Grab Merger Re-Ignites SPAC Flavour

Interest in SPACs has been ramped up once again, following the announcement of Grab agreeing to a USD40 billion merger with Altimeter Growth which will create the biggest SPAC deal in the world thus far.[1]

A special purpose acquisition company ("SPAC"), is a "blank check" firm with the sole purpose for taking companies public, providing an alternative to the labour- and time-consuming IPO process.

Grab Holdings, or colloquially referred to only as Grab, is one of Southeast Asia's foremost answers to the multi-service app model that was first seen in China. Originally starting out as a ride-hailing service, it outdueled Uber in Southeast Asia and acquired the entirety of Uber's operations in a merger in March 2018. As part of the acquisition, Grab took over Uber's assets, including their food delivery service. Subsequently Grab has continually added services to its app platform, incorporating food and grocery deliveries as well as digital payments. Grab (60% stake) also partnered with Singtel and was awarded a Singapore digital full bank license in Dec 2020.[2]

The recent SPAC listing craze in early 2021 has seen mainly 2 types of companies go through this route, namely (1) healthy companies that wish to avoid the laborious IPO process, or (2) speculative companies that could be in the pre-revenue stage of business.

Many of the pre-revenue businesses that have seek a SPAC listing are mainly from the electric vehicle (EV) or clean energy space, such as Nikola Motors or Virgin Galactic. Grab's dominance in the Southeast Asian market and its future potential may classify it in the first group, thus making it a very enticing SPAC deal in the SPAC-saturated market. According to SPACInsider, the first four months of this year has seen more than 300 blind pools being created, raising just a touch under USD100 billion. This figure exceeds the entire amount raised in 2020, which was then at a record USD83 billion.[3] Despite nearly 117 SPAC-related deals announced so far this year, 497 blank-check entities are currently seeking a target, according to Refinitiv. Only about a quarter of all SPACs listed in 2020 or 2021 have actually completed a transaction.

[1] https://www.channelnewsasia.com/news/business/grab-sgx-considering-secondary-singapore-listing-after-us-spac-14634204
[2] https://www.straitstimes.com/business/banking/mas-awards-digital-full-bank-licences-to-grab-singtel-and-sea-ant-gets-digital
[3] https://spacinsider.com/stats/

Year	IPO Count	Gross Proceeds (in millions)	Average IPO Size (in millions)
2021	308	100,019.20	324.7
2020	248	83,346.70	336.1
2019	59	13,600.30	230.5
2018	46	10,751.90	233.7
2017	34	10,048.50	295.5
2016	13	3,499.20	269.2
2015	20	3,902.40	195.1
2014	12	1,749.80	145.8
2013	10	1,455.30	145.5
2012	9	490.5	54.5
2011	15	1,081.50	72.1
2010	7	502.6	71.8
2009	1	36	36

Table 1: SPAC IPO Transactions by year as of 20-Apr-2021 (Source: SPACInsider)[4]

SPAC 101: What you need to know

Who can form a SPAC?	Anyone who can convince shareholders and fund-raise. SPAC sponsors are the founders of a SPAC. Such sponsors are usually highly experienced fund managers or business people. Bill Ackman, Chamath Palihapitiya, Peter Thiel, amongst others have had little difficulty fund-raising for their SPAC because of the successes in their respective fields. Investors that park their cash in these funds usually do so due to these sponsors' reputation and experience in identifying great businesses to merge with.
Where is the money held?	The money raised is kept in a trust, and is untouchable, except for working capital or tax purposes, for the duration of the time that is needed for the SPAC to find a target company; current regulations stipulate a maximum of 3 years if the SPAC has listed its securities on an exchange. A typical SPAC will normally provide an 18–24-month window to identify and consummate the initial business combination. In most cases, the funds in the trust account will only be invested in specified US treasury bills or in specified money market funds.[5]
Are warrants usually added to SPACs?	Warrants or fractions of a warrant, are usually attached to one unit of SPAC, entitling the unit holder to purchase more stock of the issuing company at a fixed price (usually $11.50) at a later date. Warrants are added to attract investors during the SPAC initial listing and to compensate for the uncertainty of the proposed transaction. Warrants are not exercisable until the consummation of a business combination or liquidation.

[4] https://spacinsider.com/stats/
[5] https://www.sec.gov/oiea/investor-alerts-and-bulletins/what-you-need-know-about-spacs-investor-bulletin

What kind of companies do SPACs target?	SPACs may state in their prospectus that their target companies are in certain industries. The target companies are also likely to have a market value between 2-6 times the SPAC IPO proceeds. It should be noted that the Nasdaq rules require an initial business combination with one or more operating businesses with a fair market value equal to at least 80% of the value of the assets held in the trust account. For SPACs acquiring a target company that is larger than what it has in its trust account, the additional capital may be funded through a private investment in public equity (PIPE). In 2020, PIPEs generated $12.4 billion in additional capital to complete the funding of 46 SPAC mergers, according to Morgan Stanley data.[6] The data looked at SPAC deals with valuations exceeding $0.5 billion. PIPEs may be led by major long-term investor base who can also be seen as cornerstone investors in a traditional IPO. The PIPE may be priced either at (1) discount to the SPAC IPO price of $10, (2) discount to the current market price, or (3) at the SPAC IPO price. For example, in the business combination between Churchill Capital Corp IV and Lucid Motors, the PIPE was priced at $15 per share, which was at a discount to the current market price of above $50 per share.
What are founder shares?	Founder shares are usually 25% of IPO proceeds, or equivalently, 20% of shares outstanding after the IPO. The promote is essentially a tax on the SPAC merger. In general, sponsors will subject their shares to a 1-year lockup to align their interests with company shareholders.[7]
Why is the attraction of a SPAC for companies?	<u>Accelerated Timeline</u> According to Yash Patel, general partner at Telstra Partners, going through the SPAC market can accelerate a company's market debut by 2 to 4 months. There could also be less regulatory hurdles from the SEC, given how the auditing process is condensed.[8] <u>Perceived Lower Legal Liability</u> Legal liability may be less stringent on SPACs. For a company that does the IPO route, they may talk about forward guidance. However, there is fear of litigation as there is no safe harbor to protect the company from missing guidance. SPACs, on the other hand, is essentially a cash account merging with a target company. Forward guidance in this case is thus protected under the Private Securities Litigation Reform Act (PSLRA). The US Security and Exchange Commission (SEC) recently warned in April that they may

