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Market Concepts

SPACs

SPACs are also known as "blank cheque" companies where typically a large financial institution will create a company for the sole purpose of getting it listed on a major stock exchange. The company will then raise capital by selling shares through its newly created IPO. Keeping in mind that this company has yet even to sell a single product, investors are purchasing based on various reasons. Still, the main one being the promise their capital will be used to acquire another company. Typically, it is the major private equity or IB firm's reputation that allows them to raise capital from investors to fund a "blank check" company based on trust and the promise of a higher return rate in the future.

For example, consider ABC incorporated and newly created SPAC 123 industries.

- 123 industries raise X million in an IPO
- ABC has been a growing company that decided they want to go public
- 123 industry decided they want to help ABC incorporated go public (based on a multitude of reasons) and get additional financing.
- ABC agrees to merge with 123 Industries
- 123 industries now become ABC incorporated. Only now - they are listed on a public stock exchange.
- ABC can now raise capital as a public company saving month possible even years of due diligence that would have had to have taken place through the traditional IPO process.

The trade-off for the company that would join a SPAC is they would typically sell at a lower price than had they gone through the traditional IPO process. The benefit for the SPACs creator is the fees they can collect along with a determined number of shares of the company that they can keep -- often a "very good price."

In short, SPACs provide a way for privately held companies looking to go public access public markets faster than the traditional way of going public as some fewer regulations and rules must be followed. They also provide certainty as with SPACs, regardless of factors such as market volatility, you will go public. This cannot be said to be true through the traditional process.

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By:
Joshua Grewal - 1st Year Rep

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SPACs have become extremely popular over recent months, with titan investor Bill Ackman recently announcing that he would be launching his own SPAC in the near future. With this popularity, they have also come under scrutiny from investors as the companies taken public would not have had as much vetting done compared to a company that would have taken the traditional process. An excellent example would be the Nikola Corporation, who has recently come under serious fraud allegations. Many skeptics point to this example of had the company gone through the traditional IPO stages; these early signs of fraud would have been noticed.

In the end, you are purchasing based on the speculation that an announcement will be made to acquire a company. Although it is subjective, you do not know if you are purchasing a good or bad company. Instead, you trust the SPACs creators to make that decision.