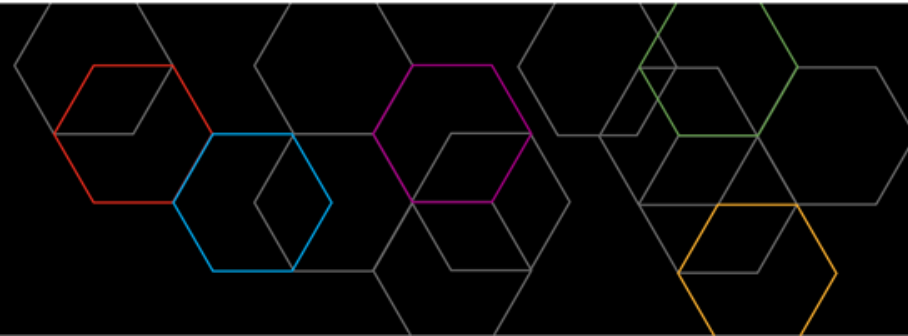


SPAC 101

Transaction Basics and Current Trends

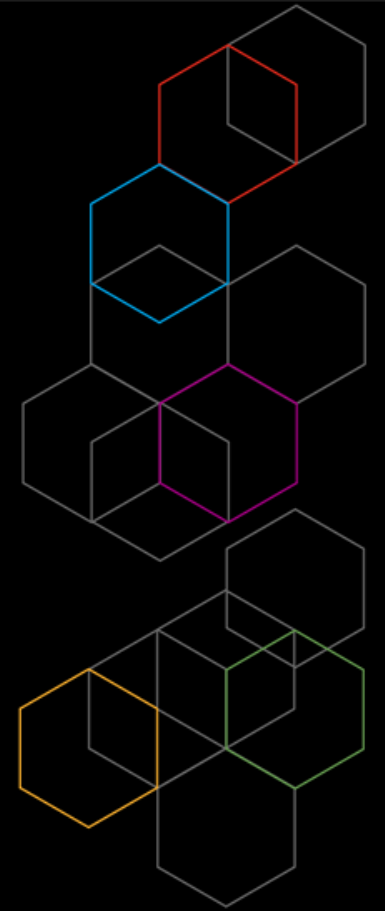


Transaction Basics



What is a SPAC?

- Blank check company formed for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses
- Formed by sponsors with experience and reputations to allow them to identify and complete a business combination with one or more target businesses that will ultimately be a successful public company
- Sponsors and management ideally are firms and/or individuals with demonstrated success in identifying, acquiring and operating growth businesses and with experience in the public company setting



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Benefits of the SPAC Structure

Target Business and its Owners

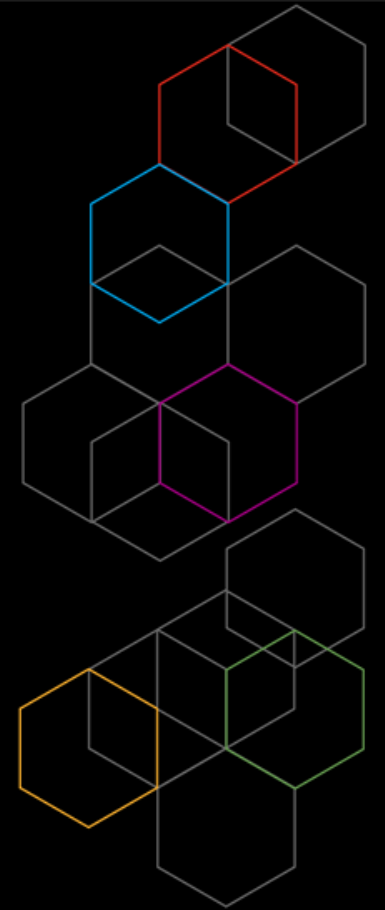
- Go public during periods of market instability
- Access to public markets
- Access to capital to fund operations or growth
- Ability to structure transaction, including cash-out to existing owners and earn-outs, not available in IPO
- Ability to include financial projections in proxy statement for approval of business combination, not available in IPO
- Ability of existing owners to share meaningfully in future growth via stock rollover not available in exit via sale

