



GOING PUBLIC VIA SPACs: EVIDENCE FROM ITALY

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OUTLINE

Going public financing

SPACs in a nutshell

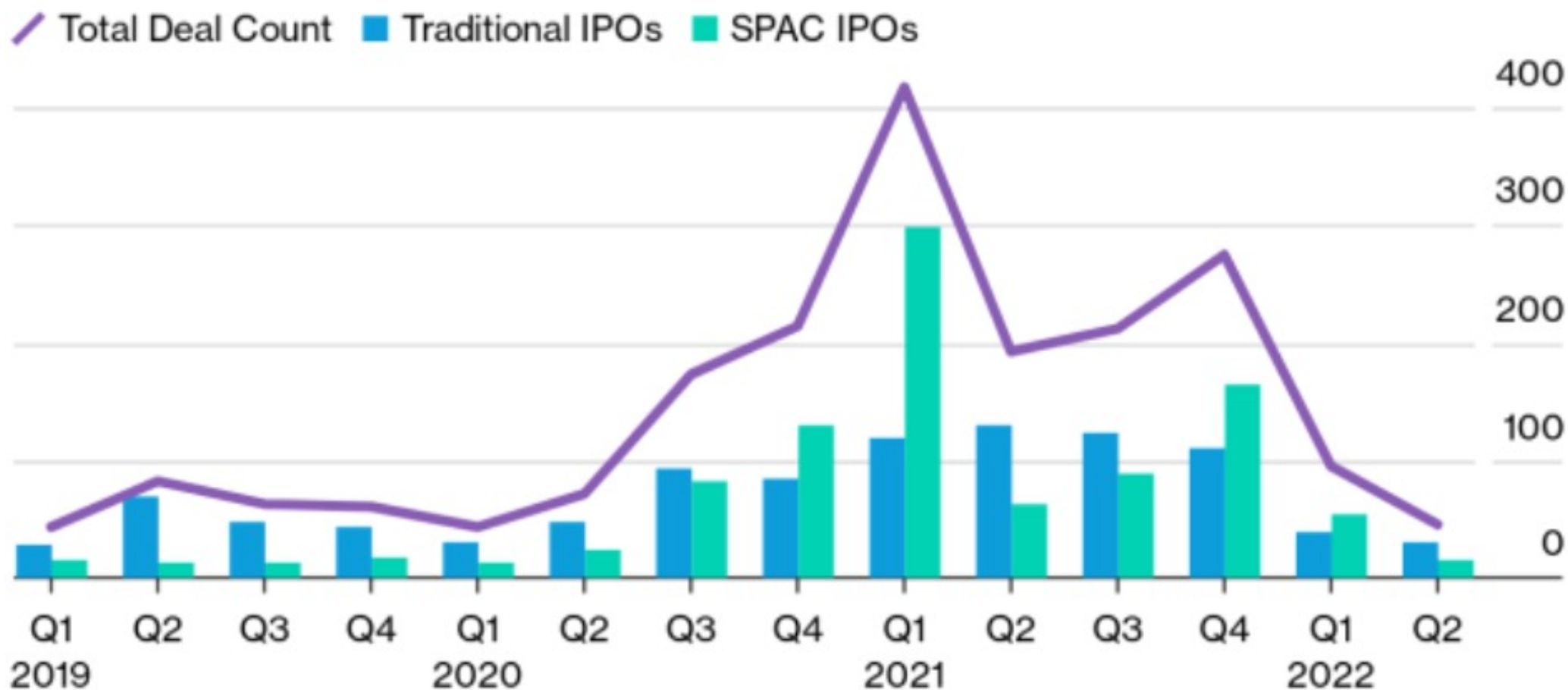
US evidence: raise and fall of SPACs

SPACs in Europe

Retail investors' protection

Summary

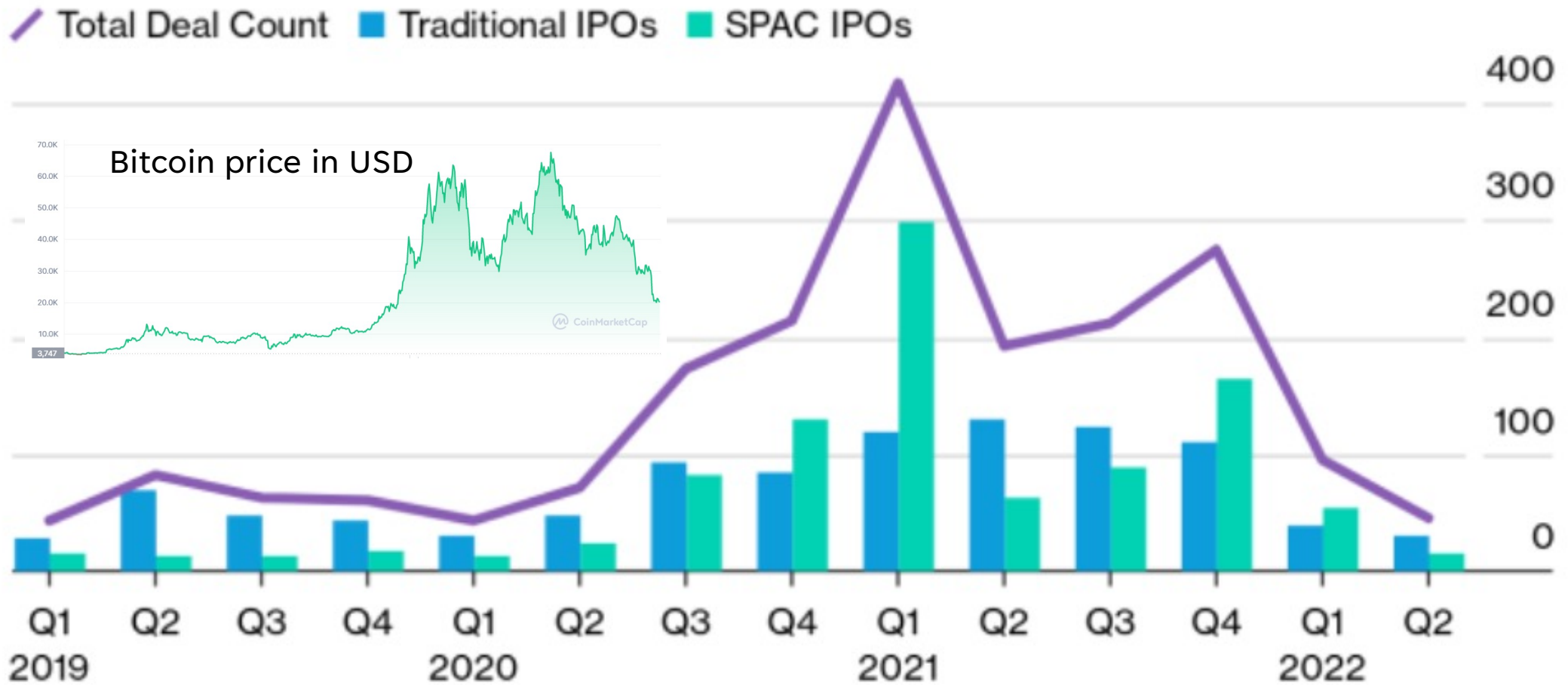
SPACS VS IPOS IN US MARKET



Source: Bloomberg Law. Initial public offerings of at least \$1 million priced on US exchanges for the time periods indicated.

Bloomberg Law

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Bloomberg Law

SPAC – 2021 WORD OF THE YEAR IN FINANCE



The SPAC hack | The Economist

Jul 30, 2020 ... Bill Ackman, a shrewd hedge-fund manager, has just raised a \$4bn mega-SPAC. He is looking for a unicorn to make a home in his empty store. The ...



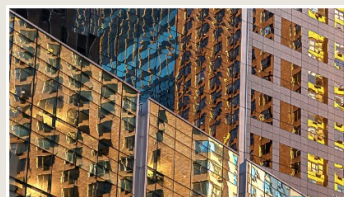
SPACs raised billions. As mergers dry up, we follow the money | The ...

May 19, 2022 ... After a spac announces a merger, investors are given the chance to redeem their shares and have their investment returned. Average redemptions ...



Why SPACs are Wall Street's latest craze | The Economist

Feb 16, 2021 ... The unlikely trio sponsors a special-purpose acquisition company (SPAC), a listed pot of capital that seeks a firm to take public through a ...



The Spectacular boom on Wall Street | The Economist

Feb 20, 2021 ... The present SPAC boom on Wall Street began last year and, true to form, features celebrities-on-the-make, failed bosses looking for ...



Behind the Money podcast 19 min listen

How Spacs went splat

Spacs took off at the start of the pandemic as a way for companies to go public, but in 2022 the bubble burst

JULY 6, 2022



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Liberty Acquisition to Buy U.K.'s Pearl

By Anita Lakus
 June 28, 2020 1:45 pm ET

SHARE PRINT A+ TEXT

LONDON — Liberty Acquisition Holdings (International) Company said Monday it has agreed to acquire U.K. insurer Pearl Group in a move that could create a \$2.3 billion (\$3.8 billion) London-listed insurance business targeting investment opportunities created by the financial crisis.

