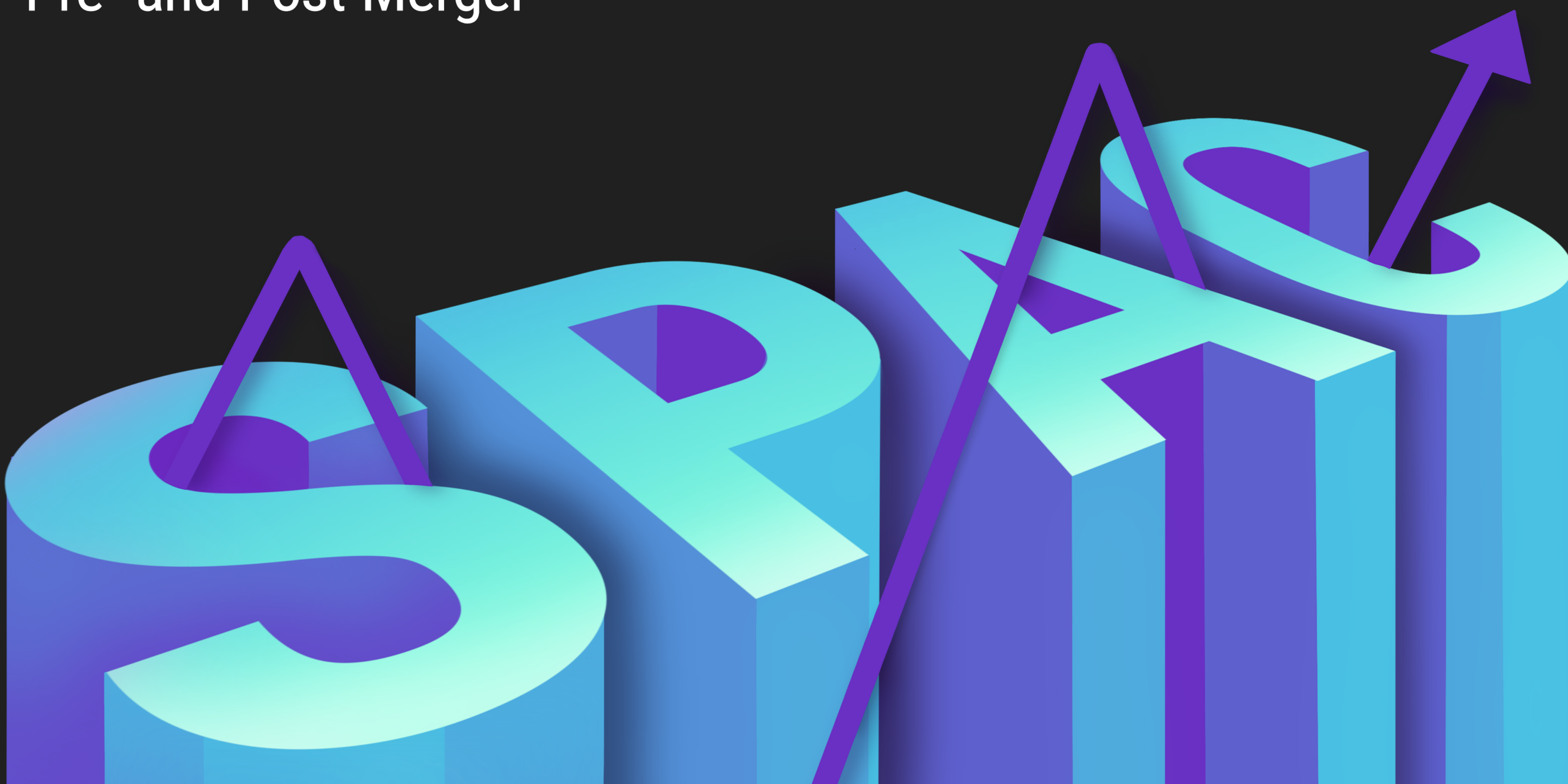
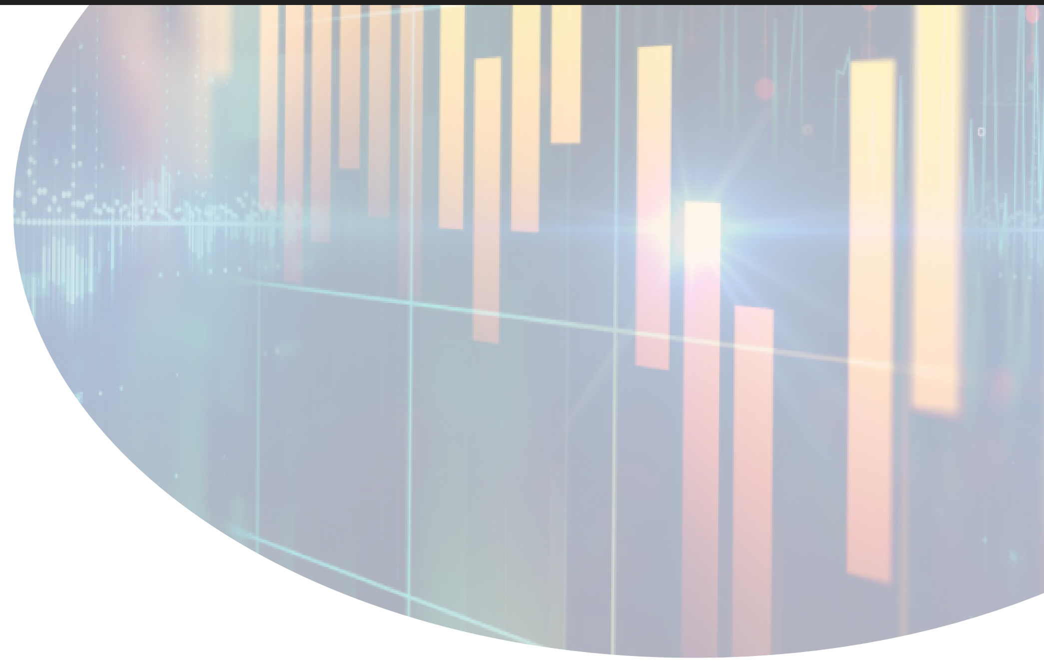
To SPAC-ulate, or Not?

