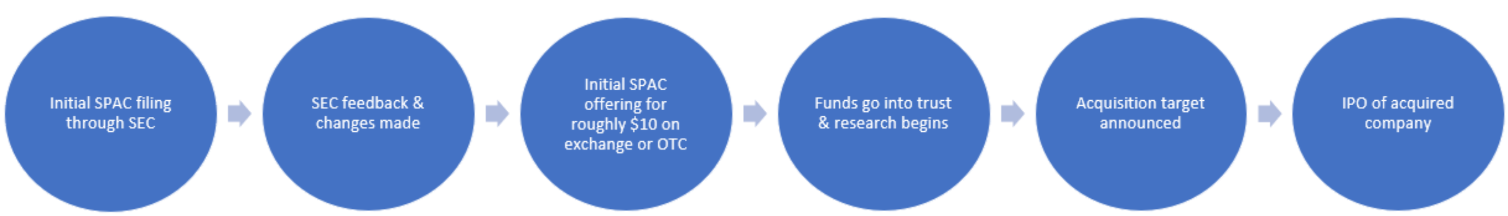
What is a Special Purpose Acquisition Company?

A special purpose acquisition company (SPAC) is usually made up of a group of investors that are looking to pursue one or more company acquisitions in the near future. This typically involves taking a private company to being a public one. SPACs do not disclose what their target acquisition(s) are until they have raised enough funds to make the acquisition. This is why SPACs have also been commonly known as "blank check companies" due to their hidden nature. The reason for not divulging their target acquisition(s) is that they avoid normal disclosures that would accompany the more typical initial public offering (IPO) process. Although SPACs typically have a general field of interest (e.g. real estate), they do not necessarily have to invest into that space and could do a completely different deal altogether.

SPACs have gained popularity in recent years, as they are generally able to start the IPO process faster than a traditional IPO. They do this by using a SPAC as an investment vehicle that has minimum operations, so as to speed up the process with the Securities and Exchange Commission (SEC). In a traditional IPO process, the initial period is kicked off by providing the SEC with financials and other documents on the acquiring company after selecting the investment bank of choice. Often times this may lead to the SEC taking weeks to prepare and deliver comments on changes or concerns that they may have. Because a SPAC has minimal to no operations, they are seen as empty shell investment vehicles that avoid extra disclosures with the SEC. As a part of the avoided disclosers, SPACs only choose what company they are going to take public after receiving funds from investors. For this reason, they are not required at initiation to report their acquisition target to the SEC – again speeding up the process. This time saver also benefits the company that will be taken public, as it allows for better market timing and less concerns over potential market volatility.

SPAC IPO Process



SPACs usually have a life of 24 months to make at least one acquisition, or they are liquidated, and funds are returned to investors. During this 24 month timeframe, all of the money that has been collected for the SPAC is put into an interest-bearing trust while SPAC management goes to work on deciding which acquisition(s) to make. SPACs are typically listed on exchange or over the counter (OTC) for about $10 per share in their initial phase. They tend to consist of common shares, units (common shares with attached warrants), warrants, and PIPEs (Private investment in public equity) and their $10 price tag makes them easily available to most investors. It is critical to note that the offering of a SPAC is different than the offering of the actual company that is being taken public. There is the IPO of the SPAC in its empty shell form (usually at $10), and then there is the IPO of the SPAC after it has announced its target company (usually different than $10).

It is also worth mentioning that SPACs will sometimes be invested alongside private equity or venture capital groups. This is important as sometimes management from the SPAC will overlap with management from those groups. Because of this, sometimes a SPAC will specifically mention that they will not be investing into portfolio companies of the private equity group due to the potential conflict of interest. Due to the private nature of SPACs, often times SPAC management plays a key role in determining overall value. The thought process is that better management equals a better company / results. Though SPACs are a relatively cheap way to participate in an IPO, this does not necessarily mean that they are right for everyone. Risk and reward for example would be difficult to assess due to the lack of upfront information, and for this reason SPACs should only be used by investors that have tolerance for a potentially risky and volatile investment.

Typical Structure	
Special Purpose Acquisition Company (SPAC)	**Classic Initial Public Offering (IPO)**
Common Shares, Units, Warrants, PIPEs	Common & Preferred Shares, Warrants, Stock Options
Usually Micro - Mid Cap Companies	Micro - Large Cap Companies
Less Clarity	Full Disclosure
IPO Takes 8+ Weeks	IPO Takes Several Months

ETFs with companies that went through a SPAC:

- *SPAK* – Defiance Next Gen SPAC Derived ETF
    - Launched October 2020
    - Holds companies that IPO'd via SPAC
    - 0.45% expense ratio
- *SPCX* – SPAC and New Issue ETF
    - Launched in December 2020
    - Combination of IPO'd SPAC companies and new SPAC IPOs
    - 0.95% expense ratio
- *SPXZ* – Morgan Creek-Exos SPAC Originated ETF
    - Launched January 2021
    - Roughly 80% will be some form of SPAC
    - 1.0% expense ratio

Empty Shell SPACs:

- *RBAC* – Redball Acquisition Corp Ordinary Shares
    - Launched October 2020
    - Initial SPAC stage, sports focus
- *BTNB* – Bridgetown 2 holdings
    - Launched January 2021
    - Initial SPAC stage, tech/financial services/media in south Asia

[A Record Pace for SPACs | Nasdaq]

"A Record Pace for SPACs." Nasdaq.com, 21 Jan. 2021, www.nasdaq.com/articles/a-record-pace-for-spacs-2021-01-21.

[Special Purpose Acquisition Companies: An Introduction]

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[SPAC ("Blank Check Company") Investing Guide | Money Morning]

Stenger, Mike. "SPAC ('Blank Check Company') Investing Guide | Money Morning." Money Morning - We Make Investing Profitable, 19 Aug. 2020, moneymorning.com/2020/08/19/spac-blank-check-company-investing-guide-money-morning/. Accessed 28 Jan. 2021.

[Morgan Creek Rolls Out Third SPAC ETF Under Ticker SPXZ | Seeking Alpha]

"Morgan Creek Rolls out Third SPAC ETF under Ticker SPXZ." SeekingAlpha, seekingalpha.com/news/3654356-morgan-creek-exos-new-spac-originated-etf-spxz-starts-trading. Accessed 28 Jan. 2021.