Finding New Opportunities in the SPAC Landscape
Joshua DuClos, Michael Heinz, David Ni, and Jeffrey Smith
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Sam Gandhi:
Special-purpose acquisition companies, or SPACs, have raised more money in the first quarter this year than they did in all of last year, and 2020 was already being labeled as the year of the SPAC, with hundreds launched last year. Now, more and more sponsors are stepping up. Why are SPACs so hot, and how have they evolved from their origins in the '90s?

What are the risks of SPACs, and where can we find new opportunities in the SPAC landscape? We'll find out in today's podcast.

David Ni:
These SPACs have become very popular so quickly that everyone is trying to react as quickly as they can, and that includes regulators, and that includes just ordinary people, and retail investors, and sponsors.

Joshua DuClos:
There's certainly been a lot coming out of the SEC lately as it relates to SPACs.

Mike Heinz:
In terms of what it portends for the traditional IPO, I guess one word: competition.

Sam Gandhi:
Do you think that SPACs are here to stay?

Joshua DuClos:
Some of them.

00:01:08

Sam Gandhi:

From the international law firm Sidley Austin, this is *The Sidley Podcast*, where we tackle cutting-edge issues in the law and put them in perspective for businesspeople today. I'm Sam Gandhi.

Hello, and welcome to this edition of *The Sidley Podcast*, episode number 19. Today, we focus on SPACs, or special-purpose acquisition companies, and how they've evolved, where they're headed, and the challenges and opportunities they pose to sponsors and investors. I'm joined by Sidley partners Joshua DuClos, Michael Heinz, David Ni, and Jeffrey Smith. They're all co-leaders of Sidley's SPACs practice.

Josh, Mike, David, and Jeffrey have over a decade of experience in counseling clients on this alternative deal structure, representing operating companies, SPACs, and investors in complex, multi-billion-dollar de-SPACs and IPO transactions, as well as in a host of other corporate transaction structures.

Josh is a partner in Sidley's M&A and Private Equity practice and is based in the firm's Century City office. Mike is a partner in Sidley's Capital Markets practice based in the firm's Chicago office. David is a partner in Sidley's Capital Markets practice based in the firm's New York office, and Jeffrey's a partner in Sidley's M&A and Private Equity practice based in the firm's Chicago office. Josh, Mike, David, and Jeffrey, thanks for being on the podcast.

Joshua DuClos:

Yeah, thanks for having us. Happy to be here.

Mike Heinz:

It's great to be here.

David Ni:

Thanks, Sam.

Jeffrey Smith:

Happy to be here, Sam.

00:02:28
Sam Gandhi:
SPACs have raised more money in the first quarter of 2021 than they did in all of 2020. They raked in more than 97 billion dollars in just three months, according to data from the industry tracker SPAC Research. Josh, SPACs have been around for decades. What accounts for the recent explosion in this market, and who's coming to you now that wasn't interested in SPACs before?

Joshua DuClos:
Yeah, thanks, Sam. You know, it's been a perfect storm, I would say, going back to just about a year ago, April 2020, when COVID had sort of just set in, taking, I think, the whole world by storm obviously, and nobody knew exactly what was going to happen. People really didn't have a clear line of sight into how long it would last, how it would impact the economy, how we'd get out of it, and obviously, the stock market took a tremendous not just beating, but day-to-day, you know, crazy amount of volatility.

I remember the VIX Index just being at sort of record levels, and SPACs have traditionally fed off of some of that market volatility, for a few reasons. One is a de-SPAC transaction for private companies looking to go public always offered, in some respects, a way to IPO that was a little more immune from, you know, the vicissitudes of the daily market ups and downs, particularly around pricing.

And so, if you had lots of companies that were looking otherwise in a strong economy and opening an IPO window to go public, they now had a lot of trouble looking at this volatile market, thinking about sort of how their pricing would be affected on any given day, whereas a SPAC transaction would allow for, you know, an upfront, stable pricing opportunity between a private company and a SPAC, in terms of the valuation.