Bill Ackman to wind up Spac and return \$4bn to investors

Billionaire says he failed to find a suitable company to take public using his investment vehicle



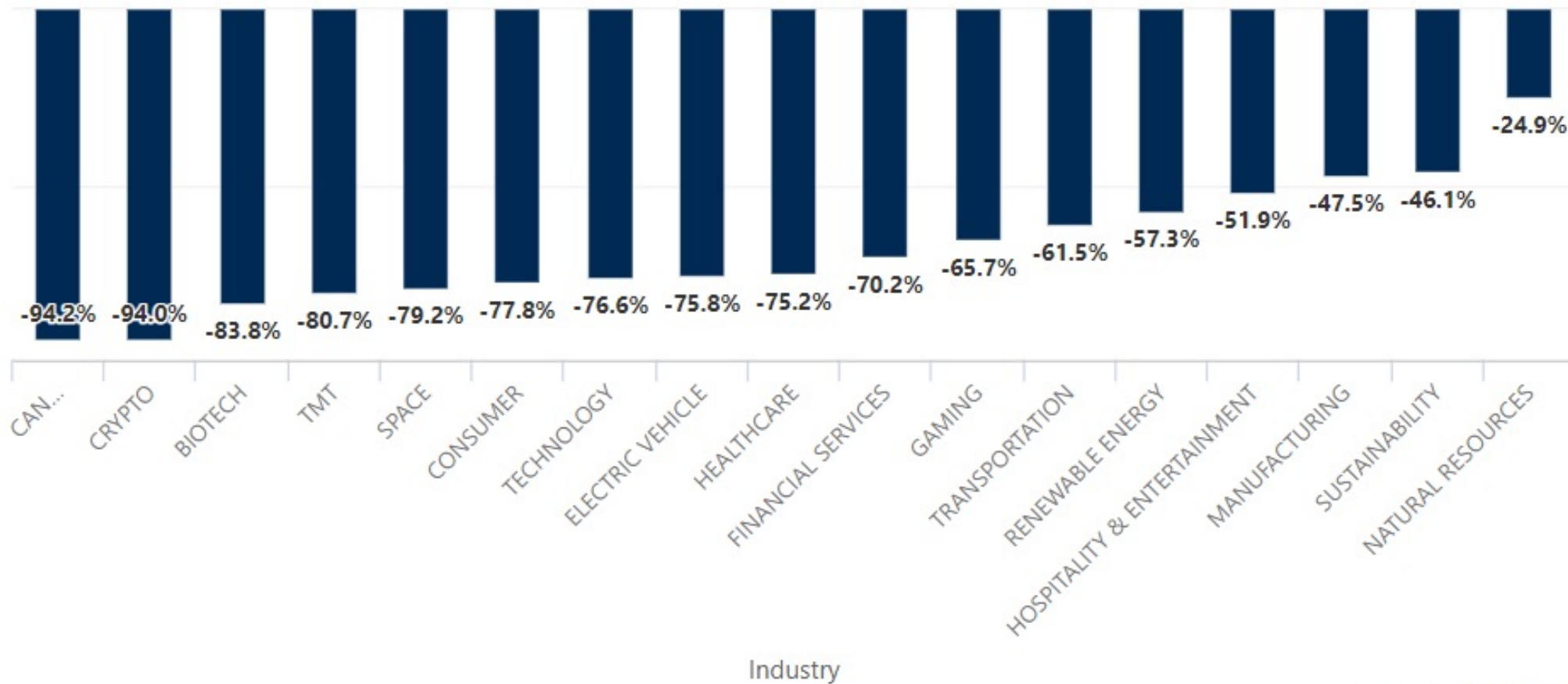
Bill Ackman attempted to take a 10% stake in Universal Music, which was being spun off by the French media conglomerate Vivendi, through his Spac last year. Photograph: Mike Blake/Reuters



