

Investing in SPACs

INTRODUCTION

- A SPAC (Special Purpose Acquisition Company), also called a “blank check” company, is essentially an investment corporation, designed to be a publicly traded buy-out firm.
- Contrary to a normal IPO process, a SPAC is a shell company when it becomes public, and raises investor funds by issuing Units, comprised of part common stock and part Warrants. Following the IPO, the units become separable such that the public can trade units, shares, or whole warrants, with each security separately listed on a securities exchange.
- The purpose of the SPAC is to complete an acquisition of another company in the future, usually with a pre-determined timeline as to when an acquisition would need to be targeted and completed.
- Please note that the structure of these companies can be complex and difficult to understand, and the price of the SPAC may fluctuate significantly when a Target Company and terms of a deal is announced. We encourage you to familiarize yourself with all relevant material related to the SPAC.
- In Saxo we currently facilitate trading in SPAC companies common stock shares, when it has separately listed on the exchange.

EXAMPLE: Buying a SPAC company on Nasdaq Stock Exchange

Let's assume that a SPAC called "New Aqua Adventures II" have issued Units (common shares and warrants), which is intended to be invested in a privately held company within the Greentech sector. The funds raised, are placed in a trust and invested in treasuries or other highly liquid and low risk instruments.

You decide to Buy 100 shares at a price of 10.00 USD.

After 9 months, the SPAC is trading at 10.25 USD/share, and the theoretical Net Asset Value (NAV) is 10.35 USD/share. The SPAC then announce that they are targeting to acquire/merge into a specific company called "Wave-Machine Inc." which have developed a new solution to produce energy from waves (hydropower).

The terms of the deal is disclosed, and the market initially reacts positively to the announcement and the price of the common shares jump to 12.50 USD.

Before the special meeting where the voting of the approval of the merger is held, the holders of the common shares in the SPAC, is receiving a Voluntary Exchange Event (Corporate Action), with the following options;

A: You can elect to "REDEEM FOR CASH"

- *This means that you are not interested in participating in the deal, and you would like to receive a cash amount equivalent to the NAV. The common share position is removed from your account and replaced with a cash amount of ≈ 10.35 USD/share. However, since the SPAC is now trading at 12.50 USD/share, this option will not be attractive, since you can sell your shares in the market at a better price.*

B: You can elect to "TAKE NO ACTION (DEFAULT)"

- *This choice will result in an unchanged position, meaning that you keep your 100 shares in the SPAC. You can either keep the position as a long term investment, or you can sell the shares at any time on normal market terms.*

After the Corporate Action event, the SPAC will ask shareholders to vote for the approval of the announced acquisition. If the terms are not approved by shareholders, the acquisition may not happen. The price of the common shares in the SPAC can fluctuate significantly during this period, since uncertainty around the final outcome is still present. After the SPAC and the Target company have merged (if approved), the company will be trading like any other listed company.

FACTSHEET – Special Purpose Acquisition Company (SPAC)

Saxo Bank, Products



FAQ

Q: Are SPACs a new product-type?

A: No, not really. SPACs have existed a long time, however recently it has gained increased popularity among retail clients, since a few of the prominent and hyped SPAC acquisitions have yielded high returns. Historically, a common SPAC investment strategy have also been to buy the SPAC when it's trading below the trust value (NAV), as an alternative to fixed income.

Q: Can you give an example of a SPAC who have acquired a company?

A: A few examples are DraftKings, Fisker Inc., eToro. You can find more closed SPACs on <https://spacktrack.net/closedspacs/>

Q: When can I exit my position or redeem the amount I have invested in the SPAC?

A: You can sell your shares in the market at any time. However, you also get the option to redeem cash (equivalent to the NAV), when there is a Corporate Action in the SPAC. That can be in case of extension of the timeline, announcement of target company, changes to terms and conditions etc.

Q: Where do I find more general information about SPACs?

A: The following links will provide you with more details about SPACs; <https://www.nasdaq.com/solutions/spac>