Paired with that, I think given sort of record-level interest rates, volatility, sort of M&A markets seizing up for weeks, at least a month, I remember, about a year ago, you had investors, particularly hedge funds, looking to put money somewhere, to be safe, to earn sort of modest interest, and SPACs actually offer that opportunity, given the sort of put right that's inherent in a SPAC.

So, you had both, I think, on the front-end a lot of investor interest driving the IPOs, to allow more and more SPACs to raise money to IPO, and then on the private company side, given the sort of seizing of the M&A market and the trepidation of going into a traditional IPO, you had a lot of market participants looking to do deals, raise money, go public, and sort of the SPAC offered, you know, the perfect opportunity for that.

So, I think it became kind of a snowball effect, where as more market participants got into this on the front-end and the back-end, it started to raise the profile and visibility of a product that's been with us for a long time, to sort of take it out of the shadows onto Main Street, and you had more and more recognizable names both sponsoring SPACs and going public through SPACs.

So, you had, rather than just your sort of traditional, sort of alternative PE or hedge fund kind of sponsors, you had very big private equity names, increasingly venture capital names, and then eventually sort of independent entrepreneurs, athletes, actors, people with very high profiles banding together to form these SPACs. So, that raised the profile on the SPAC side.

At the same time, on the target company side, rather than having sort of a lot of operating companies that, you know, maybe nobody had ever heard of, you started to see really high growth, sort of sexy, Silicon Valley-based companies that people, the names people knew, that they could recognize, right?

And so, as that started to happen, more high-profile investors sponsoring, more high-profile companies de-SPACing and going public, it really just built on that snowball effect, and raised the profile and visibility of the product.

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Sam Gandhi:
And Josh, just explain a little bit what you're talking about when you refer to the put right that's in these SPAC structures.

Joshua DuClos:
Yeah. So, you know, traditionally, this modern breed of SPACs involves a investor in the SPAC's IPO, not just putting in money for stock the way you

traditionally think of a public company, where it just gets sort of a voting share that it can trade away, but instead, they typically get a unit, and that unit consists of a full share of fully tradeable, voting, and redeemable stock, and then some fraction of a warrant.

And by “redeemable,” what we mean is, the money they invest in that IPO actually is diverted into a trust, and that trust is sacrosanct, and it can’t be used by the SPAC for anything other than acquiring an operating company, in what we call the initial business combination, or sort of the back-end IPO of that private company, or at certain milestone points in the SPAC’s life, most notably that de-SPAC transaction, allowing that investor to actually say, hey, you know what, I want my money back, with whatever modest interest it gained being invested in U.S. treasuries and whatnot.

And so, effectively, you could park your money in that vehicle, have sort of a ground-floor option on the IPO of the de-SPACing private company on the back-end, but with full protection, that you know if you don’t want to invest in that, for whatever reason, you don’t like the company, or it’s not part of your investment profile at the time, you can actually take your money back.

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Sam Gandhi:
So, Sidley recently produced a report on alternative deal structures with the M&A analysis firm Mergermarket. It was based on interviews with U.S. corporates and private equity firms, 64 percent of whom said they’d likely do a deal involving a SPAC in the next 12 months. So, Mike, what do you think now accounts for the confidence in SPACs, and makes them attractive to 2021 investors in this quarter, and what are you hearing from clients?

Mike Heinz:
Yeah, thanks, Sam, good to speak with you this afternoon. So, look, I think investors are still very much interested in SPACs, and have been investing in SPACs in a big way for the last 18 months to two years. I think there are a lot of reasons for that, including the fact that private equity has really gotten in in a big way, and really validated this structure with many high-profile sponsors on to sponsoring their fifth, sixth, or, in some cases, their seventh SPAC.

