. Greene (Chairman) who have more than 50 years of combined private equity experience. In 2004, Mr. Clammer and Mr. Greene were the founding partners at Kohlberg Kravis Robert & Co. ("KKR"). At KKR, Mr. Clammer and Mr. Greene played a major role in more than 30 investment platforms with a total deal value exceeding 75 billion and over 15 billion of invested equity capital. They have been investing across regions through multiple structures, and multiple economic cycles. Clearly, in this scenario, we chose the SPAC for its management's pedigree.

Chart 8. TWCT (Daily)



Source. Bloomberg, MAM Research

Investment Implications

We continue to closely monitor the price action on each of the aforementioned SPACs for the best entry point, if we are not already invested. Over the past few months, we have been populating and updating a database where we keep track of the SPAC investment universe on a daily basis. We will continue to use our proprietary platform and models to look for the best investment opportunities out there. This strategy is implemented in the MAM Best Ideas certificate and select portfolios, but using a lower risk threshold.

As always, please feel free to reach out to us should you have any questions or comments regarding this research.

Kind regards,

MAM Investment Team

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