YCHARTS

Examining SPAC Performance Pre- and Post-Merger





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What the SPAC is going on here?

A Special Purpose Acquisition Company (SPAC) is a shell company, with no business operations itself, that goes public in order to someday acquire an operating company. When a SPAC IPOs, its Sponsor—who first sets up and manages the SPAC—and other early investors receive both shares and convertible warrants. SPAC shares typically start trading at a nominal $10 each and tend to hang around that price level until the SPAC's merger target is announced, unless speculation runs rampant.

From the perspective of a company wanting to go public, SPACs are perceived to offer a shorter, faster ramp to public investors than a traditional IPO. For SPAC Sponsors and IPO investors, the convertible warrants are a potential "sweetener" not offered in traditional IPOs. On the flip side, investors in the secondary market face a distinct disadvantage when owning pre-merger SPACs—their interest is likely to be diluted by IPO investors who return their shares (the SPAC is required to buy them out, if requested) and by PIPEs, or private investments in public equity, which are relied upon to help SPACs close their mergers with operating companies.

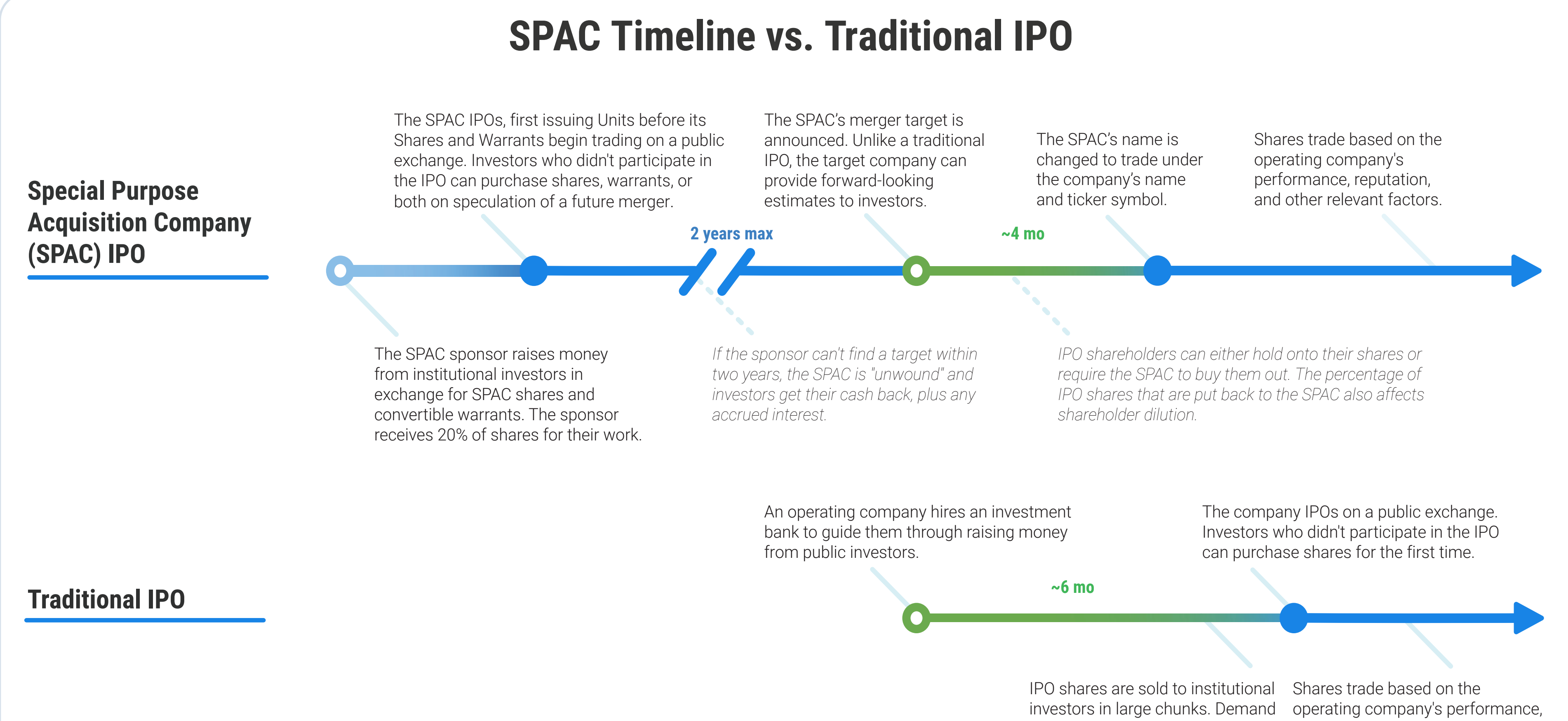
So why should you care? SPACs are just a vehicle through which companies go public, but understanding how their unique structure can affect future share performance is important for investors in recently-listed companies. Plus, big name SPAC investors like Alex Rodriguez, Steve Wozniak, Betsy Cohen, Dan Quayle, Shaquille O'Neal, and Chad Hurley certainly help turn heads.