I think, from a public investor standpoint, there are a lot of very attractive features of the SPAC structure, the principal one of which is absolute downside protection through the redemption feature that Josh was mentioning, as well as the potential upside, you know, private equity, like, upside with the warrants.

So, as mentioned, an IPO shareholder will buy a unit of the IPO, which will consist of one common share and a fraction of a warrant, and the investor can always redeem the share for their 10 dollars per share, plus interest, and hold onto the warrant, and play the upside.

So, if the stock trades up post-de-SPAC, you know, and the warrants are in the money, and they're typically always sort of set at a $11.50 strike price, as long as the stock trades up, they're going to stand to reap all of the upside on the warrants. It's a relatively short timeframe as well, right? So, most SPACs these days have a 24-month term. So, they have 24 months in which to complete their initial acquisition.

So, as long as you can, you know, you're comfortable from having your capital sort of tied up during that timeframe, and often, we're seeing a lot of SPACs these days complete their initial business combinations in the first 12 months, as long as you're comfortable having your capital sort of tied up during that time, it is potentially quite an attractive return in a relatively short timeframe.

And keep in mind that investors always have the option to trade their shares, or warrants, or both before the de-SPAC if they so wish. From a PIPE investor standpoint, and we see a lot of de-SPAC transactions most actually done with a PIPE, sort of a PIPE transaction, as well. From a PIPE investor standpoint, they're able to sort of get in at the ground floor and acquire common stock at 10 dollars per share, which is oftentimes sort of a substantial discount to the post-de-SPAC valuation of the combined company.

And they're able to get in and meet with the management teams, do due diligence, and oftentimes get more time with the management team and understanding the story and the model than maybe they would if they were participating in a traditional IPO roadshow. So, I think for a lot of reasons it’s a very attractive structure, and investors remain very, very interested in investing in SPACs and in de-SPACs.

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Sam Gandhi:
And Mike, just explain, why is the PIPE market so important to this? Why do you need a PIPE for a de-SPAC?

Mike Heinz:
The PIPE is critical because of the redemption feature. You know, the redemption feature really is, in my mind, the number one wildcard with this structure. We always say, it tends to be a tale of two cities. We’ve been on deals where redemptions have been very high, and our last few, thankfully, have been very low, or close to zero, but you really don’t know until the very end of the process, two days before the special meeting, which is usually right before closing, where redemptions are going to shake out.

And given that uncertainty about how much cash is going to be left in the SPAC after you’ve funded redemptions, that’s created the need for the committed PIPE on the front-end, so that you really want to make sure that any cash you need to complete the deal, whether it be the seller’s getting a secondary component, or you need to refinance debt coming due, or to pay expenses, or to invest in upcoming capital, significant CapEx or balance sheet needs, whatever your total cash needs are, you want to make sure that those are back-stopped by a PIPE, or some other form of committed financing, because you just can’t rely on the SPAC trust cash to be there at closing, given the redemption feature.

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Sam Gandhi:
And so, as we’ve seen SPACs evolve, I think we’ve also seen these PIPEs evolve, and some advisors to SPACs are saying lately that they’re struggling to find that PIPE funding. You know, I’ll pose it to David and Jeffrey. What are you all seeing in this market, and how are SPAC sponsors and targets kind of reacting to this tightening?

Jeffrey Smith:
I’ll jump in on this first. As Mike was just discussing, the role of PIPEs has become increasingly important in these transactions. Frankly, going back

several years, the role of a PIPE in a transaction was largely just to address what Mike was discussing about, in terms of ensuring that there's cash available in the face of significant redemptions.

But that has really, over the course of the last 18 months plus, really evolved into a more important position in the whole transaction, as a tool to validate the terms of the deal, the price that is reached between the SPAC sponsor and the business combination partner. And, as well as PIPE participants have gotten involved in these transactions, see how they can fit into them, the role of the PIPE has taken on an increasingly important role in providing cash that goes far beyond the cash that you would want to have to back-stop any redemptions.

