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Study: SPACs surge shakes up first-quarter IPO market

By Maria L. Murphy

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The first quarter of 2021 saw the highest initial public offering (IPO) activity in U.S. markets in at least 20 years, according to a recent study by Audit Analytics.

There were 407 IPOs, the most in a quarter since 2000, that raised more than $134.6 billion, compared to 38 IPOs that raised $10.1 billion in the same period last year, according to the study. The data is derived from Audit Analytics' IPO database, which covers IPOs filed with the Securities and Exchange Commission (SEC) since 2000.

In 2021, 14 first-quarter IPOs were more than $1 billion, the research noted.

Driving the surge was the phenomenon of special purpose acquisition companies (SPACs). These blank check companies accounted for 73.2 percent of the IPO activity in the first quarter, according to Audit Analytics. SPACs enable companies to raise capital more quickly through an IPO and use the proceeds to acquire an existing company by merger or acquisition.

Audit Analytics noted in a **separate analysis of IPOs and SPACs** that outside factors, like the stability of the economy, timing of elections, interest rates, and overall stock market volatility, are all contributing factors to the timing of IPOs.

"Despite the pandemic in 2020, while there is still volatility, there is still a lot of market liquidity and opportunity for companies to go public and get their valuations," said David Bukzin, head of the National SEC Services practice and leader of the SPAC team at Marcum. Investors were receptive to these offerings and accepted SPACs as a vehicle.

Auditor market share for IPOs in the first quarter was led by Marcum, with 148 clients (36.4 percent of 407 total) raising $39.1 billion, according to Audit Analytics. Of those clients, 143 were SPACs. Withum's clients had the highest proceeds raised at more than $43.3 billion—all from 138 SPACs.

The Big Four together audited 19.9 percent of the IPO market in the quarter, with 81 IPOs that raised $41 billion. Excluding SPACs, there were 72 IPOs audited by the Big Four worth $37.9 billion. The Big Four held IPO market share of more than 70 percent from 2004-19, but only 6.5 percent were blank check companies.

Why are SPACs so popular?

"In a traditional IPO, companies go through dealing with the SEC, have a roadshow, get to a pricing call, and hope the window is open to obtain the amount of proceeds and enterprise value they are looking for," Bukzin noted. "In a SPAC, the capital is already raised and the transaction is structured, so there is more certainty of the outcome that you don't necessarily have in an IPO. The transaction occurs on an accelerated basis."

A SPAC has corporate governance in place, a diverse shareholder base, and institutional support.

Challenges for auditors

"IPOs are always challenging and have risks for auditors, requiring financial statement audits, registration statements, SEC comment letters, and comfort letters. When there is a SPAC involved, the process is accelerated," said Bukzin. "The auditor's sole focus is on supporting the client throughout the process."

Marcum's lead in IPOs in the quarter is reflective of its years of experience in working with entrepreneurial companies in this area. Because of the unique issues involved in SPAC IPOs and the abbreviated time to issue audit reports, expertise is required.

Bukzin recommends accounting firms develop expertise in this area; Marcum has a separate group of 15 partners and between 60 and 70 staff working on these transactions.

"The best way is to have a separate group principally or solely involved in these transactions, with investments in resources and training and proprietary technology and processes, and not to dabble in SPACs," he said.

The SEC is watching

Because of the recent popularity of SPACs, the SEC has **increased its regulatory attention to the matter** and Bukzin is not surprised.

“The SEC’s role is to regulate, so the amount of capital raised in IPOs and the proliferation of SPACs caught their eye,” he said. “They were a ‘niche product’ before, but now the SEC is relooking every aspect of a SPAC’s life cycle—from the IPO to search to the business combination.”

Bukzin expects more SEC guidance will be issued if SPACs continue to be used. Time will tell whether the record pace set in the first quarter will dictate the rest of 2021.

“I don’t know whether the level will continue or whether there was a little irrational exuberance, and it’s unclear where the swinging pendulum will rest,” Bukzin said. “But there are three major constituencies in a SPAC transaction: the sponsors, the investors, and the target companies. As long as all three are clamoring for the SPAC product, the SPAC structure will not go away and will continue to evolve.”