To help advisors, asset managers, and investors understand the SPAC lifecycle—from IPO, to merger announcement, through merger closing and beyond—we studied a sample of 72 SPACs that successfully took a company public and for which comprehensive data is available (of 188 SPACs that completed mergers since 2009). Performance varies significantly from one step in the SPAC process to the next.

SPAC Timeline vs. Traditional IPO

SPACs have their pros and cons for investors, but a key favorable element for companies that merge with SPACs is time to public listing. The perceived time savings compared to a traditional IPO have contributed to the rise of SPACs—for the 72 companies included in this study, a median 4.1 months elapsed between the initial SPAC-company merger announcement and the announcement of its closing.

If you would like to share any of the visuals below with your clients or colleagues, click the link below each image to download it for free! The findings contained in this guide are data-driven and unbiased, but are not meant to serve as investment advice.



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Number of SPAC IPOs and Money Raised

The number of SPAC IPOs, and the amount of money they raised, grew steadily in the 2010s but truly exploded in 2020 as 248 SPACs, funded with a combined $83.3 billion, began trading publicly. That high-water mark has already been topped in just the first couple months of 2021. For reference, 494 total IPOs raised $174 billion in 2020, meaning SPACs represented about 50% of new listings and a slightly smaller percentage of funds raised.

Additionally, SPAC sponsors have been prolific while also growing in number. Social Capital Hedosophia, led by prominent investor Chamath Palihapitiya, has successfully brought to public markets Virgin Galactic (SPCE), Opendoor Technologies (OPEN), and Clover Health (CLOV), with three more SPACs still in the pre-merger phase. Other names like Churchill, Hennessy Capital, and Haymaker are also prominent in the SPAC space.