It's now become an important aspect of the total capital structure because many of these PIPEs are now a multiple of the size of the SPAC itself, and the trust, and an important fundraising aspect of the total transaction. So, the PIPE piece is more important than ever. Used to be that it could be structured even as a preferred stock or convertible, which is less validating than when they're coming in as a straight-up common that is going to be on the same terms, largely, as the common that the public holds.

So, what we are seeing, though, is there has been a tightening in the market for PIPEs, and how is that being dealt with? I guess, to some degree, with some patience during this time. It's not the first time we've seen some bumps in the road for PIPE financing and SPAC transactions. Going back, late fall, in November/December, we were seeing that, but it quickly cycled back up to be a very robust market.

And I think the reason for it this time, there's many reasons, but among them is just the enormous flood of activity with the number of SPACs out there doing de-SPAC transactions at one time. The typical players in the PIPE universe, I mean, their bandwidth to actually process all of what's going on out there is very difficult. So, I mean, that's having an impact. David, your thoughts?

David Ni:
Sure. Hey, everyone, hey, Sam. Yeah, I agree with everything Jeff said. I would only add that there are other tools beside PIPEs. You can do a PIPE, but you can also go out and raise debt. We're seeing an increase in the

prevalence, or more and more convertible-preferred forms of financing, but we're also seeing some issuers that are fine without a PIPE.

They'll just go ahead and do a deal, with the idea of either not needing capital and never doing a secondary financing, or just doing a financing on the back-end. So, signing up the merger agreement, with the intention of doing a PIPE financing after deciding the merger agreement, or even after they close the transaction. So, those are ways that we've also seen issuers handle it. I would also add that there's not just one PIPE market.

Most of the investors tend to be the same, but different sponsors will have access to different potential PIPE investors. Sometimes, that can be the same institution, but different groups. Sometimes, that just could be sources of financing that no other sponsor would have access to. So, we think that there's still a market for certain types of sponsors who are perhaps well known or well connected, and still can go ahead and proceed with PIPEs.

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Sam Gandhi:
You're listening to *The Sidley Podcast*, and we're joined by Sidley partners Josh DuClos, Mike Heinz, David Ni, and Jeffrey Smith, and we're discussing SPACs, and the risk and opportunities they pose to sponsors and investors. In a recent interview with CNBC, Microsoft co-founder Bill Gates said he believes companies have flipped from staying private too long to going public too soon. Josh, is he right? What do you think of that statement?

Joshua DuClos:
Respect to Bill, but you know, I think it's painting too broad a brush onto the market right now. I think from a macro perspective, we still have thousands of fewer public companies today than we did 10 to 15 years ago. There was a flood of capital to the private markets and the rise of private equity and venture capital. And so, there's still a lot of white space. There's still a lot of need for companies to go public.

That being said, obviously, one thing that a SPAC does is facilitate a very fast, sort of arms-length transaction between two participants, like you'd have in an M&A deal, in a manner that concurrently brings one of those companies public, right? And so, it does have the capacity, I think, more so, not for any real, logistical reason, but almost more for market purposes, it's got the capacity to get that private company public much more quickly.

And by "much more quickly," I mean from the moment it decided to go public to becoming public. So, maybe the typical IPO process takes, call it six, maybe even 12 months, depending on the company, just from sort of, you know, having the notion to going through all the steps. A SPAC process can really go start to finish in four months. So, it can facilitate a more quickly-going public transaction.

I think what Bill Gates was getting at, which I think the SEC's been focused on, is this idea that it's not necessarily that the process itself is quicker. It's that the process particularly and the product in this latest market cycle has attracted much earlier-stage companies going public than we might have seen before. So, typically, you'd think a company that's done four, five, six rounds of financing, been around, you know, five, ten years, like, they've sort of been private too long. It's time to go public.