IPO Investors

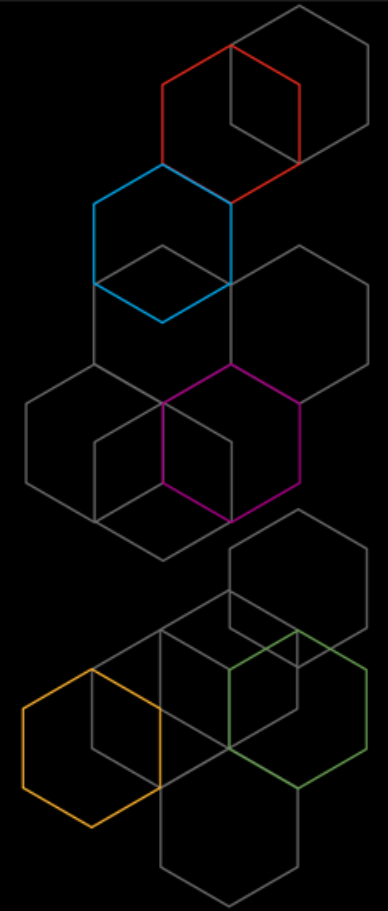
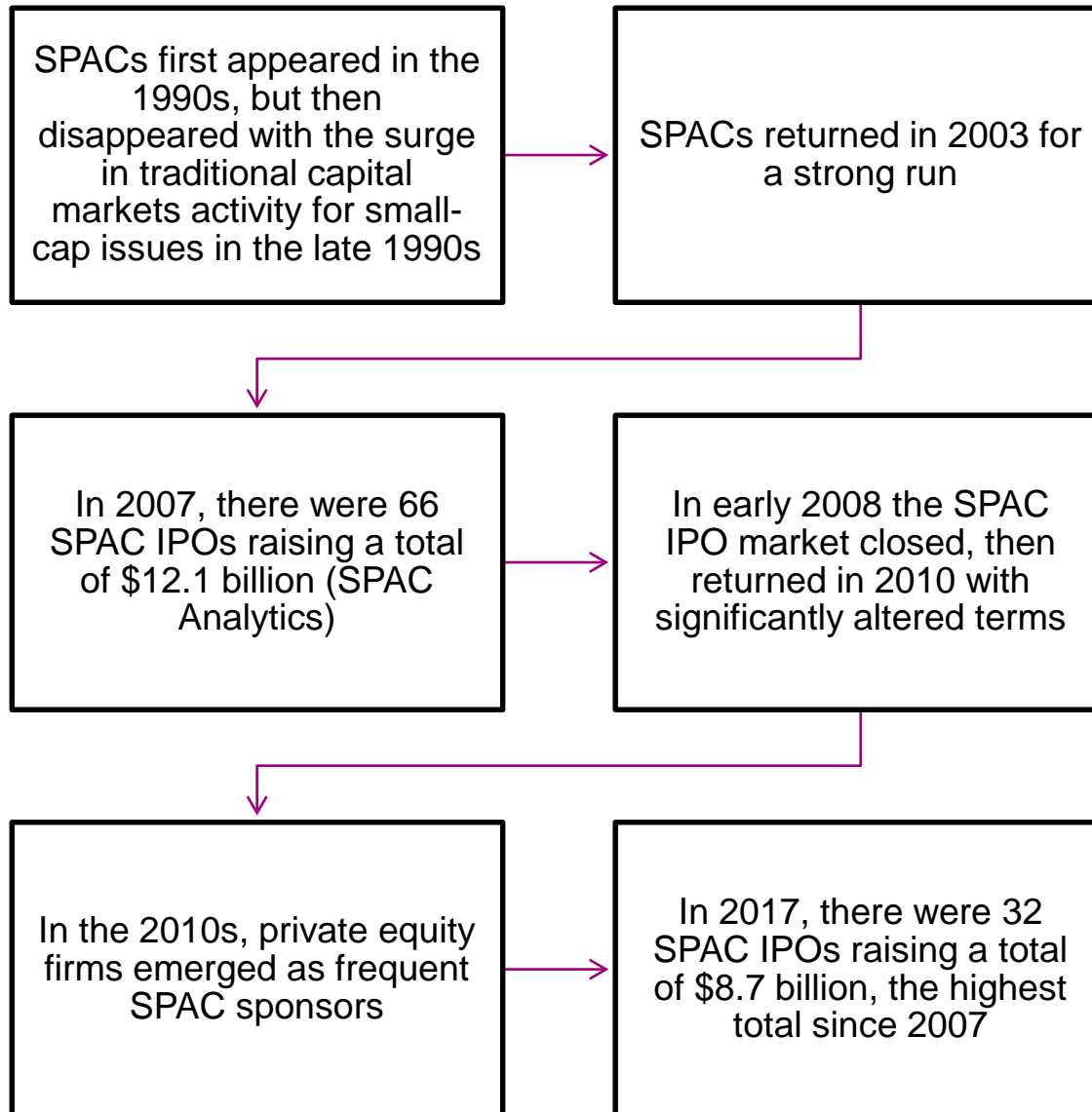
- Opportunity to co-invest with successful founders
- Liquidity of investment
- Downside protection until closing of business combination