Number of SPAC IPOs and Gross Proceeds ($MM) by Year

Source: SPACinsider.com as of 3/22/2021

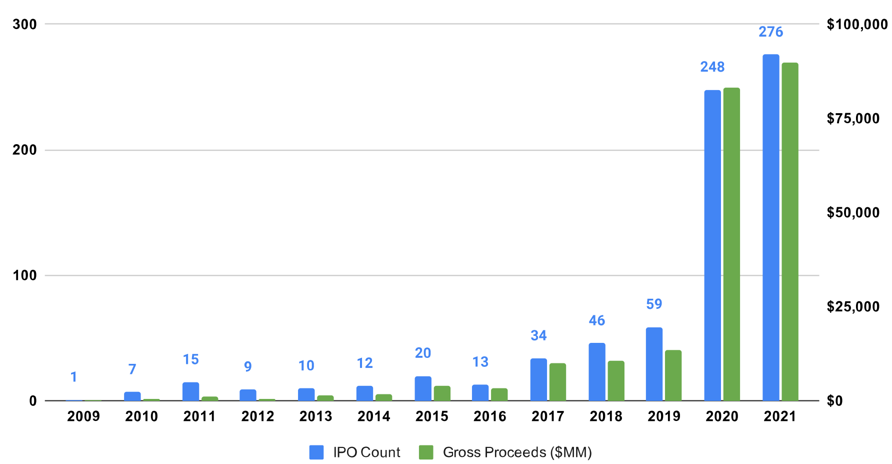

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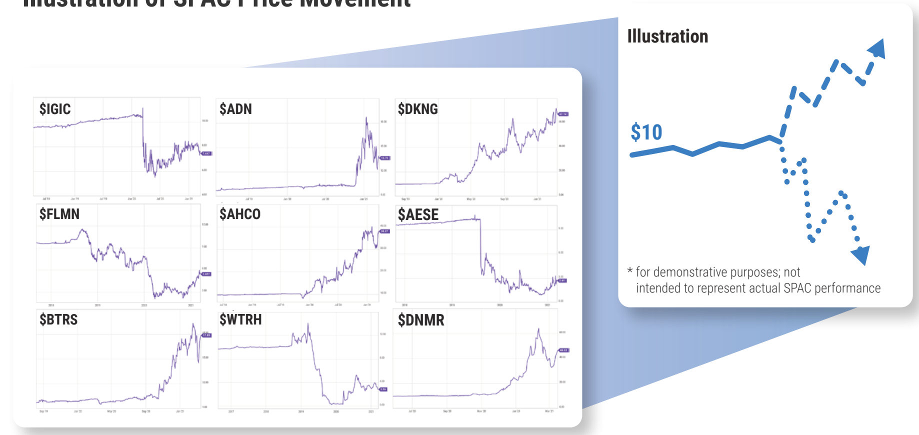
Illustration of SPAC Price Movement



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Performance of SPACs

We focused on the lifetime performance of 72 SPACs that successfully merged with an operating company. In other words, they've completed the full, intended SPAC lifecycle. By framing the topic in this way, we can better answer whether SPACs are suitable long term investments and if, once shares are converted, operating companies are at all affected by their SPAC origins.

The 72 SPACs raised just over a combined $19 billion in their IPOs and are worth upwards of $150 billion today by combined market capitalization. All 72 IPO'd in 2012 or later, though almost three-quarters of the sample debuted since 2017.

Glancing at different price charts, there's a noticeable pattern in the performance of SPACs that finalize mergers. In particular, share prices hover around the $10 mark while sponsors look for merger targets, react wildly once a merger is announced, then take on a new life once shares convert to the operating company's name and new ticker.

These lifecycle stages are common to most SPACs, and segmenting performance by each stage reveals valuable insights about SPACs themselves, and investor behavior. We examined three SPAC lifecycle stages, in addition to one lifetime to-date period:

1. SPAC IPO to the announcement of a Definitive Merger Agreement
2. Announcement of a Definitive Merger Agreement to Announcement of Completed Merger
3. Announcement of Completed Merger to Present (through February 2021)

While a fair number of SPACs grew in value and/or outperformed the broad market over each time frame, a couple key insights stand out from the table below.

First, the period after a merger is announced and before its actual closing are SPAC "glory days"—about 70% of our sample gained value and nearly half outperformed the S&P 500 during that time frame. Based on our sample, SPACs are most likely to trade higher on speculation of their future deals, but the rose-colored lenses fade soon enough.

The second insight is that most companies have not fared well after their mergers are finalized. 52% of companies saw share prices decline in value from the date they announced their merger had closed to present, the most of any lifecycle stage. This could be due in part to the deal's "hype" wearing off, but SPAC mechanics also introduce dilution from IPO investors and PIPE financing that can impact share price performance.

