European Companies Considering a US SPAC Merger

February 2021

With high degrees of volatility in the IPO markets and interest rates at record lows, investors have been increasingly looking at special purpose acquisition companies (“SPAC”) to unlock growth opportunities. A SPAC, also known as a blank check company, raises capital in an initial public offering (“IPO”), which it then uses to acquire a private operating company, known as a target company. Originally operating more on the fringes of the capital markets, SPACs went mainstream in the 2010s and are increasingly popular with big name private equity sponsors, hedge funds, and investment banks. For instance, in July 2020, Pershing Square set a record, raising $4 billion in the IPO of its new SPAC, Pershing Square Tontine Holdings (PSTH.U).

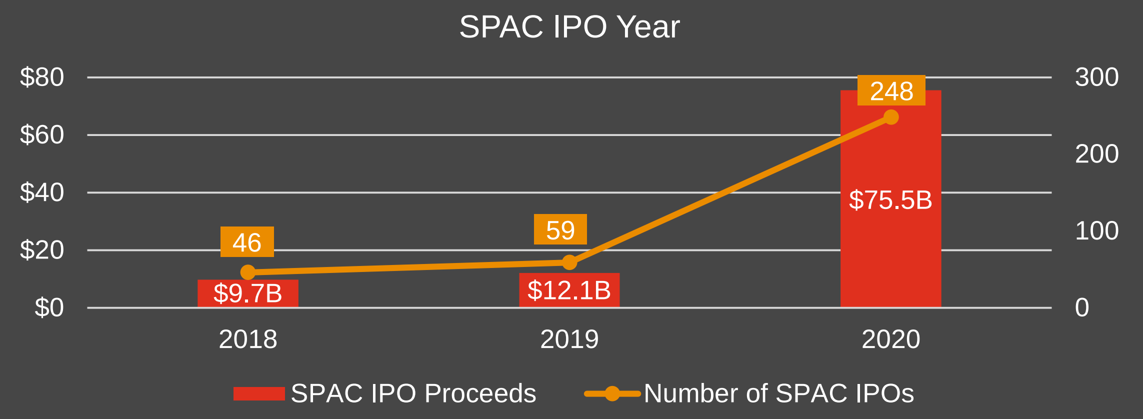
Nine of the ten largest SPAC IPO's occurred during 2020:

#	SPAC Name	SPAC IPO Year	SPAC IPO Proceeds (in $ millions)
1	**Pershing Square Tontine Holdings Ltd***	**2020**	**$4,000**
2	Churchill Capital Corp IV**	2020	$1,800
3	Foley Trasimene Acquisition Corp II**	2020	$1,300
4	Social Capital Hedosophia Holdings Corp VI**	2020	$1,000
5	Churchill Capital Corp III**	2020	$1,000
6	Silver Run Acquisition Corp II**	2017	$900
7	Foley Trasimene Acquisition Corp**	2020	$900
8	FTAC Olympus Acquisition Corp	2020	$750
9	CONX Corp	2020	$750
10	Apollo Strategic Growth Capital	2020	$750

* Largest SPAC IPO
** Serial SPAC sponsors

Source: Deallogic as of 31 December 2020. Excludes non-US offerings, non-SEC registrants, SPVs, closed-end funds, offerings less than $25 million, and offerings that took place on OTC or pink sheet exchanges.

Increased interest in SPACs is especially true in the US equity markets, where investors raised $41.0 billion in the first nine months of 2020, compared to $9.1 billion and $7.4 billion in the first nine months of 2019 and 2018 respectively.



Source: Deallogic as of 31 December 2020. Excludes non-US offerings, non-SEC registrants, SPVs, closed-end funds, offerings less than $25 million, and offerings that took place on OTC or pink sheet exchanges.

Our Insights

- After raising an abundance of capital, these SPACs are on the hunt to acquire target companies at home and abroad.
- A SPAC generally has 18-24 months to acquire a private target company following its IPO, creating an urgency to complete an acquisition.
- In Europe, we have seen a few mergers between European target companies and SPACs listed in the United States in 2020, which will likely increase in 2021.
- These mergers enabled formerly private European companies to raise $2.6 billion thus far in 2020.

M&A Target Name	M&A Target Nationality	M&A Announcement Date	M&A Completion Date	SPAC Merger Value-USD (in millions)
Global Blue SA	Switzerland	1/16/2020	8/28/2020	$ 2,254
Genius Sports Group Ltd	United Kingdom	10/27/2020	**TBD**	$ 997
immatics Biotechnologies GmbH	Germany	3/17/2020	7/2/2020	$ 344
Inspired Gaming Group Ltd	United Kingdom	7/14/2016	12/23/2016	$ 265
Bhn Srl	Italy	2/25/2013	10/1/2013	$ 264

For a private company, going public via a SPAC merger provides many public company benefits without undergoing the traditional IPO process. Most importantly, target companies obtain access to capital, which they can use to fund development, pursue acquisitions, and grow their businesses. Completing a SPAC merger also removes the pricing uncertainty encountered in a traditional IPO, while providing flexible deal terms. This includes structuring the merger to raise additional capital through private investment in public equity (PIPE), adding additional debt or equity, and structuring the board of directors and management team.

However, the benefits of completing a SPAC merger also come with added stress and complexity.

- **SPAC mergers have shorter listing timelines than traditional IPOs. Target companies should be prepared to be a public company within 3-5 months of executing a merger agreement. With this short runway, companies often have difficulty budgeting adequate time and resources to complete necessary readiness activities for being a public company.**
- Although the target company is not technically undergoing an IPO, most of the reporting and disclosure requirements remain the same. Management teams should ensure they have an experienced team of advisors, including securities lawyers and accountants, who are ready to navigate the complex SEC rules and coordinate with other advisors from both the SPAC and the target company.
- The SEC rules around foreign businesses merging with shell companies, including SPACs, can be cumbersome. Generally, these rules complicate the path for the combined company qualifying as a foreign private issuer ("FPI"). Failing to meet the FPI criteria will require the target company to prepare financial statements under US GAAP and comply with increasing regulatory and compliance costs in the future. Furthermore, a SPAC may erode some of the target company's benefits as an Emerging Growth Company ("EGC") under the SEC standards, potentially requiring an additional year of audited financial statements.
- Companies meeting the FPI filing criteria and choosing to report under IFRS will encounter complex accounting scenarios related to provisions and equity, which are often avoided under US GAAP.
- The target company financial statements required to complete the SPAC merger must be audited under the same PCAOB standards required for public companies in the US. Companies should budget adequate time to engage a PCAOB-certified auditor and potentially undergo incremental audit procedures not required under home or international auditing standards.

Key Readiness Activities

- ✓ Create Board of Directors and Board committees
- ✓ Hire additional finance, accounting, and legal personnel
- ✓ Enhance key risk and compliance functions
- ✓ Internal controls
- ✓ Investor relations department
- ✓ Executive and management compensation

For companies considering a SPAC merger, having the right expertise is key to negotiating an optimal deal and navigating the complexities involved in closing the transaction.

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