SPAC Founders

- Broader base of potential investors/greater ease in capital raising vs. private vehicle
- Platform to monetize proprietary deal flow
- Potentially very attractive upside
- Possible serial SPACs



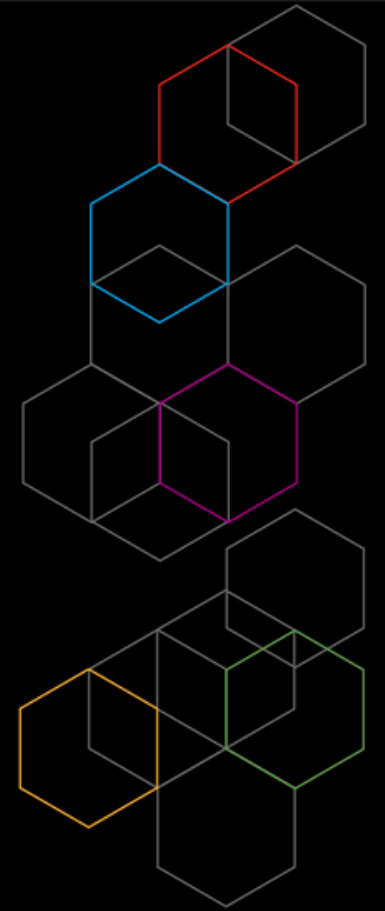
Evolution of SPAC Market



Target Business Focus

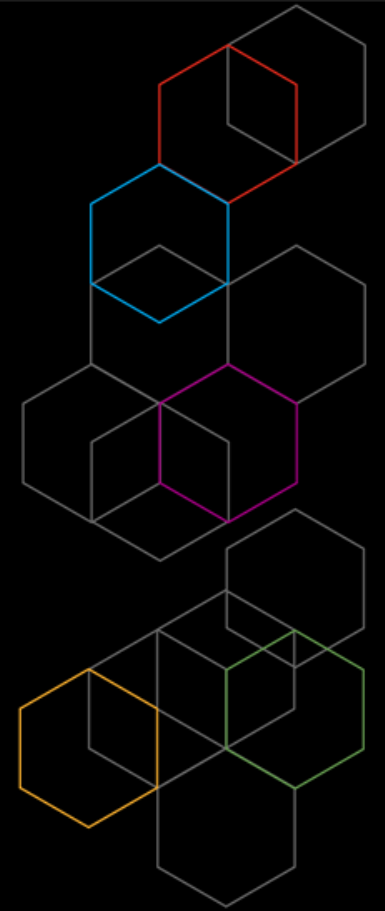
Some SPACs focus on acquiring a target in a particular industry while others have no such focus

When a SPAC is focused on a particular industry, its sponsor(s) and members of its management typically have significant experience and reputations in that industry



SPAC Capital Raise

- SPAC conducts an IPO to raise capital primarily from institutional investors, and also from retail investors
- Typically, 100% of the cash raised in the IPO is placed in a trust account and not released until the SPAC completes a business combination or upon a specified outside date if the SPAC fails to complete a business combination by such date
- In a concurrent private placement, sponsors invest an amount equal to the IPO expenses plus a specified amount to be held outside the trust account for future expenses in exchange for warrants (or sometimes units)

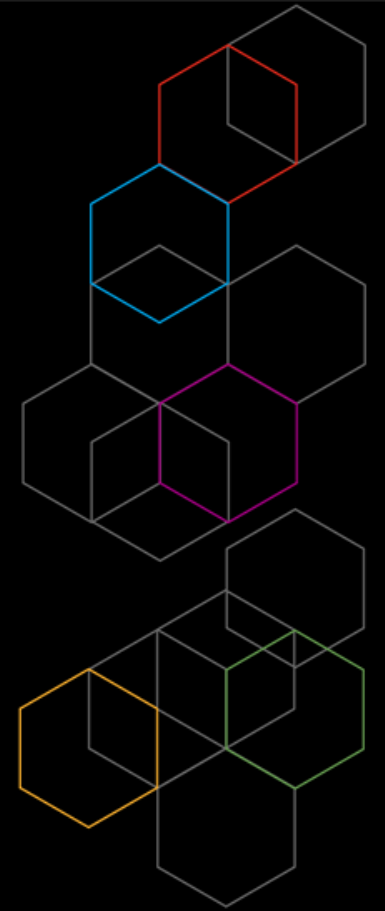


SPAC Capital Structure

A SPAC generally offers units, each comprised of one share of common stock and a warrant (or portion of a warrant) to purchase common stock

