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SPACs in 2021: What to expect in the US and on London Exchange

Thomas Vita and Trevor Pinkerton, *Bloomberg Law*, January 25, 2021

SPACs (special-purpose acquisition companies) grew in popularity in 2020 and the trend will continue into 2021, especially in the technology sector, according to Norton Rose Fulbright LLP partners. They also look at SPAC trends on the London Exchange and explain key differences between U.S. and U.K. SPACs.

By any measure, 2020 was the year that special-purpose acquisition companies (SPACs) became a familiar term in the business world. Where their growth in the US goes and whether their popularity increases on the London exchange are issues to watch in 2021.

During 2020, over 240 SPACs conducted initial public offerings and raised over $80 billion, compared to about 59 offerings in 2019. Accordingly, 2021 and 2022 will either be the years of the "De-SPAC" (the term for the business combination where the IPO funds are deployed) or the years of redemptions if the hunt for targets is unsuccessful.

SPACs have a limited shelf-life by their terms. They have to invest the money they raise in the IPO within a set period of time, usually between 18 months to 24 months. If they don't do so, the SPAC faces redemptions by its shareholders and depletion of the funds invested in the IPO. Every SPAC formed is hunting for a target, and certain industries appear primed to be the target of these acquisition efforts.

A substantial minority of SPACs are formed without specific industry focus, keeping their options open as to how they invest the IPO funds (around 20% of SPACs launched since Jan. 1, 2020), but a large majority of SPACs are formed with some general industry target. Accordingly, the management team of the SPAC and its sponsor usually have roots in a particular area.

Trending toward technology companies

Of the SPACs that have identified a specific industry focus, the trend is toward aiming at technology companies (over 25% since Jan. 1, 2020). Other industries of focus such as health care, consumer services, and life science, energy, and financial services, are also often aiming within the technology related sectors of those industries. These include biotech, pharma/medtech, industrial and government tech, electric vehicles and cleantech, and fintech.

That said, even those SPACs that have an industry focus usually include general language allowing investment in other areas if necessary.

This trend toward technology and early-stage companies makes sense, as they are often in need of substantial capital. The best-positioned companies to take advantage of the unique combination of features that a SPAC offers are those that need both a large influx of capital and access to liquidity.

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One may expect that companies with a long operating history and substantial positive historical earnings may be less likely to pursue the SPAC path versus a traditional IPO. However, the sheer volume of SPACs that are hunting for targets means that sales processes that might otherwise be focused on private acquisitions by strategic or private equity buyers will suddenly find SPACs at the bidding table ready to make offers.

A little less talk, a little more action in London?

The announcement that U.K. zero-emission vehicle maker Arrival Group is to merge with NASDAQ-listed CIIG is evidence that some of the recently-minted U.S. SPACs are also targeting businesses outside of the country. However, an unanswered question repeatedly asked in 2020 is whether the interest in listing SPACs will again migrate to London in 2021.

Looking at the last wave of SPACs that listed on the London Stock Exchange in 2016-17, LSE standard segment-listed SPACs have features that make them more or less attractive to their various stakeholders.

The most significant difference between New York and London-listed SPACs are the rights of shareholders at the time of the De-SPACing transaction. In the U.S., shareholder approval of the acquisition is usually required, which is not the case in the U.K. This process, which typically requires the preparation of a proxy statement, can take three months or more to complete from the date of the agreement of the acquisition.

Additionally, shareholders of a U.S. SPAC typically have the right to redeem their shares of common stock at the time of the closing of the acquisition. A shareholder that has opted to redeem their shares may retain their warrants, thus retaining some upside potential associated with the acquisition. Often, the acquisition agreement includes a condition precedent that a specified amount of cash must remain after the SPAC satisfies all redemption requests.

These features provide investors in U.S. SPACs with more control and flexibility; by contrast, the lack of these features makes London SPACs less attractive to investors. However, the absence of the associated protracted timetable and the reduced execution risk arguably make a U.K. SPAC a more attractive bidder in the eyes of the target and more competitive in relation to private equity buyers.

Moreover, due to the classification of the London-listed SPAC's initial acquisition as a "reverse takeover" under the LSE's listing rules, the acquisition results in a suspension of trading in the SPAC's securities from the time of announcement until an FCA-approved prospectus relating to the enlarged business is published.

This locks disapproving investors into an acquisition they do not support for a protracted period and is another commonly-cited reason for not investing in U.K. SPACs.

On balance, these features, along with the relative size of the two markets, will likely mean that, while the London market will remain an alternative listing-venue for SPACs, it will remain viable for only the most mature and trusted sponsors.

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