But now, I think what you're seeing is really early-stage, high-growth, in some cases pre-profitable, and in fact, in some cases pre-revenue companies utilizing the SPAC structure to go public. And I do think that's very different than a traditional IPO because typically in a traditional IPO, you don't have those private companies marketing directly off of forward-looking financial projections, whereas in a SPAC transaction, you do.

Oftentimes, one, two, up to five, in some crazy cases we've seen ten years of projections. And so that use of projections, of telling the public, hey, we're not making money yet, but in five or ten years, we will be, and it's going to be year-over-year growth of a thousand percent, I think that facilitates a much earlier-stage company potentially getting public.

And so, I think there is a fear, and I think it's a legitimate risk, that the product with certain, I would say, over-exuberant, or irresponsible, maybe, participants or investors could facilitate a company going public before it's really ready, before it's really got the infrastructure in place, and public-company readiness, before it's really sort of double-clicked on that growth plan. And so, I think there is a fear, and there might be examples of certain companies getting public through a SPAC earlier than they should've.

That being said, there's plenty of companies where this is exactly the right solution. They should be public. They have a product that really should attract a more democratized, wider investment base, and that the general public, you know, is now getting an opportunity on, that five years ago, they wouldn't have, because that company would've just done another VC round amongst a select group of investors that most of us are not invited into the room on.

So, you know, I think it's hard to just say companies are going public too quickly, or companies are going public too slow. I think this will really help and facilitate more companies getting public that should be public, especially, as I noted before, through a market of real tough volatility, where traditional IPO might be difficult. At the same time, it could also facilitate some jumping on that bandwagon that really weren't ready to get public yet.

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Sam Gandhi:
Well, the SEC has taken clear notice of the popularity of SPACs lately, and John Coates, the acting director of the SEC's Division of Corporation Finance, said in a recent note, "With the unprecedented surge has come unprecedented scrutiny, and new issues with both standard and innovative SPAC structures keep surfacing." And then last Monday, I think we saw the SEC issued a statement warning that SPACs may have failed to properly account for the warrants issued to SPAC investors as a liability as opposed to an asset.

So, Mike, how is this increased scrutiny going to affect the landscape, and how has it affected the landscape already?

Mike Heinz:
Yeah, there's certainly been a lot coming out of the SEC lately as it relates to SPACs, and I'd say the biggest, number one blockbuster thing was the guidance around the SPAC warrant accounting that, as you mentioned, came out last week.

And what that said, basically, is that SPAC warrants, which have traditionally been accounted for as equity on a SPAC balance sheet, that if the warrant agreement includes certain provisions that, frankly, are quite technical and haven't been studied before, if they include a few different provisions, like tender offer provision, or not being sort of indexed to the SPAC company's public stock, that it can result in a liability treatment, that it needed to be, the warrants needed to be treated as a liability for gap and recorded as such on a balance sheet.

And then, going forward, the result of being treated as a liability would be that every quarter, you would have to go to market the valuation of those warrants, with any changes in the value of the warrant being reflected as charges to the P&L. So, it'd have both an income statement and a balance sheet effect. Now, as I mentioned, these particular provisions they highlighted as being problematic are ubiquitous within SPAC warrant agreements, going back as far as seven or eight years, or longer.

And it's unclear exactly why the staff focused on it now, but the net result of this is basically, every SPAC in the SPAC ecosystem, and by that I mean companies that are looking to do an initial listing, who are still pre-IPO, SPACs who have gone public and are either out looking for a target or may have already signed up a de-SPAC transaction but haven't completed it, as well as operating companies who have recently gone public via a SPAC merger, are all affected by this, because they all, with a few exceptions for sort of zero warrant SPACs, which are very much the exception and not the norm, everyone else has SPAC warrants, and most all of them have these particular provisions.

