Introduction
Whilst the market for SPACs has been strong in the US for a number of years, 2017 was a particularly strong year with just under $10bn being raised in aggregate through 34 separate vehicles. This has acted as a driving force for SPAC IPOs elsewhere, more so in the UK where in excess of $2.3bn (£1.7bn) was raised in 2017 alone.

What is a SPAC?
A special purpose acquisition company (“SPAC”) is a newly incorporated company with no existing operations or underlying business that is founded by one (or a group of) sponsors, being well known entrepreneurs, private equity or industry experts with the objective of making one or more platform acquisitions. Its funds are raised through an IPO of its shares on a stock exchange (or units in the US) and such funds are deployed to make its acquisition. It is also known as a “cash shell”, an “investment company” or a “blank check” company.

The SPAC’s investment strategy is published in its listing document – such strategy may be industry specific or it may be more of a general mandate, depending on the track-record of the founders.

Recent Trends in the UK
In the UK, there was a surge in SPACs shortly after the financial crisis from 2009 to 2011 where sponsors sought alternative sources of capital that was otherwise unavailable in the private markets and investors sought alternative investment opportunities. However following a series of high profile failures (with the odd notable exception) investment demand for the model dwindled.

More recently SPACs are re-emerging in the UK as a viable investment for institutional investors. Such investors are being attracted by the private equity derived skill-set of sponsors and the opportunity to invest in, and derive substantial value from, assets that would otherwise not have been immediately available to them through the public markets.

This is evidenced by the IPOs of J2 Acquisition and Landscape Acquisition Holdings in the UK which between them raised in excess of $1.75bn in the last quarter of 2017. In fact 15 SPACs listed in London in 2017, a significant increase on the previous two years.

One of the most interesting aspects to the J2 Acquisition IPO is not so much that it was the second largest SPAC in history (it raised $1.25bn) and that it was the 8th SPAC vehicle for Martin Franklin (Mr. Franklin has raised more than $7bn in previous vehicles including Justice holdings in 2011 went on to merge with Burger King) but that there was a roadshow “hit rate” of 90% and 55% of the order book had never invested in any of Mr. Franklin’s previous SPACs. Such was the underlying demand for shares in the vehicle, the fundraise was upsized from $750m to $1.25m.

Drivers Behind the Trend
As an alternative route to raising capital beyond the traditional limited partnership structure, executives from private equity firms are increasingly acting as SPAC sponsors. This is starting to underpin investor confidence in the model. In this way, the success of private equity over the last two decades is beginning to feed a demand for “public equity” as private equity executives look for permanent capital options to complement their more traditional private fund limited partnership structures.

In the traditional private equity limited partnership model, returns are typically made to investors within 5 years but through a permanent capital listed structure investors are instead able to realise their investment through selling their shares on the stock exchange. Such a model thereby provides sponsors with more time within which to generate real returns.

A SPAC also has the added benefit of being able to issue paper as part of the consideration for its acquisition which (being in the form of listed shares) is more marketable than equity issued to management on a traditional private equity buy out. This can provide sponsors with more firepower to make their acquisition.

For investors, low interest rates and high market valuations in the equity capital markets have contributed to financial institutions looking elsewhere to deploy their
capital. The perceived ease of exit for investors either through the “money back” feature following a failed or no deal situation (see below) or via freely transferable and liquid shares in the market following an acquisition have also made SPACs an attractive option for institutional investors. Market commentators are saying that this trend is set to continue into 2018.

Main Features of UK SPACS
The founders (or sponsors) will incorporate the company and invest a nominal amount of capital to cover the fees of the IPO process.

On IPO, investors will typically receive shares and warrants (representing the right to acquire additional shares at a 15% mark-up to the IPO price) in the vehicle. The founders or sponsors will often have a 10-20% equity holding and may hold a combination of ordinary shares or performance related preference shares which entitle them to a certain proportion (often 20%) of the upside when the share price of the company following its acquisition reaches a certain level (often a 15% hurdle).

This so-called “promote” structure for the founders is structured so as to create a positive alignment with institutional investors. This is often what is known as the “public equity” aspect to the vehicle, private equity principles in the form of shares in a listed company to incentivise the founders to generate value for investors.

The sponsors (or founders) generally sit on the boards of the listed companies and perform investment management services to the SPAC to identify and execute the acquisition.

The cash raised from institutional investors on IPO is often held in a ring-fenced bank or trust account (which may be administered by a third party trustee) and may not be released until completion of the acquisition. Often interest earned in the account is used to fund working capital expenses incurred post IPO but prior to acquisition.

In the event that an acquisition is not made within the specified timeframe, normally 24 months, funds are returned to shareholders (the “money back” feature) and the company is wound up. Sponsors often bear the cost of the expenses of the company from incorporation to winding up through the principle of “first loss” capital whereby cash is returned investors in priority to the sponsors.