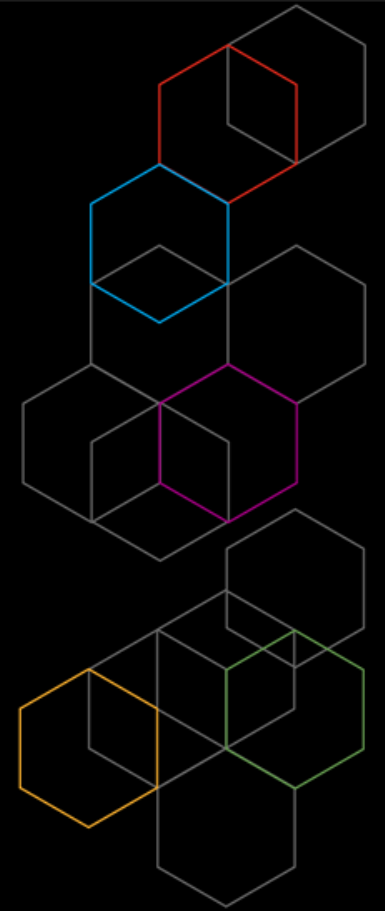


The warrant portion of the unit is intended to compensate investors for agreeing to have their capital held in the trust account until the SPAC consummates a business combination or liquidates



SPAC Capital Structure Alternatives

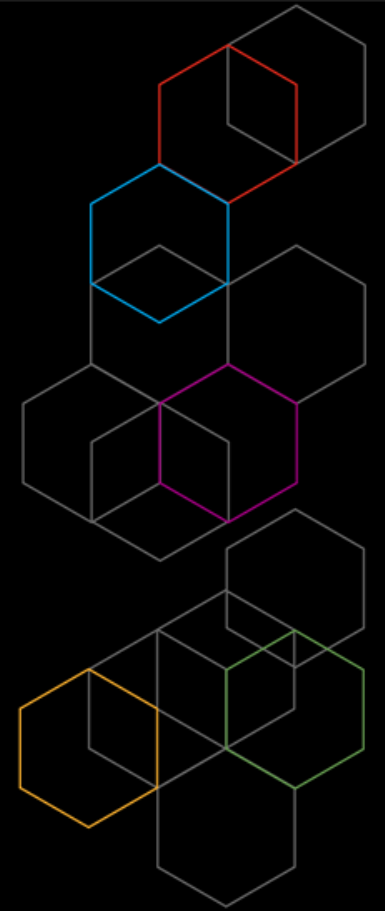
- Depending on size, prominence/track record of sponsors, and investment bank leading IPO, units may consist of one share of common stock plus one full warrant, $\frac{1}{2}$ of one warrant or $\frac{1}{3}$ of one warrant
- Warrants are almost always struck "out of the money"
- Warrants are redeemable by the SPAC post-business combination for \$0.01 per warrant if the trading price reaches a specified threshold
- Occasionally, other securities are included in the units, such as rights that automatically convert into a portion of a share of common stock at the time of the business combination
- In some SPACs, the trust account is "overfunded," i.e., more than 100% of the cash raised in the IPO and the sponsor private placement is placed into the trust account
 - This may allow the SPAC to not include warrants or other securities in its IPO or to offer a smaller number of warrants or other securities in its units or to have a longer period of time to complete a business combination



