SPACs – A Primer (Last of a Series)

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As we wrap up our special series on SPACs, let's take a look at the performance of these vehicles over time.

Early last year, as SPACs began their rise in popularity, the WSJ reported of those that IPO'ed in 2015 and 2016, over 50% "were trading below their IPO price." Performance of SPACs in the 2010-2017 period, the analysis showed, was 3% worse than the overall market, measured annually for the first three years after the IPO.

In the article, a University of Florida finance professor was quoted as saying "I've been surprised by the staying power of SPACs, given that they haven't been producing big returns for investors."

According to Renaissance Capital, an IPO research specialist, of the 200-plus SPACs launched during the last five years, 107 have completed mergers and gone public. Shares in those issuers averaged a loss of 14% and a median return of -36.1%. Compare that to an average regular-way IPO return of 49% over the same period.

Volume-wise, Renaissance data (in a CNBC profile on SPACs) showed there have been 194 traditional IPOs for $67 billion so far this year. That's the highest level in six years. SPAC activity, by comparison, has resulted in 200 vehicles raising $64 billion.

"If you combine IPO and SPAC volume of $130 billion," Renaissance's Kathleen Smith told CNBC, "these numbers exceed anything we have seen since the internet bubble."

Could this be indicative of a new wave of capital formation? Or just another frothy market product that will evaporate with the next downturn?

One sign of an overbought SPAC market is flexing down IPO proceeds. Examples (courtesy *Term Sheet*) from just one week in November included Gores Holdings, lowering its raise to $300 million from $525 million, and Aequi, from $300 million to $200 million. 10X Capital Venture and L&F also dropped their investment targets.

Further signs of a next-stage-in-cycle market comes from a Bloomberg report detailing a large asset manager's plans to raise a $1 billion SPAC-focused fund. With leverage, that could bring capacity to $3 billion. The article quoted part of the firm's mission statement: "We believe that 2020's record SPAC issuance represents the potential for more than $100 billion of near-term transactional value."

Opportunities could come fast and furious, if today's investment pace is any indicator. As our *Chart of the Week* shows, the value of SPAC-created initial business combinations (IBCs), closed and pending, already totals $150 billion for 2020 alone.

The SPAC phenomenon highlights how aspects of capital raising have altered dramatically in this COVID era. The new normal of life on Earth is drawing attention to businesses with the promise of returns beyond near-zero risk-free rates. Only time will tell whether today's SPACs are the vehicles to deliver on that promise.

?? From the Editor: The Lead Left will be on break until January 4th. To all of our readers, best wishes for a safe, healthy and restful holiday season.