The principles of “first loss” capital and the founder “promote” structure therefore combine to incentive the founders to identify and execute the acquisition of an attractive target within the stated investment strategy and within the designated timeframe.

Process for a UK Listing
In the UK the most common listing venue to list a SPAC is by way of a standard listing on the Main Market. AIM has traditionally been more suited for smaller IPOs although more recently a number of smaller vehicles have listed on the Main Market, to take advantage of the perceived advantages of such market (see below).

There are certain important consequences of the choice of listing venue in the UK (whether as a standard listed company on the Main Market or an AIM listed company) and the main differences are summarised in the table below:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Standard Listing</th>
<th>AIM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listing document</td>
<td>Prospectus</td>
<td>Admission Document</td>
</tr>
<tr>
<td>Shareholder approval on acquisition</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Minimum raise on IPO</td>
<td>£700k</td>
<td>£6m</td>
</tr>
<tr>
<td>Investment window to implement acquisition</td>
<td>No formal requirement (2 years is normal)</td>
<td>18 months</td>
</tr>
<tr>
<td>Adviser</td>
<td>No formal requirement</td>
<td>Nomad</td>
</tr>
<tr>
<td>Shares in public hands</td>
<td>25%</td>
<td>No formal requirement</td>
</tr>
</tbody>
</table>

As a consequence of the above, notwithstanding the added administrative and cost burden involved in producing a prospectus (and having it approved by the UKLA), and the requirement for 25% of its shares to be held in public hands (being independent shareholders each holding 5% or less), a standard listing on the Main Market of the London Stock Exchange has become the favoured listing venue for SPACs. This is principally because the SPAC does not require shareholder
approval to make its acquisition (provided of course that such acquisition is within its investment strategy). A Main Market listing is also seen by some sponsors as somewhat more prestigious than AIM.

**Acquisition Process**
Following IPO, on the announcement of an acquisition but before its completion the relevant exchange will suspend listing of the company’s shares if it believes, having considered the information in the market on the target at the time, that there is or may be a disorderly market or it is otherwise necessary to protect investors.

The acquisition by a SPAC constitutes a “reverse takeover” under relevant exchange rules and as such the relevant exchange will generally cancel the listing of the SPAC’s shares upon the completion of the acquisition (unless the target is already listed and subject to the same disclosure requirements) and the shares of the enlarged group are readmitted to trading upon publication of a prospectus for the enlarged group (in the case of a standard listing) or an admission document for the enlarged group (in the case of an AIM listing).

**Key Difference between US and UK SPACs**
One of the key differences between US and UK SPACs is that in the US, shareholders get a vote on the acquisition and they are able to redeem their shares if they do not want to invest in the underlying target. This creates some uncertainty with respect to closing, which while avoidable through deal structuring, can be a deterrent to potential sellers.

This is not a feature of the typical SPAC on the Main Market in the UK and (as indicated above) is one of the reasons why the Main Market is preferred by some sponsors as it gives them the ability to have deal certainty and to execute acquisitions quickly following a successful IPO.

This needs to be balanced of course with the fundraise process on IPO in the US. With a shareholder vote and a redemption option, the fundraise process for a SPAC in the US is generally viewed as being easier than in the UK as ultimately investors are able to get clarity on the underlying business that they are going to invest in (through the shareholder vote) and more importantly, they have an ability to extricate themselves (by way of redemption) if they do not like the target.

Furthermore, in the US some investors may opt to redeem their shares but retain their warrants on the acquisition, thereby enabling them to be reimbursed their initial capital invested on IPO but hedge their bets by taking a stake in a successful acquisition at an attractive price through the exercise of their warrants at a later date.

These factors can inevitably lead to more investor demand on a US SPAC IPO but (without deal structuring) less transaction certainty on acquisition. This is often contrasted with a more challenging fundraise on a UK SPAC (which may be improved by structuring) but without a shareholder vote or a redemption option, a greater degree of deal certainty on acquisition.

**Conclusion**
The London market for SPACs appears to be growing as investors and sponsor teams seem to have both gained confidence in the model. The use of SPACs by private equity executives with strong track records is contributing to this growth. The impetus from 2017 is therefore expected to continue and we are seeing a much greater interest than before in the model. This in turn is set to feed M&A activity into 2020.

**About the Author**
Paul Amiss is a Partner at law firm Winston & Strawn LLP and is based in London. He advises on key domestic and cross border corporate transactions for private equity, strategic companies and entrepreneurs. He has extensive experience setting up and working with special purpose acquisition companies on their IPOs and acquisitions. Find out more [here](#).

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