SPACS RETURNS TO INVESTORS

Median DeSPAC Share % Return by Industry

2009 - Current



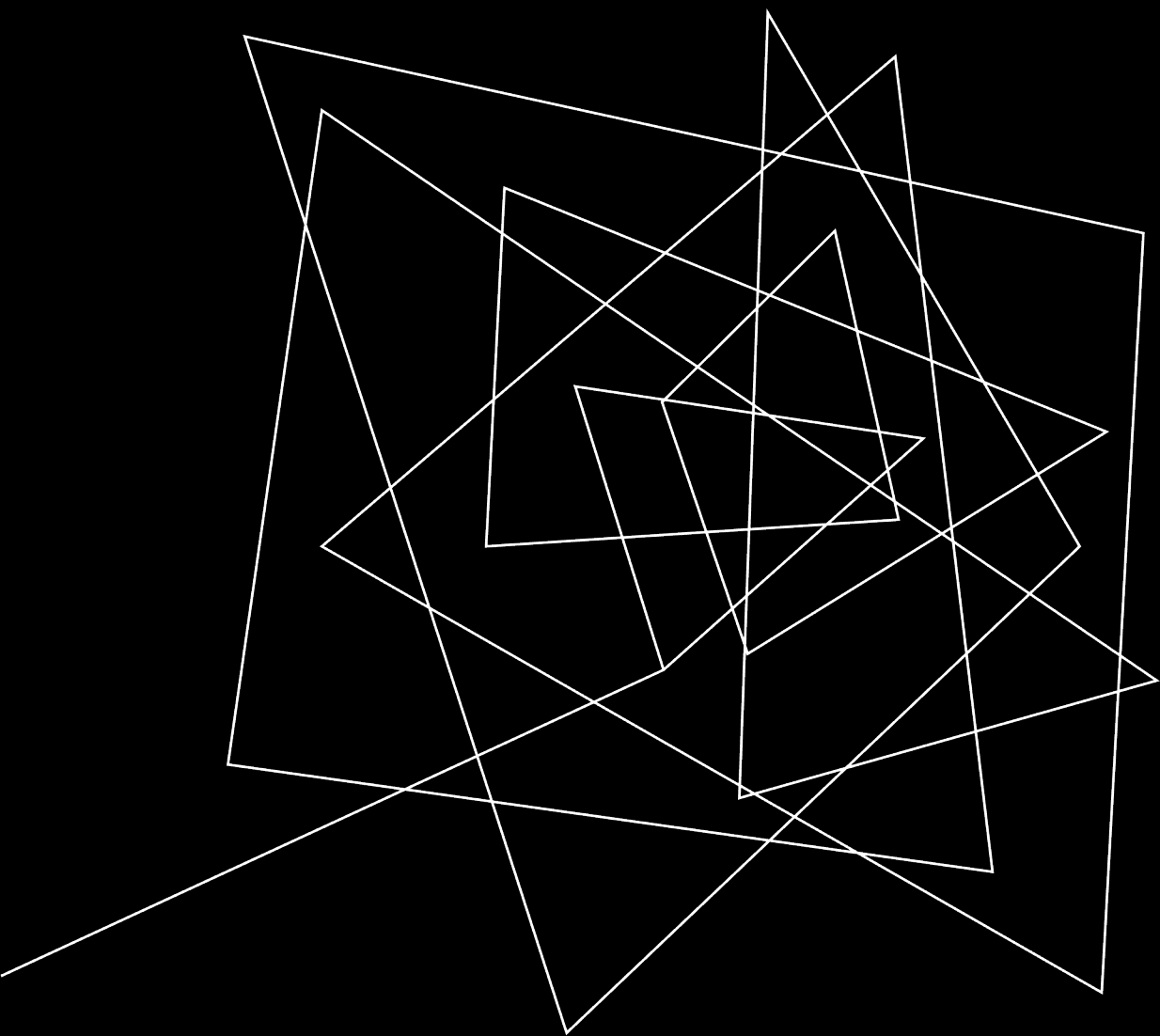
source: spacinsider.com

WHY COMPANIES GO PUBLIC

- Access to capital
- Liquidity
- Easier growth through acquisitions or partnerships
- Attracting talent with stock incentives
- More transparency and less asymmetric information

HOW COMPANIES GO PUBLIC

- Initial public offering (IPO)
- Several alternatives:
 - Listing on restricted market
 - Reverse merger
 - Shelf registration
 - Special purpose acquisition company
- Non-conventional alternatives
 - Equity crowdfunding
 - Initial coin offering