So, you have a situation now where all of these companies, I mean, 500-, 600-plus, are having to hire a third-party valuation firm to do a valuation of their existing warrants, to do what's called a SAB 99 memo, an analysis on whether or not the, as to the materiality of the change to the financial statements and to the company, and to decide whether or not they have to go back and restate their prior reported financial statements.

And this is definitely creating capacity constraints for the accounting firms, for the lawyers, for all the service providers in the SPAC ecosystem who are already sort of bandwidth-constrained, and it definitely has slowed down the rate of filings, both on the IPO side and de-SPAC side, as people all try and rush to process what does this mean, and how do we sort of work through this, and the next steps.

I think, for companies who have not gone public yet, I believe there will be a consensus that emerges shortly as to what changes need to be made in the SPAC warrant structure in order to maintain the equity treatment for SPACs who have already gone public, or de-SPAC companies. Unfortunately, they're going to be stuck with the liability treatment, unless they were to try to amend the warrant agreement, but it's going to be a lot easier for companies who have not gone public yet to hopefully address that prospectively.

And I think one thing that will be interesting to see how it plays out is for these new SPACs who go out in the market and are able to get equity treatment, if they will be viewed as having a competitive advantage in terms of negotiating with potential targets, over SPACs who are stuck with a liability treatment. But that's definitely been a bombshell in the SPAC world for the last week or two.

You know, there have been a couple other recent pronouncements from the SEC. Obviously, they are, Director Coates has made a number of statements that they are focused on the SPAC structure. There was guidance that came out back in December, before the new administration, about focusing on disclosure of SPAC sponsors' incentives, their conflicts of interest, their economic and voting interests at the, sort of, SPAC IPO stage.

There was also a recent release by Director Coates about the use of projections in the de-SPAC/PIPE process, and one sort of key advantage of doing the SPAC merger route as compared to a traditional IPO, is you can market off of projections, but what the SEC is saying, you know, that doesn't come without risk, and really reminding everyone involved in a de-SPAC transaction that there are risks involved with, and potential liability with respect to, the use of projections in the marketing.

And so, I think everybody is taking a closer look at those, and making sure you have robust disclosures around them. So, I feel like the changes coming out of the SEC and the pronouncements are changing daily, if not hourly. So, it's something that continues to evolve, but certainly an area where the SEC continues to focus on, and I expect that we'll see further, you know, interpretations and rule-making in the near future.

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Sam Gandhi:
And Mike, just to follow up on that, what's the difference between a de-SPAC transaction that uses projections and some other type of business combination transaction in which projections are being used to justify, say, a fairness opinion, or has already been issued to other shareholders? Is there really any difference? Is this just something that the SEC is just reminding everybody, or are they actually making new rules?

Mike Heinz:
It's not a situation where the SEC is making new rules. I think it's shedding more light on these projections. I think the reason why they may be a little bit more concerned about it in the de-SPAC/PIPE context is because at the time the PIPE is committed, it's typically always done before the deal is publicly announced, on a confidential basis. You know, investors are brought over the wall, and subject to confidentiality obligations.

And so, at that point of the process, there's not an S4, or a proxy statement, or a long description of the business. You really are, those investors are making a decision based off the management presentation, the model with the projections, maybe some financial statements, and that's really it.

So, particularly for companies who are going public, who may be sort of early-stage and are pre-revenue, for example, the projections do take on, in those cases in particular, outsized importance, and I think that is why the SEC is focusing on them.

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Sam Gandhi:
Well, so, let's talk about the future. SPAC share prices appear to be falling. According to Reuters, about 93 percent of the SPACs that went public in the last week of March trade below their 10-dollar initial offering price. And David, I think we heard earlier this week a very significant hedge fund manager in Europe basically claim that he was going to see a gigantic falling out of the SPAC market. Where do you see the market going from here?

David Ni:
Well, Sam, it's never good when the price of a product drops in a market because then buyers and sellers leave the market, and new buyers and new sellers don't enter their market. But if you take a step back, Sam, and look back in the last year, eight months, every month there's somebody calling the bottom, or saying it's going to pivot, and are we going to see a crash in SPACs?

