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SPACs – A Primer (Part II)

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Just before Thanksgiving a faithful reader alerted us to an article from Business Insider [link]. In it noted sommelier and "lifestyle director" Sara Lehman reviewed eleven wines – cabernets, pinot grigios and rosés – all under $10.

Among selections including Trader Joe's ("It's reminding me of apple juice"), Costco ("Give it a nice swirl first"), and BJ's ("I'm getting some barnyard"), Ms. Lehman chose Target's 'The Collection.' "If I were to bring something less expensive to my friends."

$10 guidelines reminded us of our current topic: special purpose acquisition companies, or SPACs. These 'blank-check' companies differ from regular-way IPOs by being priced at $10 per share, then floating around that level. Another difference is that investors have the option of cashing out (with interest) at the IPO price before the vehicle makes an acquisition.

As it has with many elements of capital formation, COVID has created challenges for the IPO market. While the trough-to-peak recovery since March has dramatically buoyed prices, headline-induced volatility makes pricing initial public offerings a challenge.

Sector specialization is also playing a major role in SPAC attractiveness. While sponsors certainly focus on more traditional growth industries like technology, software and distribution, they are also seeking investments in more colorful spaces.

Cannabis IPOs, according to *Marijuana Business Daily*, have raised $3.5 billion in the last two years. There are currently eleven such opportunities in the pipe. Some focus on hemp products, since US exchanges prohibit listing of "plant-touching" businesses.

Another hot space is gaming. There are ten gaming SPACs closed or in the works. DraftKings (DKNG), a sports betting operator, reverse-merged with two other companies in April at a $10 valuation (ultimately closing around $20). It now trades on Nasdaq at over $50/share.

Other on-line SPAC gamers looking for deals include Tekkorp (digital media and leisure) and Acies ("experiential entertainment"). Genius Sports Group is a UK-based on-line wagering data firm that just announced a merger with a tech SPAC.

Speaking of vehicles, electric car manufacturers have jumped on the SPAC track. Fisker (FSR), a version of a company that's struggled over the years, expects to launch a mid-sized SUV by 4Q 2022, according to industry sources.

Nikola (NKLA) will sell battery and hydrogen-powered trucks. Typical of the EV category, they are still at the drawing board or prototype stage. Same with Hyliion (HYLN) which develops drive-trains for Class 8 trucks based on renewable compressed natural gas.

One of the highest of high-flyers in the SPAC race is Virgin Galactic, Richard Branson’s spaceflight operator. The deal closed last October and has been followed by another space start-up. Momentus will deliver satellites from earth orbit to ‘the last mile’ of lunar orbit, perhaps by 2023.