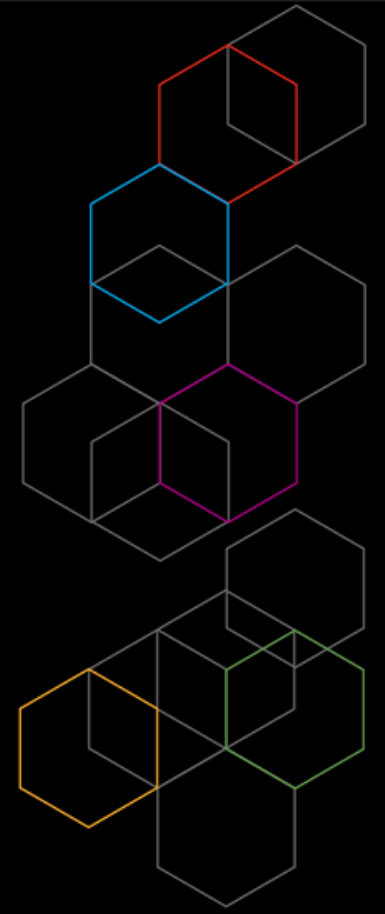
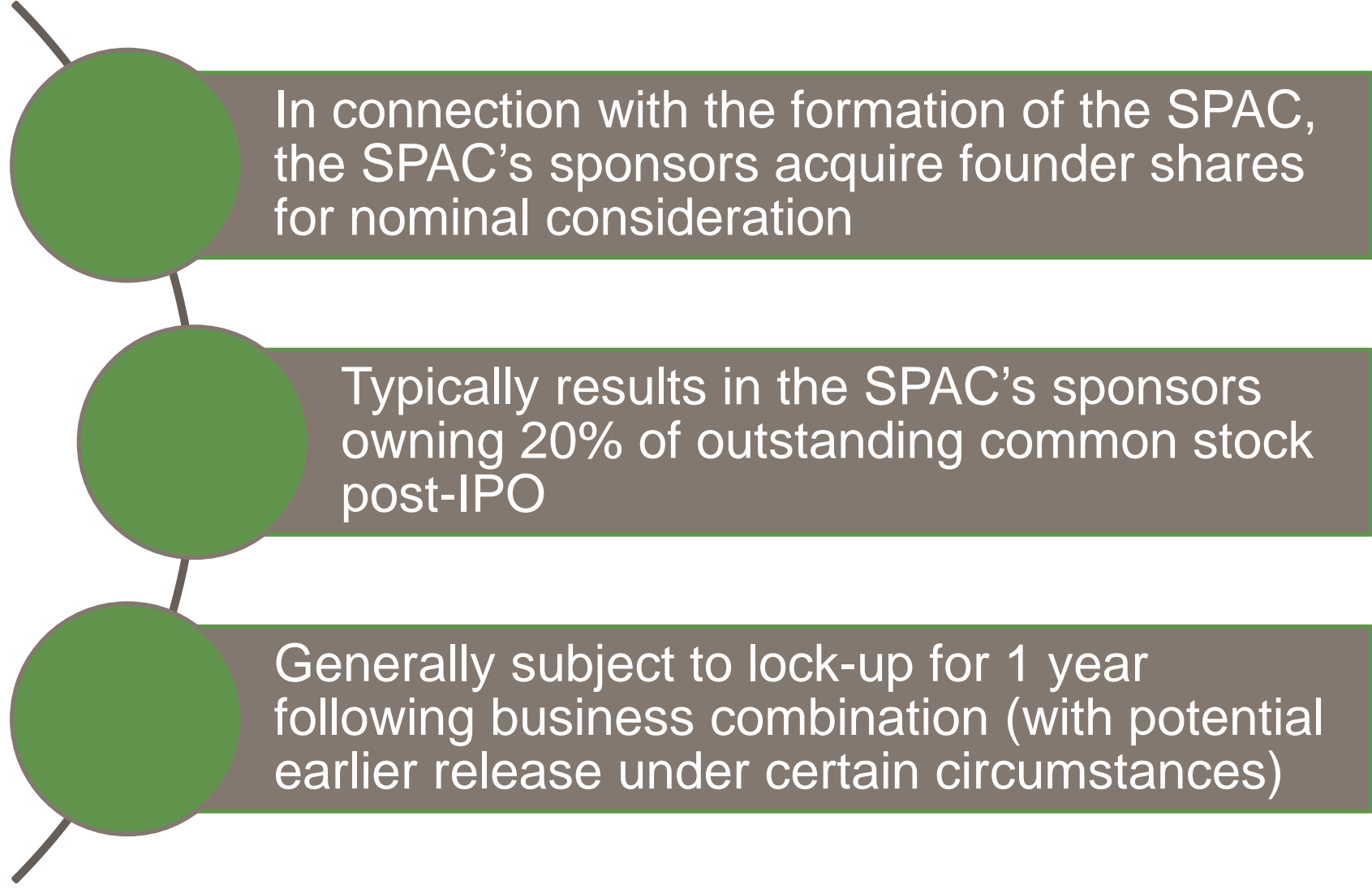
Warrants