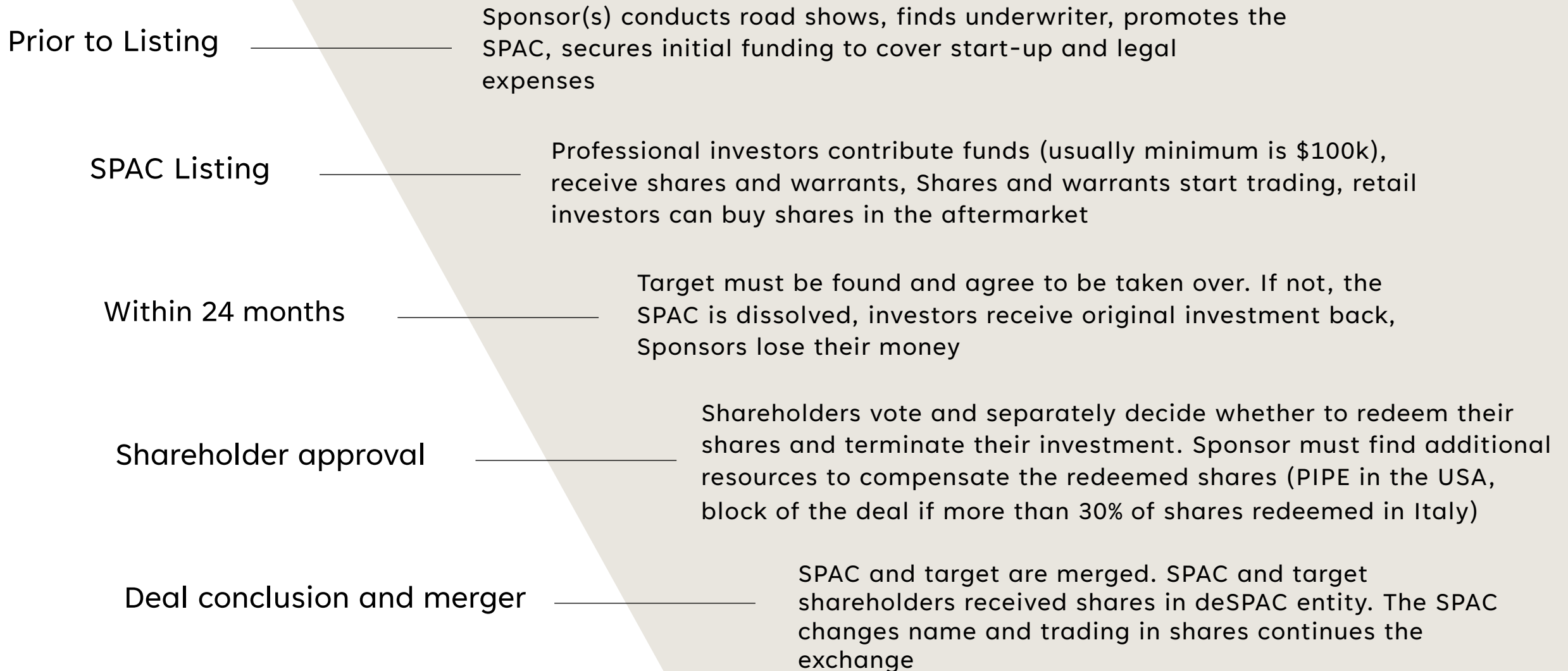
SPACS

In a nutshell

A SPAC:

- Blank check company created and listed on exchange by a sponsor by collecting funds from investors that are placed in an escrow account
- Purpose – to search for a private target
- Investors receive shares and warrants but have no knowledge about future target
- If target is not found: the investors get their money back plus interest
- If target is found: the investors must approve it and can decide whether to stick with the firm or redeem their shares

Result: Private company is listed, funds collected from pool created by SPAC investors



TIMELINE

Speed	Faster process to take advantage of bull market conditions
Role of sponsors	Sponsor(s) provide advice and certification similar to Venture Capital financing
Earnout provisions	Contingent remuneration of sponsors based on post-merger performance in SPACs. Much less frequent in IPOs.
Lower threat of litigation	‘Safe harbour’ provision (USA) that allow better lawsuit protection (like in mergers) for SPACs as compared to usual security offerings.
More certainty about proceeds	In IPOs due to bookbuilding, the final offering price is not known until the last day. With SPACs it is more certain.

SPAC ADVANTAGES OVER IPO

GAHNG, RITTER AND ZHANG, 2021

WHAT DO WE KNOW ABOUT SPACS

- Empirical analysis virtually only on US SPACs data
- SPACs destroy post-merger value and create conflict of interests between sponsors and shareholders (Jennkinson & Sausa, 2011)
- Significant cross-sectional variation exists in SPACs' performance (Dimitrova, 2017)
- More experienced managers and boards or glamor underwriters and larger underwriter syndicates are associated with worse post-merger performance (Cumming et al. 2014)
- SPAC waves due to market-wide uncertainty (VIX) and time-varying risk aversion (Blomkvist & Vulcanovic, 2020)
- SPAC sponsors act as non-bank certification intermediaries and match yield-seeking investors with smaller and riskier operating firms (Bai et al., 2021)