I don't see this round as being any different. We do have the new SEC action, which certainly has put a chill in the market, but I don't personally see that action as being so significant that we're going to lead to a long-term chill. I do think we're just seeing either the beginning of a downcycle, or perhaps we're in the middle of the downcycle. How long it lasts, who knows?

If you take a step back and look at the product, there's nothing, in our opinion, fundamentally wrong with the product. It is a very good product. That's why a lot of very sophisticated people have bought in and are trying to start SPACs because they do have unique features that fill a very unmet need that other products, like traditional hedge funds, private equity funds, VC funds, and so on, do not fill.

We are seeing a lot of regulatory action, litigation, and so on, but I don't think that those are necessarily signs of a disease. I think those are just signs of, or rather a product of the fact, that these SPACs have become very popular so quickly that everyone is trying to react as quickly as they can, and that includes regulators, and that includes just ordinary people, and retail investors, and sponsors.

We're trying to react to, you know, a product that suddenly has become so exponentially popular beyond anyone's expectation or belief, and what you're seeing, I think, is a byproduct of that. I think over time, as everyone gets more comfortable with the product, you'll see a lessening of the regulatory scrutiny, I believe the litigation, and I think you will start seeing more innovation as people get more comfortable with the product.

We're already seeing that. A lot of sponsors are trying to do unique things or tweak the product so that it addresses perceived weaknesses in the structure. So, the dilution is a very popular target among innovation, so there's a lot of sponsors trying to do very unique things to try to minimize the dilution, or at least spread out the dilution over a longer period of time.

We're also seeing sponsors try to address another big criticism of SPACs, which is it seems like so long as you find a deal, sponsors make money, even if everyone else loses money. So, you have sponsors who are trying to tie the promote to how well the investment performs. Sometimes that's happening in the back-end, with targets negotiating with sponsors to add hurdles to their promote, and to have the promote re-vest.

More and more, we're starting to see in the front-end where sponsors, and you know, investment professionals are coming up with products that just does that in the front-end, so that they become more attractive when they go out and speak to targets. Sidley was one of the first law firms, it was the first law firm, to pioneer what is being called as a captive SPAC, which is just a SPAC sponsored by a private equity sponsor, with a portfolio company that is perhaps not ready to go public.

And so, the idea would be, the private equity firm would sponsor a SPAC with the goal of finding a target that could merge with the portfolio company, and together, you will have a public-ready company that is ready for primetime. Sidley is involved in every aspect of the SPAC product. We speak to sponsors, we speak to investment banks, we speak to investors. We have a decent market view of where and what the players are thinking, and I think there's still a lot of pent-up demand.

I will kind of end it with one insight. In some of the recent market calls that at least I've been on, some investment banks have been pointing out that the fact that there's been a slow-down in the SPAC IPO market is actually slowly helping boost up the price of SPACs, because it's fixing what has been a problem for perhaps the last month or two, which is an oversupply of SPACs.

So, the natural cutting down or slowing down of the SPAC supply is helping the trading of existing SPACs, and who knows how long they'll last, what impacts that will have, you know, more in the long term, and how big of impact it will, whether it's temporary? But you know, we're certainly hearing that observation from many, many investment banks across deals.

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Sam Gandhi:
Jeffrey, what do SPACs portend for the traditional IPO market? For those of us who do a lot of IPOs, there's not an IPO now, right, of an operating company that doesn't have a SPAC alternative. What are you telling clients about how they should think about SPACs when fundraising, or when they are considering a liquidity event?

Jeffrey Smith:
In terms of what it portends for the traditional IPO, I guess one word: competition. I see, in virtually any case where you've got a situation or company that, you know, is public-company-ready, or could be in the very near term, is considering IPO or an IPO would be an alternative, they, in this environment, really need to consider the SPAC as an alternative.

