Long Island Business News

DAVID BUKZIN: Special purpose acquisition companies offer a way to put your money where the management is.

SPAC Comeback

By: Claude Solnik April 24, 2017

Investors often say it's wise to pick a company based on the people who run it: Management, they say, matters as much as anything else. Track records talk. So wouldn't it be nice, then, if you could invest directly in top executives?

While in many ways investing in an individual is the antithesis of investing in a public company, a mechanism that lets investors put their money behind experienced executives – before they even start their latest business – is getting more popular.

A little known type of initial public offering, or IPO, known as a special purpose acquisition corporation or SPAC isn't new, but it's becoming more popular after a decade-long lull.

"We've done many SPAC IPOs over the last couple of years," David Bukzin, partner in charge of the SEC practice group at Marcum, said. "Usually the IPO will be built around a team with certain expertise."

SPACs were in, then fell out of favor and may be working their way back into a bigger part of Wall Street again, although they're still relatively rare.

Manhattan-based Proskauer Capital Markets last year indicated "SPACs are back" after dwindling over the past decade. But they are far from common.

There were 37 in 2007 and 66 in 2007, according to Proskauer, but that sank to only one in 2009 and seven in 2010.

By 2015, however, the number rose to 20 despite a still soft IPO market. There were 13 SPACs in 2016 and five so far this year, according to SPAC Analytics.

SPACS are getting bigger with the average size in 2015 of $195.1 million followed by $269.2 million in 2016 and nearly half a billion at $457 million this year.

SPACs raised $3.5 billion in 2015, followed by $3.5 billion 2016 and $2.3 billion already this year, the biggest numbers since $3.8 billion in 2008 and $12 billion in 2007, according to SPAC Analytics.

SPAC SIZE			
YEAR	SPACS	AVERAGE SIZE/ MILLIONS	TOTAL RAISED/ MILLIONS
2017	5	$457.0	$2,285
2016	13	$269.2	$3,499
2015	20	$195.1	$3,902
2014	12	$145.8	$1,750
2013	10	$144.7	$1,447
2012	9	$54.5	$491
2011	16	$69.4	$1,110
2010	7	$71.8	$503
2009	1	$36.0	$36
2008	17	$226.0	$3,842
2007	66	$183.2	$12,093
2006	37	$91.5	$3,384
2005	28	$75.5	$2,113
2004	12	$40.4	$485
2003	1	$24.2	$24
TOTAL	254	$145.5	$36,96

SOURCE: SPAC ANALYTICS

Landcadia, a SPAC led by restaurateur and Billion Dollar Buyer TV star and Landry's CEO Tilman Fertitta, and Jefferies Group CEO Richard Handler raised $250 million last year.

"Their goal is to buy something in the restaurant or entertainment related industries," said Bukzin, who was involved in the deal.

Gas industry executive Mark Papa recently raised $450 million in a SPAC IPO and Blackstone Group executive Chinh Chu and Fidelity National Financial Chairman William Foley formed a SPAC.

SPACs frequently involve only executives, but sometimes have a celebrity element similar to Tilman Fertitta, attracting interest from that person's followers.

Former Notre Dame football coach Lou Holtz, former Vice President Dan Quayle and Apple Computer co-founder Stephen Wozniak all took part in SPACs.

The Securities and Exchange Commission defines a SPAC as a company "created specifically to pool funds in order to finance a merger or acquisition opportunity within a set timeframe."

They don't indicate what company they will buy (that would jack up the stock price) and typically haven't yet determined one, but indicate a time frame.

"To take advantage of certain rules, you can't know in advance who you're going to buy," Buzkin said. "They can buy multiple companies. The best way to do it is to buy one. There are rules and thresholds about how you spend the money."

They are sometimes referred to as a "company to be named later" and typically buy a private company.

If they don't do a deal during their allotted time or shareholders don't like the deal, the money is refunded.

"Money is put in a trust fund for the benefit of the shareholders who don't want to stay in the deal," Bukzin said. "Management has a set time to find a deal. Once they announce a deal, the shareholders get to vote whether to stay in the deal or get their money back."

If this sounds like giving executives a blank check, that's pretty much what it is. The SEC calls a SPAC a "blank check company" and a business that "has indicated its business plan is to engage in a merger or acquisition with an unidentified company or companies, other entity, or person."

The SEC indicates "because of the nature of blank check companies," they face some additional regulation and typically require depositing raised funds in an escrow account until an acquisition is agreed to.

"If they get enough votes for the deal to go through, that capital is available to purchase the business," Bukzin said.

Shareholders typically let Wall Street weigh in before voting on whether to bless or block the deal.

"When they vote on a deal, if the stock is at a premium, people usually vote to do the deal," Bukzin said. "If the stock is at a discount, they generally vote for their money back."

SPACs have involved some well-known companies, such as California-based Del Taco, which has expanded on Long Island.

Del Taco in 2015 reached a deal to merge into a SPAC led by Chicago-based restaurateur Larry Levy in a $305 million deal.

Levy Acquisition Corp. or LAC was the corporate entity behind that deal, renaming itself Del Taco Restaurants Inc.

LAC agreed to pay $150 million, while the Levy family and some other investors picked up $120 million and additional investors picked up $35 million.

While executives and investors can do well, the big winners often are the investment banks that lead these entities to the market.

In the case of Landcadia, for instance, Jefferies and Deutsche Bank are handling the IPO, providing a way for Jefferies to profit from the offering.