OUR RESEARCH CONTRIBUTION ON SPACS (I)

- First study different regulatory SPAC setting on meaningful sample (Italian SPACs)
- Address the question of retail investors participation in SPACs and their potential abuse:
 - H1: Retail investors are not participating in SPAC investment, both at the initial allocation and in the secondary market
 - H2. Institutional investors actively participate in SPACs' shares allocation process and actively buy shares in the secondary market

OUR RESEARCH CONTRIBUTION ON SPACS (II)

- We also study the investment patterns of institutional investors
 - H3. A group of institutional investors dominates when it comes to the allocation of SPACs' shares
- Look closely at the cost structure of typical SPAC and compare it to the US data
- Calculate SPACs long-run performance and its interaction with SPAC dilution
- Work in progress on contingent remuneration of sponsors and its effects on SPAC share performance

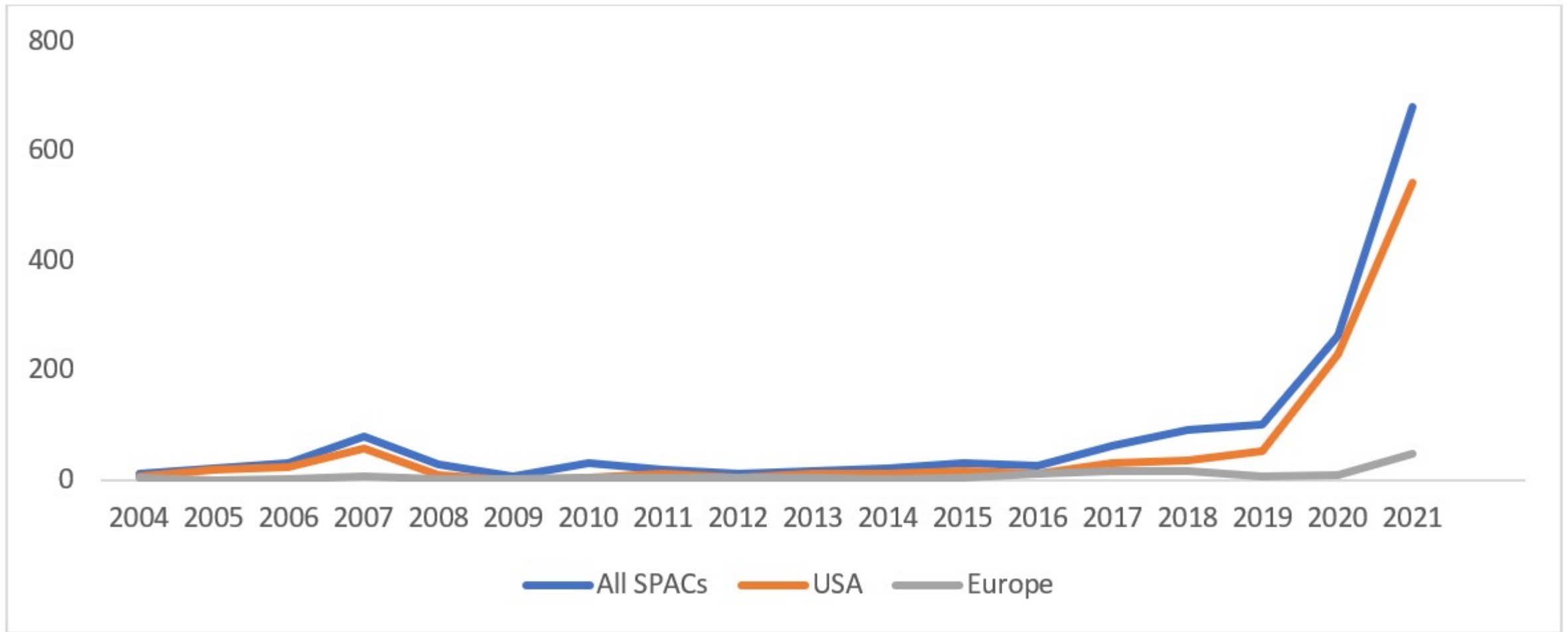


Figure 1. Number of SPACs listed across selected regions. (Authors' elaboration of Refinitive data on SPACs).