The common stock and warrants included in SPAC units become separable shortly after the IPO, and the warrants and common stock can trade separately alongside the unseparated units

Warrants become exercisable only if the SPAC completes a business combination transaction before the specified outside date



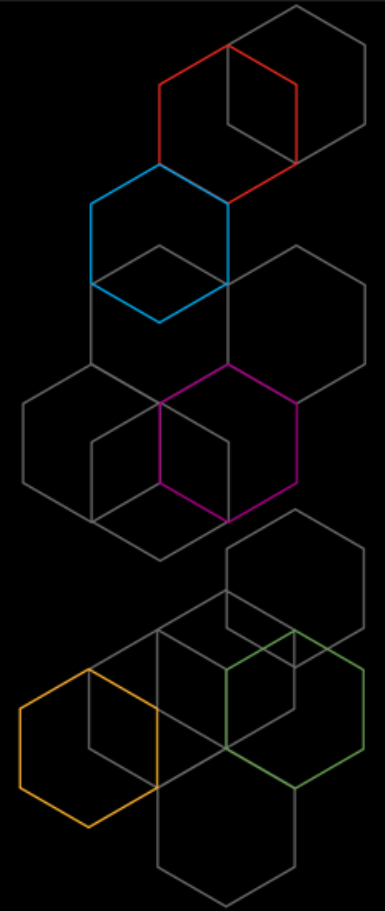
Sponsor “Promote”



Trust Account



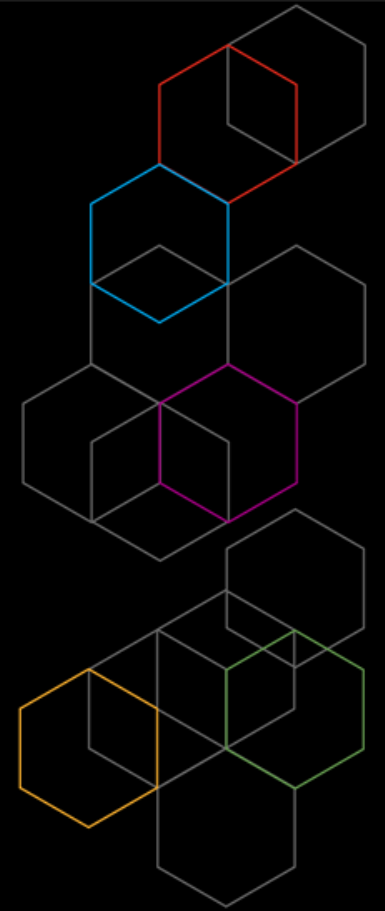
- IPO proceeds are placed into a trust account and are not permitted to be released from the trust account until the closing of a business combination or the redemption of public shares if SPAC is unable to complete a business combination within a specified timeframe
- At closing of business combination, public shareholders may redeem their shares for a pro rata portion of the cash held in the trust account
- Balance of the trust account released to the company to be used in the business combination transaction or thereafter for working capital purposes



Trust Account

If the SPAC fails to complete a business combination in the required timeframe, all public shares are redeemed for a pro rata portion of the cash held in the trust account

The proceeds in the trust account generate interest income, which can be used only to pay income and franchise taxes (and in some cases a limited amount of expenses) until the SPAC completes a business combination transaction