Performance through SPAC Lifecycle Stages

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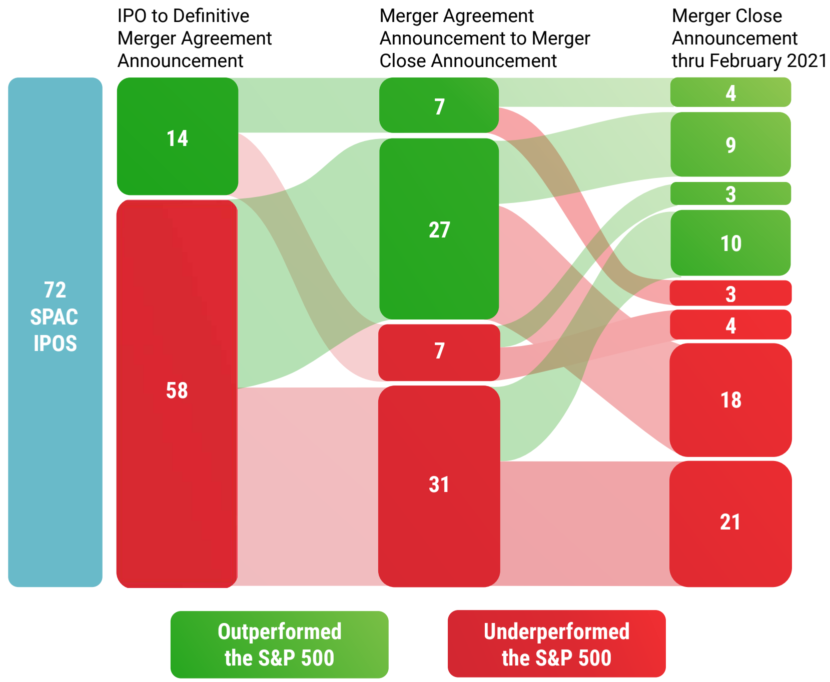
	SPAC IPO to Definitive Merger Announcement	Definitive Merger Announcement to Merger Closed	Merger Closed thru February 2021	SPAC IPO thru February 2021
Positive Performance / Outperformed SPX	15%	46%	34%	42%
Positive Performance/ Underperformed SPX	57%	24%	14%	18%
Negative Performance/ Outperformed SPX	4%	1%	1%	0%
Negative Performance/ Underperformed SPX	24%	29%	51%	40%

N=72

A flow chart illustrates performance trends through each lifecycle stage with a little more granularity. Only four SPACs-turned-companies outperformed the broader market in each of the three key lifecycle stages, while 21 underperformed in each stage, and the remainder moved back and forth between under- and outperformance.

Through early 2021, the four SPAC-born companies that outperformed in each lifecycle stage are Porch Group (PRCH), Utz Brands (UTZ), Clarivate (CLVT), and Repay Holdings (RPAY), all in the technology sector, with the exception of Utz. Of the 72 SPACs-turned-companies we studied, the most common sectors were Consumer Cyclical (18), Technology (11), and Industrials (10).

Performance vs. S&P 500 in Key Timeframes: SPAC IPOs That Successfully Merge to Take Operating Companies Public



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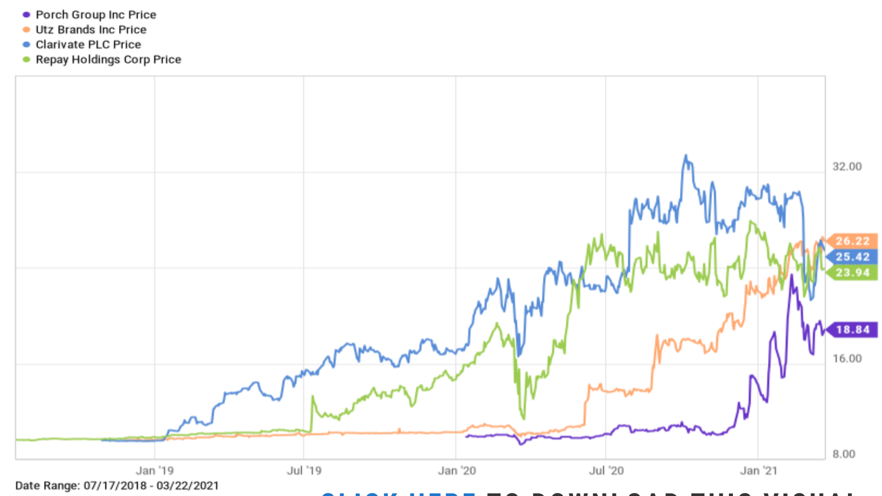
SPAC-born Companies that Consistently Outperformed