Year	N	BC formed	Failure rate	Collected funds, €m	Average Targeted funds, €m	Average Funds collected, €m	Average Offering costs, €m
2011	1	1	0%	50.0	60.0	50.0	1.5
2013	2	2	0%	85.0	62.5	42.5	1.1
2015	2	2	0%	131.0	72.5	65.5	1.2
2016	2	2	0%	150.5	110.0	75.3	1.1
2017	8	5	38%	1,083.0	141.9	135.4	1.3
2018	7	4	43%	1,157.0	175.3	165.3	2.0
2021*	2	1	0%	338.0	185.0	169.0	2.6
Total	24	17	25%	2,994.5	136.8	124.8	1.6

Table 1. SPAC activity in Italy from 2011. *BC Formed* stands for the number of SPACs that successfully acquired a Target within the statutory time frame. * - one of SPACs from 2021 is still active and is looking for a target to acquire.

OUR FINDINGS

- We use trading data from Borsa Italiana for SPAC shares and warrants; ownership statistics and dynamics, and market data from Refinitive Eikon
- By regulation the retail investors are not allowed to subscribe to SPAC offerings but are very active in the post-IPO trading:
 - 30% of all trades below two thousand Euro
 - 45% of all trades were below four thousand Euro
 - But cannot exclude the likelihood of algorithmic trading algorithms

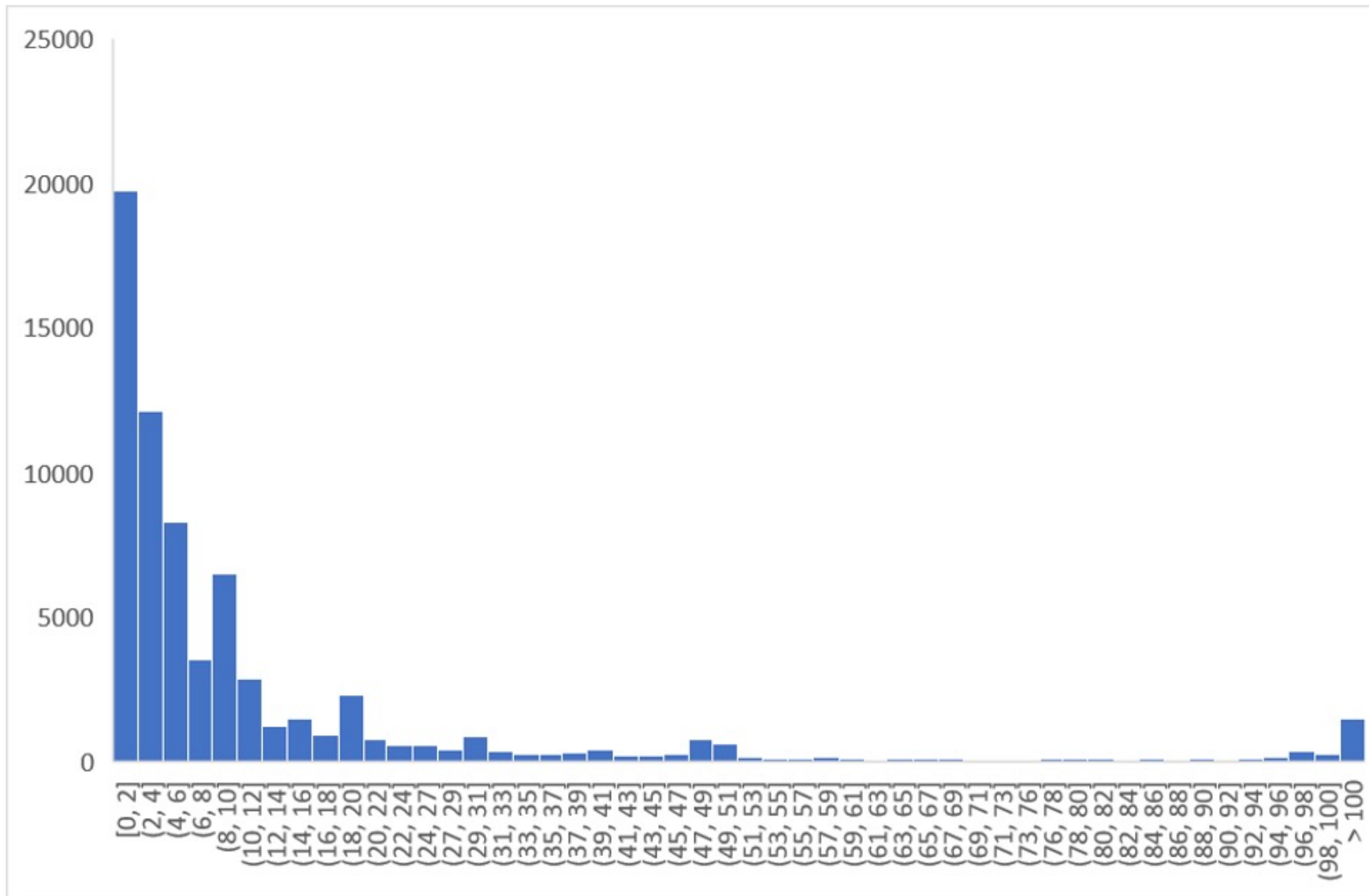


Figure 3. Distribution of trade lots' sizes, '000 Euro.

