May 2017

MobileSolve Group, Inc. is a boutique investment bank providing M&A, Capital Raising and Financial Advisory services to technology emerging and growth companies.* This newsletter presents short articles on industry or transaction topics of current interest, and a summary of recent notable transactions.

Source : Silicon Prairie News

www.MobileSolve.com

By: Steve Gaynor, Patrick Nguyen and Mansi Srivastava

What Are SPACs?

Last month's newsletter regarding "**Fundless Funds**" brought several observations from readers regarding other channels to capital and transactions being used by private equity funds. This month's newsletter explores another type, "Special Purpose Acquisition Companies," or SPACs.

What SPACs Are

SPACs are publicly traded companies started with the specific goal of acquiring unspecified targets within a specified period of time. Most are listed through an IPO on the OTC-Bulletin Board, though they are permitted to list on both the Nasdaq and the NYSE.

Often they are led by a management team experienced in the particular industry that will be the focus of the SPAC's acquisition targets, and are backed by a private equity firm known in SPAC parlance as the "Sponsor". SPACs have been successful in buying many types of companies, including well-known retail brands such as Jamba Juice, American Apparel and Talbots.

For an acquisition target, a SPAC has certain attributes that it may find attractive. As a public company, the target's shareholders get liquidity for their investment. Because the SPAC has no operating history, there are fewer potential problems to worry about, such as hidden or unfunded liabilities, and the like. Finally, the target's management often stays involved in the company because the SPAC has only the small management team leading the acquisition.

How SPACs Work

Sponsors initiate a SPAC with the "promote," an investment in a unit consisting of common stock with detachable warrants in an amount meant to leave them with twenty percent of the post-IPO shares outstanding. They obligate themselves to provide management services to the SPAC at no cost to the public investors.

The promote finances the SPAC's IPO and operating expenses, including the search for acquisitions and transaction expenses. If they fail to complete an acquisition in the specified time period, their funds are lost. Of course, they are betting they will find and timely complete an acquisition, and add value which will enhance the price of the public securities.

The IPO securities consist of the units of common stock and warrants to public investors. Proceeds are placed in a trust, and may be used only for the acquisition of an operating company.

Protections for Investors

Because of the uncertainty inherent in the model regarding the eventual investment, SPACs are sometimes confused with "blank check" companies, which historically have been a vehicle for abuse of public shareholder funds. But SPACs are required to adhere to a regulatory scheme that safeguards against possible abuses, and often there are additional contractual protections as well.

SPACs typically have an 18-24 months period to close an acquisition or to terminate, so investors' funds are never indefinitely held captive. Indeed, prior to the consummation of the initial acquisition, shareholders may redeem their securities for a pro rata share of the money held in the trust account, whether or not they support the acquisition or the SPAC liquidates.

To protect against overpayments and conflicts of interest which may arise between the SPAC and the Sponsor, public investors have to approve an acquisition through a vote. In such a case, the Sponsor often will pay an investment bank to deliver a fairness opinion if the SPAC seeks to complete an acquisition with a target that is affiliated with the Sponsor.

Potential Problems with SPACs

Unlike other forms of private equity transactions, SPACs carry enhanced uncertainty around finding and completing a transaction. The greatest risk, of course, is not closing an acquisition before the SPAC is forced to liquidate the trust account and return money to shareholders.

Sometimes a target willing to be acquired may not be ready to go public. For example, a private company may have to prepare several years of audited financial statements that will satisfy SEC regulatory review before it goes public. Such a review is conducted using a higher standard than the SEC has recently promulgated pursuant to the JOBS Act.

Another risk comes from the public investors. Because they are allowed to redeem their shares whether or not they support an acquisition that has been put to a vote, they may decide to redeem the common stock portion of the unit they purchased, and keep the warrant, effectively enjoying a highly leveraged bet on the eventual success of acquisition.

By doing so, however, they may leave the SPAC with insufficient capital to complete the transaction and subsequently to finance operations. Thus SPACs require arrangements for the infusion of additional capital available to “backstop” an acquisition. This may come in the form of some mix of bank debt, investment from the Sponsor or third parties, or capital rolled over by target shareholders.

The Outlook for SPACs

SPACs have recently been popular among Sponsors, public investors, and acquisition targets, and their popularity continues to grow:

Year	Number of SPACs	Gross Proceeds Raised $MM
2017	10	$4,000
2016	13	$3,499
2015	20	$3,902
2014	12	$1,750
2013	10	$1,447

Source: SPAC Analytics, through May, 2017

As evidenced by this year’s statistics, the outlook for SPACs presently remains strong. Private equity firms with successful track records are increasingly choosing to serve as SPAC sponsors to access public funds for equity capital. Their reputations and investing and operating expertise, make SPACs attractive to would-be targets and potential investors alike.

For target companies, SPACs offer the additional attractions of being a ready-made vehicle to go public. Support by a well-known private equity firm adds to the attraction.

Many public investors seeking new investments in the current highly valued equity markets and a slow time for IPOs as many companies choose to stay private, find SPACs with their investor protections, potential for leveraged returns through warrants and brand-name Sponsors an interesting alternative.

Sources: Thomson Reuters data, SPAC Analytics, the Wall Street Journal, MobileSolve Analysis

Note: This newsletter if for informational purposes only, and not for the purpose of providing legal, financial or other advice.

Transactions

The following are notable M&A Transactions and Capital Financings announced or completed in the last month.

Notable M&A Transactions

Apple acquires Beddit, a sleep tracking hardware and software company. See details here …

Cisco announced it will acquire MindMeld, a provider of advanced AI platform powering a new generation of intelligent conversational interfaces, for $125 million. See details here …

Melbourne IT announced it will acquire WME Group, a digital marketing solution provider, for $39 million. See details here …

Motorola Solutions announced it will acquire Kodiak Networks, a privately held provider of broadband push-to-talk (PTT). See details here …

Pixelworks announced it will acquire ViXS Systems, a provider of solutions for processing, managing, securing and distributing high quality video and audio. See details here …

Spotify acquires Niland, a French start-up, which describes itself as music technology company. See details here …

Notable Capital Financings

AUTO1 Group, an online platform which connects buyers and sellers of cars, raises €75 million in Series E. The round was led by Princeville Global. See funding details here …

Huya.com, a Chinese leading interactive broadcast platform, raised $75 million in Series A. The round was led by Ping An Insurance Overseas (Holdings) Limited. See funding details here …

LevelUp, a U.S. mobile app financial technology (fintech) firm, has raised $50 million, from JP Morgan Chase, Boston Capital and CentroCredit Bank. See funding details here …

Paytm, India's largest mobile commerce platform raised $1.4 billion, from Softbank. See funding details here …

Wandera, a mobile security firm, raises $27 million is Series C. The roundwas led by Sapphire Ventures. See funding details here …

STAY CONNECTED:

Email: **steve.gaynor@mobilesolve.com**

View our profile on LinkedIn