[6] https://www.cnbc.com/2021/01/25/how-financing-spac-takeovers-became-wall-streets-new-favorite-trade.html
[7] https://www.lexology.com/library/detail.aspx?g=e4421e20-117b-4b5a-af43-cd06c2bc869b
[8] https://news.crunchbase.com/news/spac-vs-traditional-ipo-investors-see-benefits-of-blank-check-companies/

	be stricter on such safeguards in the future, and that any material misstatement or omission in connection with a proxy solicitation would be subjected to liability.[9] <u>Potential of Private Company Fully Realizing Value</u> In traditional IPOs, valuation is set by roadshows with investors, guidance from investment bankers, prior financing rounds, etc. Following which, investment banks may still price the IPO lower, for a 1st day pop. IPO pops from 1980 through 2020 averaged around 18.4%, according to data from Jay Ritter, known as "Mr. IPO" for his work on initial public offerings.[10] In a SPAC, valuation is dependent on negotiations between sponsors, PIPE investors, and the target company. The valuation is then subjected to approval by shareholders in the SPAC. This presents a more efficient way of finding value.

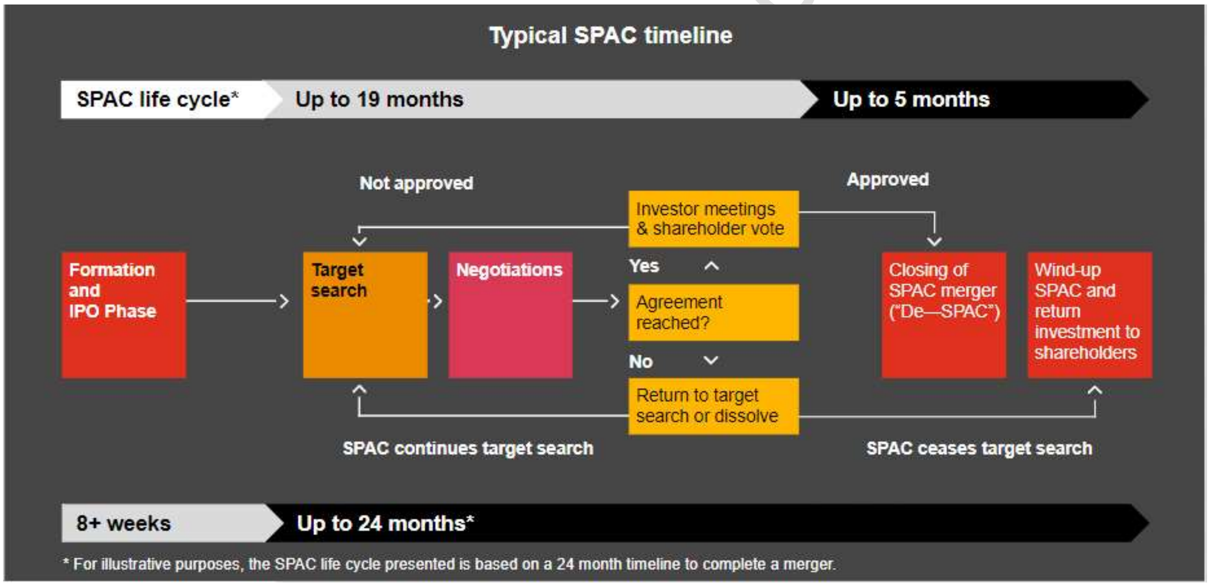

Chart 1: General SPAC Timeline (Source: PWC)[11]

Despite some of the drawbacks of the SPAC model, the flood of new listings in the US has attracted bourse operators in Hong Kong and Singapore to consider the listing of blank-check companies as another potential revenue stream. Singapore Exchange (SGX) has sought market feedback on a proposed framework for the listing of SPACs on its Mainboard, including the criteria for a minimum SGD300 million market capitalization and at least 25% of the total number of issued shares to be held by at least 500 public shareholders at IPO.[12]

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[9] https://www.sec.gov/news/public-statement/spacs-ipos-liability-risk-under-securities-laws
[10] https://www.nasdaq.com/articles/trends-in-ipo-pops-2021-03-04
[11] https://www.pwc.com/us/en/services/audit-assurance/accounting-advisory/spac-merger.html
[12] https://www.sgx.com/regulation/public-consultations/20210331-consultation-paper-proposed-listing-framework-special

However, it does seem that the two Asian financial centers may be late to the party. The IPOX SPAC index, which is designed to hold 30 to 50 of the most liquid SPACs, has fallen more than -20% from its peak reached on February 17th 2021. Since then, the IPOX SPAC Index has lagged both the Russell 2000 and the Nasdaq substantially. The SPAC listing craze may possibly have seen its near-term peak, exploding like a supernova, with its embers slowly burning out.

Chart 2: *IPOX SPAC Index vs the Nasdaq 100 and Russell 2000 as of 21-Apr-2021 (Source: Bloomberg)*

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