OUR FINDINGS

- Institutional investors that participate in the offering offload the shares towards the merger to realize the ST gains but keep warrants
- Institutional investors that do not participate in the offering build up their stakes but offload them towards the merger



Figure 4. Average number of institutional investors at the end of the selected quarters.

OUR FINDINGS

- No SPAC mafia in Italy
- Warrant trading is small - median warrant trade size is 600 Euro, which is 8 times lower than that of the SPAC shares. 75% of all deals are below two thousand Euro
- However warrant trading turnover is higher than that of shares
- Very modest dilution (losses of SPAC investors) compared to US data

	Average net share value, Euro	Average total dilution, %	Average incremental dilution, %	Median net share value, Euro	Median total dilution, %
Actual cost structure dilution as at 31/07/2022					
Not diluted share value	10			10	
Only (c) dilution	9.69	3.1%	3.1%	9.73	2.7%
(c)+(d) dilution	9.65	3.5%	0.3%	9.69	3.1%
(c)+(d)+(a) dilution	8.77	12.3%	8.8%	8.85	11.5%
Full dilution (a)+(b)+(c)+(d)	8.27	17.3%	5.0%	8.33	16.7%

Table 6. Actual and full potential dilution of SPAC shares. The table illustrates the average and the median values of total dilution effects and of each component separately. *Actual dilution* takes into account only the special shares and warrants converted into ordinary shares as at 31/07/2022. *Full potential dilution* assumes full potential conversion of special shares and outstanding warrants assuming the highest conversion rates possible. *Average and median total dilution* show the cumulative effect of various components, *average incremental dilution* shows the net effect of each additional dilution component. (a) dilution stands for the dilution costs caused by the *azioni speciali* (i.e. the sponsor promote), (b) is the dilution costs caused by warrants given to investors at the IPO stage and de-SPAC stage, (c) is the dilution due to underwriting fees + BC fees costs. (d) is the redemption rights component.

OUR FINDINGS

- Dilution due to conversion of sponsors special shares (contingent renumeration) is compensated by long-rung overperformance

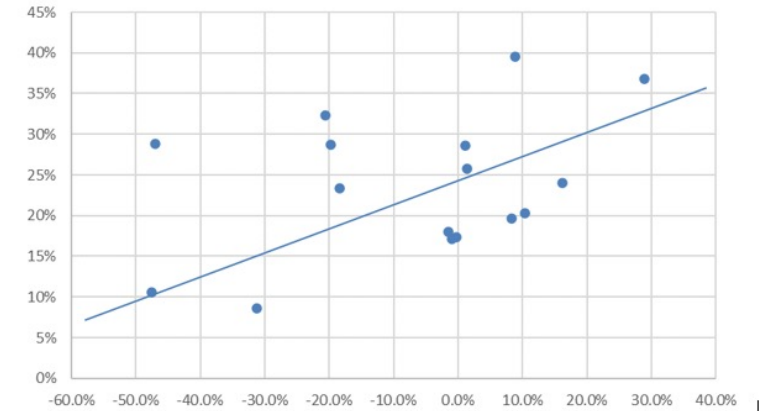


Figure XX. Actual share value dilution (vertical axis) against the IPO-index adjusted abnormal 1-year return for the sample of 16 Italian AIM SPACs that formed the business combination with a target.

	N of firms	Average	Median	Max	Min	% of positive	USA SPACs median return
<u>1-year returns</u>							
Raw BC return	16	-2%	-8%	35%	-58%	44%	-19%
Market-adjusted BC return	16	-5%	-7%	22%	-62%	38%	-59%
IPO-index adjusted BC return	16	-7%	-1%	29%	-48%	44%	-88%
<u>3-year returns</u>							
Raw BC return	13	9%	-1%	90%	-56%	46%	-
Market-adjusted BC return	13	-3%	7%	85%	-72%	54%	-
IPO-index adjusted BC return	13	10%	20%	122%	-73%	54%	-

Table XX. Long-rung performance of Italian AIM-listed SPACs over one, two, and three-years periods following the date of the effective business combination with the target. The starting date is one month after the listing to avoid



THANK YOU