This is not like a year ago, frankly, when, at the time, if you were considering IPO, a SPAC alternative is a SPAC deal, but there are only maybe 50 SPACs out there looking, and many of them probably weren't even focused on what your business is about.

Today, with, you know, the IPOs that are completed, and the SPACs that are searching, with the IPOs that are poised to complete their registration process in the coming couple of months, net of announced deals, you're going to have still about 700 SPACs out there, more actually, that you may be able to partner with to take yourself public.

So, I think that the traditional IPO is going to be in a situation where it's in competition with a SPAC dynamic in almost any situation, and the typical process that a traditional PE fund might be doing with a company that they might consider dual-tracking IPO and sale process, they'll be triple-tracking, in a sense. That's definitely out there.

In terms of what we're telling clients about how they should think about this, and so forth, I mean, again, you know, we're telling them, here are all the opportunities out in front of you, and SPAC just has to be one that you need to consider, at least discuss, see whether it could fit the vision you have for your company.

00:34:32
Sam Gandhi:
So, as we wrap up, I'm going to ask you each a couple questions, kind of like a lightning round. So, do you think that SPACs are here to stay? David?

David Ni:
Unequivocally, yes. They're here to stay.

Sam Gandhi:
Josh?

Joshua DuClos:
I think so as well, some of them. I think some of them shouldn't have been here and will go away, but the vast majority of quality ones, I think they're here, and they'll navigate the ups and downs.

Sam Gandhi:
Mike, your thoughts?

Mike Heinz:
Yes, I completely agree. I think they're here to stay. They may not move quite as fast as they did a few months ago, but they're here to stay.

Sam Gandhi:
Okay, and I think I already know what Jeff is going to say.

Jeffrey Smith:
Yeah, ditto.

Sam Gandhi:
All right, last question. A year from now, are there going to be more SPACs or fewer SPACs than are out there now? David?

David Ni:
I think there will be less SPACs, but they'll be higher quality, and they'll be more innovative and different to each other.

Sam Gandhi:
Josh?

Joshua DuClos:
I agree with that. I think some participants on the IPO side rushed into the market, and maybe don't have the tolerance to withstand the ups and downs, but I think the players who are long players, who've been doing this for years, they'll stay in, and that the quality SPACs and sponsors will be here. So, probably fewer SPACs, but higher quality.

Sam Gandhi:
Mike?

Mike Heinz:
I agree. I think the ones that are differentiated, either from a structure standpoint or quality sponsor management team standpoint, are going to be the ones that really thrive. I think overall you'll see a lower number than what we've seen in the last six to 12 months.

Sam Gandhi:
Jeff, you going to surprise us, or same answer?

Jeffrey Smith:
Well, not exactly the same answer. I mean, I think that the one wildcard here is what's going to happen in foreign markets. I think we're seeing in Europe and in Asia exchanges such as was just announced, and Singapore's exploring this. They're exploring it in some of the exchanges in Europe, making their exchanges more SPACs-friendly.

So, I think that you could see much more international activity, not just U.S. exchange-based SPACs looking outward and doing deals. We're doing lots of those now, but also SPACs listing in places like Singapore or in Europe, and doing deals. So, I think that dynamic is on the horizon.

Sam Gandhi:
We've been speaking with Sidley partners Josh DuClos, Mike Heinz, David Ni, and Jeffrey Smith about SPACs and the challenges and opportunities they pose to investors. Josh, Mike, David, Jeffrey, this has been a great look at the SPAC landscape. Thanks for sharing your insights.

David Ni:
Great. Thanks, Sam. Thanks for having us.

Jeffrey Smith:
Great to be here.

Joshua DuClos:
Thanks, Sam, for the opportunity. Nice to speak with you.

Mike Heinz:
Happy to be here. Thanks for having us, Sam.

Sam Gandhi:
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