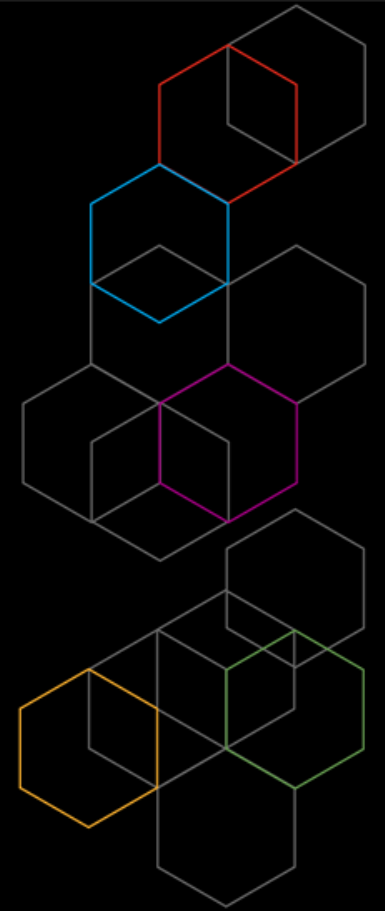


Size and Dilution

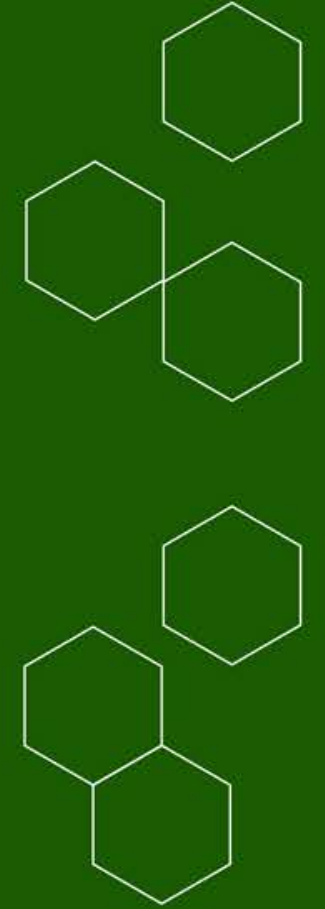
IPO raise is typically about 1/4 to 1/3 third of expected enterprise value of target to minimize effect of dilution resulting from founder shares and warrants

SPAC may sell additional equity or equity-linked securities at time of business combination

SPAC may also raise debt financing at the time of the business combination



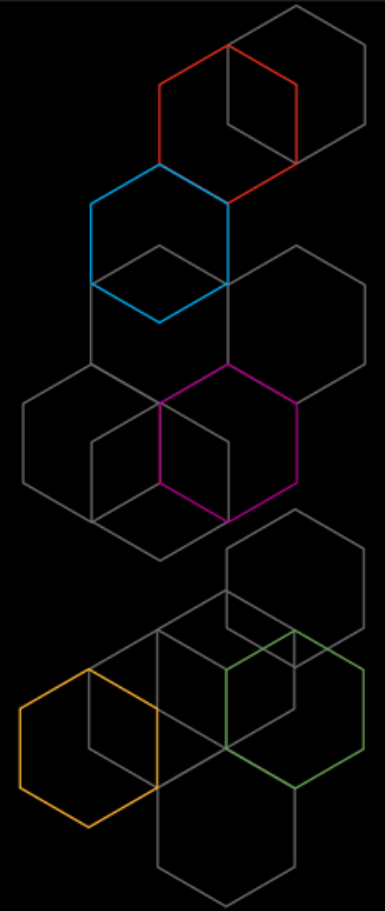
Listing and Regulation



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IPO Process

- Registered on Form S-1
 - Emerging growth company under Section 2(a)(19) of Securities Act
 - Confidential submission under Section 6(e) of Securities Act
- At the time of its IPO, SPAC cannot have selected a business combination target; otherwise, it would have to provide disclosure regarding that target
- A SPAC is an “ineligible issuer” not entitled to use a free writing prospectus



Stock Exchange Considerations

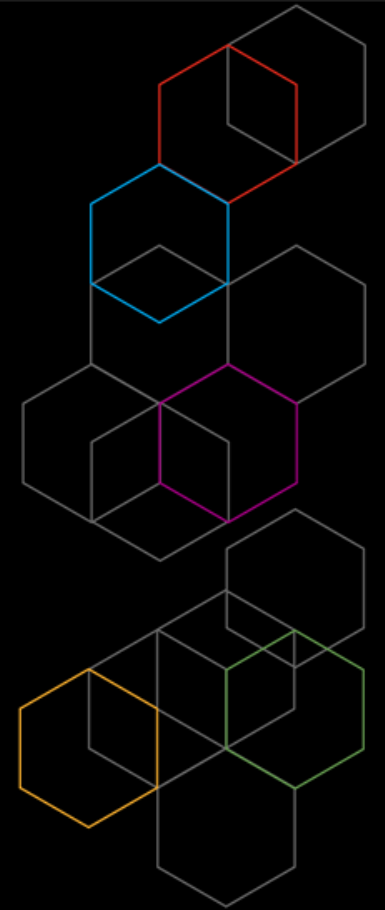
SPACs typically list on NASDAQ or NYSE

Initial business combination must have an aggregate fair market value of at least 80% of the value of the trust account

NASDAQ has historically been more popular for SPACs, as it has had slightly less rigorous listing standards

