

SPAC FUNDAMENTALS: HOW DO INVESTOR INTELLIGENCE AND PROXY SOLICITATION HELP?

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Overview

There have been 882 special purpose acquisition companies (SPAC) listed in the US market in the year 2021. The US\$162 billion raised in 2021 is more than double the yearly average for the same period the previous year. As a result of the successful SPAC in the US market, we see significant opportunities in Asia.

A SPAC is a regulated blank cheque company, which is a business entity formed for the purpose of acquiring one or more operating businesses through a business combination.

There are two main features:

- (1) Specified deadline for completion of the business combination; and
- (2) Primary objective of raising funds through a public offering of its securities.

Typically, a SPAC is established by a one or more sponsors/promoters. They contribute their risked capital and raise money from investors through an initial public offering (IPO).

SPAC mechanics in 3 regions (Hong Kong, USA, and Singapore)

Investor suitability

In Hong Kong, participation in a SPAC IPO is restricted exclusively to professional investors.

In the United States, retail investors are permitted to participate in a SPAC IPO.

In Singapore, there are no explicit limits.

Share redemption option

In Hong Kong, SPAC shareholders must be given the option to redeem all or part of the shares they hold prior to (1) a De-SPAC transaction, (2) an unsuccessful De-SPAC, (3) a material change in SPAC promoter, and (4) any extension to the deadline for announcing or completing a De-SPAC transaction.

In the United States, shareholders have the option of redeeming their shares and receiving a pro-rata share of the aggregate amount held in a trust account.

In Singapore, shareholders have the right to elect to redeem their shares and are entitled to a pro-rata portion of the amount held in trust at the time of the De-SPAC transaction.

SPAC fundraising size

In Hong Kong, a SPAC must raise at least HK\$1 billion from IPO.

In the United States, there are different requirements across the exchanges. On the NYSE American and NASDAQ a SPAC must raise at least US\$50 million; on NASDAQ Global Market a SPAC must raise at least US\$75 million; NYSE: US\$100 million.

In Singapore, the SPAC must raise at S\$150 million.

Open market requirements

In Hong Kong: Before De-SPAC, no public investors can engage in the IPO. At least 75 Professional Investors are required, of whom at least 20 must be Institutional Professional Investors who hold at least 75 percent of the securities to be listed, according to the SEHK's listing requirements.

In the United States: There is no restriction to public investors except the proportion of shareholders. Different exchanges have their own practices. NYSE:

300 round lot holders own at least 1.1 million shares; NYSE American: 800 public shareholders and 500,000 public shares; NASDAQ Capital Markets: 300 round lot holders have at least 1 million shares; NASDAQ Global Market: 400 round lot holders own at least 1.1 million shares.

In Singapore: The public investors can engage in the IPO. At least 25% of issued shares to be held by at least 300 public shareholders.

Shareholders' approval for De-SPAC

Approval is required by SPAC shareholders at a general meeting (excluding SPAC promoter(s) and other shareholders with material interest).

Acquisition focus

The largest group of acquisition target sectors that we put into the "Tech" category, mention in the acquisition strategy "tech company", "biotech", "fintech" etc. According to SPAC Research, the share of tech and healthcare companies was 24.37% of all SPACs that launched their IPO in 2021 (216 of 882 SPACs), tech companies' share increased to 46.78% in Q1 2021 (138 of 295 SPACs).

The second largest group of acquisition target industries or sectors that we commonly name as "Social". This group includes acquisition target sub-sectors that have a focus on dealing with people of having a direct impact on people through technology, such as Fast Moving Consumer Goods (FMCG), Hospitality, Leisure, Travel, Dining, and Gaming. Trinity Acquisition, which submitted their listing application to the SEHK as of Jan 31, 2022, is one of the SPACs focused on FMCG.

Trend in Asia

At present, there are at least 25 SPACs in the US initiated by Asian investors, and at least 12 companies have been merged and listed through SPACs in the past three years, reflecting high demand in the region. When compared to other SPAC regulated regions, Hong Kong has more stringent regulations that provide an excellent investment environment and services, fostering investor confidence and trust. Hong Kong, as a leading Asian

economy, will seize the opportunity to continue to develop SPACs in order to attract investment.

Why is investor intelligence and proxy solicitation important to SPACs?

In the SPAC process, the De-SPAC is the last and most critical milestone. A De-SPAC transaction must be subject to shareholders' approval at a general meeting. Also, the SPAC must provide a period for redemption that starts on the date of the general meeting notification and ends on the date and time of the general meeting's start. On top of that, SPAC promoters and any connected persons must abstain from voting at the general meeting. If independent shareholders vote down the transaction, the SPAC will terminate, and the promoter(s) will lose its risked capital.

To minimize unexpected result on the day of the vote, a successful SPAC merger solicitation requires a strong grasp on shareholder ownership as early as possible in the process. In particular, the voting right of institutional investors takes an important role in deciding the success of the SPAC. Investor intelligence and proxy solicitation providers can help monitor shareholders' change frequently before the redemption and can investigate institutional investors' voting policies and seek to solidify support, resulting in the forecasting of how a vote will come in on a given proposal and preventing last-minute surprises.

Alliance Advisors brings value to the SPAC process by assisting a client to navigate the complex regulatory (logistical and solicitation) requirements that are needed to close a deal.