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If you're looking for broad exposure to companies that go public via SPAC, several ETFs launched in recent years make such a strategy available. The Defiance Next Gen SPAC Derived ETF (SPAK) invests in mostly post-merger SPACs and tracks the Indxx SPAC & NextGen IPO index, The Morgan Creek-Exos SPAC Originated ETF (SPXZ) similarly invests in post-merger SPACs but is not tied to an index, while the SPAC and New Issue ETF (SPCX) uniquely holds a large amount of both SPAC shares and warrants.

SPAK and SPXZ are not too dissimilar from IPO-centric ETFs, such as the popular Renaissance IPO ETF, in that they invest primarily in newly listed companies.

To SPAC-ulate, Or Not? That Is The Question

With the rapid ascension of SPAC IPOs, billions of dollars raised by their sponsors, and a number of high profile SPAC deals gone south, plenty of market pundits have slapped the "bubble" label on SPACs. To boot, Investopedia polled its readers in March 2021 and asked: *Which asset classes or securities would you consider to be in a bubble right now*? Second on the list, with 38% of respondents agreeing, and just behind Bitcoin, was SPACs.

So if there is a bubble, does it matter for the average investor? Where in the SPAC lifecycle is this bubble forming?

Our study intentionally focused only on SPACs that completed mergers, of which there have been 188 since 2009. In the same period, 474 SPACs have IPO'd on public markets, meaning ~60% didn't or haven't yet successfully courted an operating company. If you're investing in pre-merger SPACs on speculation (SPAC-ulation?), that stat may be worrisome.

Further, while our findings show that prices suffer after a SPAC merger is announced as closed, it's not conclusive that SPAC-born companies are worse off than those taking the traditional IPO route. In fact, half of them have gained value and about a third have outperformed the broader market from when their merger was finalized through February 2021.

All this is to say, investing in early stage or newly listed companies still involves inherent risks.

Taking the opposite side of the bubble argument, there are relatively fewer publicly traded companies today than there have been in years past. SPACs provide a different structure for going public than traditional IPOs or direct listings, but nonetheless give the average investor access to companies they otherwise couldn't invest in—which sounds like a positive for most.

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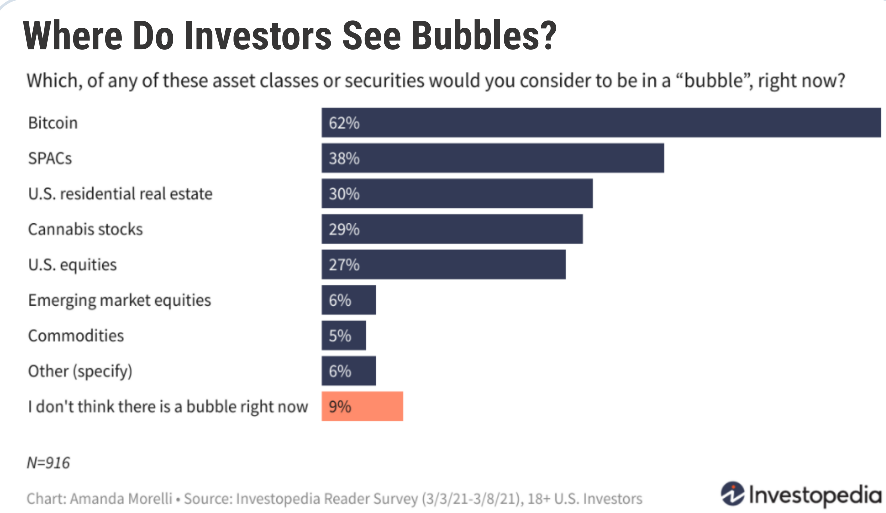

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Data Sources

All SPAC and company performance data sourced from YCharts.com. Merger announcement dates provided by SPACTrack and confirmed via press releases and/or SEC filings. Aggregate count of SPAC IPOs and funds raised provided by SPACInsider. Special thanks to Investopedia.com, SPACInsider.com, and SPACTrack.net.