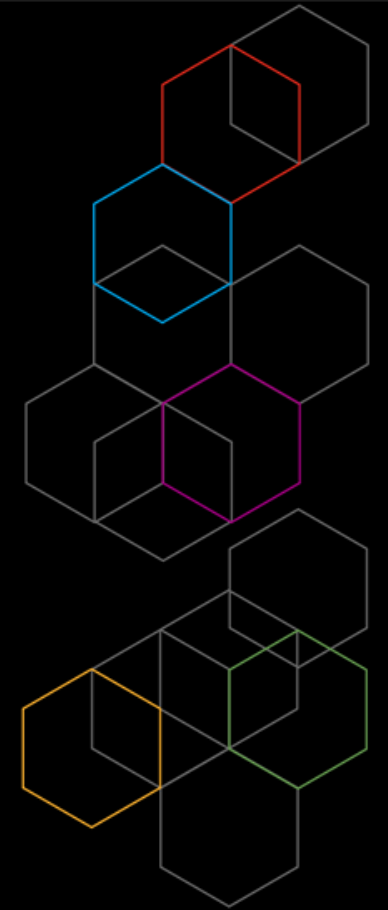
In 2017, NYSE moved to increase its share of the SPAC market by amending its listing standards to more closely match those of NASDAQ

Both NYSE and NASDAQ currently have proposed rule changes to their listing standards for SPACs under consideration by the SEC



SPAC Listing and Corporate Governance Requirements

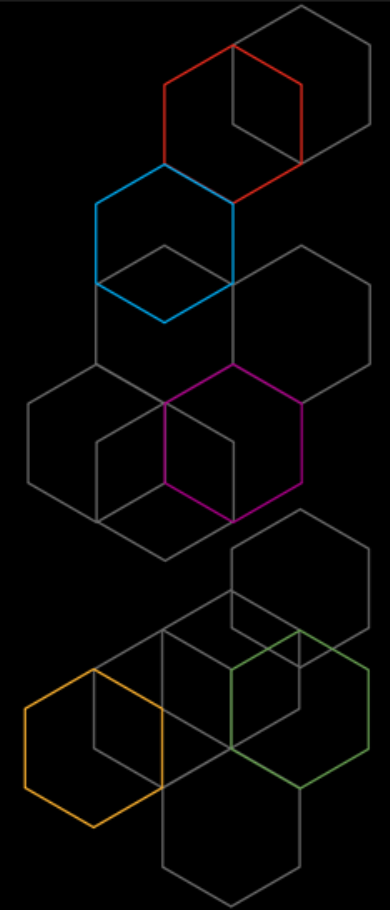
	NASDAQ	NYSE
Minimum Round Lot Holders	<p>Current: 300</p> <p>Proposed: 150 for initial listing, zero for continued listing prior to Business Combination</p>	<p>Current: 300</p> <p>Proposed: 150 for initial listing, zero for continued listing prior to Business Combination</p>
Minimum Market Value of Publicly Held Shares upon Initial Listing	\$50,000,000	\$80,000,000
Net Tangible Assets Requirement	<p>Current: None</p> <p>Proposed: \$5,000,000, in order to avoid penny stock status if fewer than 300 round lot holders</p>	<p>Current: None</p> <p>Proposed: \$5,000,000, in order to avoid penny stock status if fewer than 300 round lot holders</p>
Minimum Bid Price per Share for Continued Listing	\$4.00	\$4.00
Post-Business Combination Compliance with Initial Listing Standards	<p>Current: Immediate</p> <p>Proposed: 30 days</p>	<p>Current: Immediate</p> <p>Proposed: 30 days</p>



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SPAC Listing and Corporate Governance Requirements

	NASDAQ	NYSE
Board Composition	Majority Independent Directors	Majority Independent Directors
Audit Committee	Required, minimum 3 members, 2 members must be independent, in exceptional and limited circumstances 3 rd member may be non-independent	Required, minimum 3 members, all members to be independent
Compensation Committee	Required, minimum 2 members, all members to be independent	Required, no size requirement, all members to be independent
Nominating/Corporate Governance Committee	Not required, nominations can be made by a majority of the independent directors on the Board	Required, no size requirement, all members to be independent
Code of Ethics/Conduct	Required	Required; must be posted on company website



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Process Leading to a Business Combination

- Until closing of the IPO, SPAC cannot hold substantive discussions with a business combination target
- Post-IPO, SPAC begins to search for a target business
- If unable to complete a business combination within a specified timeframe, often 24 months from the closing of the IPO, it must return all money in the trust account to the SPAC's public shareholders, and the founder shares and warrants will be worthless
- May seek a shareholder vote to extend its lifespan to a total of 36 months
 - In connection with any extension, must offer public shareholders right to redeem shares for a pro rata portion of the cash held in the trust account

