Filling in the Blanks

The long-running bull market has encouraged IPOs of shell companies on the prowl for acquisitions. Risky? Not to eclectic value hunter Bulldog Investors, which sees in the field multiple "Heads I win, tails I don't lose" propositions.

Stock sales of "blank-check" companies have been a vibrant corner of the IPO market in recent years. Such firms – also called special-purpose acquisition companies, or SPACs – are often fronted by well-known industry CEOs, raising money that is placed in trust to help fund yet-to-be-determined acquisitions. If no deal materializes by the end of a defined term, the IPO money is returned with interest. If a deal is identified, after shareholders approve it the SPAC shares and warrants that typically comprise the "units" sold in the IPO start to trade on the particular deal merits.

Bulldog Investors, the investment firm founded in 1993 by Phil Goldstein and Steve Samuels [*VII*, March 31, 2008] to ply overlooked market niches, is finding what it calls, "Heads I win, tails I don't lose" opportunity in certain of the recent wave of newly public blank-check companies. More than 85 such companies have raised $21 billion in the U.S. since the beginning of 2015, 4x the amount raised in the prior five years.

Bulldog focuses on what it considers the least-risky slices of the SPAC universe. At worst, it expects its investments to earn Treasury-bill returns if no deal is found. Better are situations where it believes a deal will be identified, its shares and warrants will increase in price in anticipation of the deal closing, and it can sell both at a nice profit at the end of the SPAC's life, when the trust set up to hold the IPO proceeds is liquidated. That happens when the identified deal is consummated. It targets total returns of 15-25% over a typical 18-to-24-month period, without taking the risk of losing money if the merger deal ultimately doesn't work out over time.

While Bulldog expects to be gone by then, deals of course can work out over time and the further upside optionality in such cases can be quite attractive. One poster-child example is Silver Run Acquisition, formed in February 2016 by long-time EOG Resources CEO Mark Papa for the expressed purpose of prospecting for beaten-down energy assets. Investors at Silver Run's IPO paid $10 each for units that consisted of one common share and one-third of a warrant to buy an additional common share at $11.50. Silver Run relatively quickly found a deal, and in later 2016 agreed to buy Permian Basin exploration and production company Centennial Resource Production. Shares in the newly named Centennial Resource Development [CDEV] now trade at around $18.50. That means original Silver Run IPO investors who redeemed their warrants and held their shares have almost doubled their money.

For the table below, Rajeev Das of Bulldog Investors has identified five current blank-check-company ideas that illustrate the types of opportunities he's currently finding interesting. VII

Let's Make a Deal

These special-purpose acquisition companies provide attractive upside if they fulfill their mission and find a good deal to do, says Bulldog Investors' Rajeev Das, and nicely protected downside if they don't.

Company	Ticker	Price@ 5/30/18 (1)	Description	Terminal Date	"Worst-Case" Value (Est.) (2)	"Worst-Case" IRR (Est.) (2)	Offering Highlights
Easterly Acquisition Corp	EACQ	10.20	Common shares	6/30/18	10.31	13.5%	The company is unlikely to complete an acquisition by its already-extended expiration date, but its shares offer an attractive – almost no-risk – return from now until then.
Hennessy Capital Acquisition III	HCAC	9.98	Common shares	12/8/18	10.29	5.4%	The third SPAC led by Daniel Hennessy – previous successes trade as Blue Bird [BLBD] and Daseke [DSKE] – to buy businesses benefitting from U.S. "industrial renaissance."
Osprey Energy Acquisition	OSPRU	10.10	Unit = 1 common share + 1/2 warrant	7/26/19	10.26	1.4%	Led by Edward Cohen, founder of Atlas Energy and Atlas Pipeline. Management bought 7.75 million warrants at $1 each, which will expire worthess if no deal is consummated.
Pure Acquisition Corp	PACQU	10.29	Unit = 1 common share + 1/2 warrant	10/17/19	10.68	2.7%	Sponsors of this energy-focused SPAC, led by the former Chairman and CEO of Titan Resources, have agreed to buy all warrants for $1 each even if no acquisition is made.
Trinity Merger Corp	TMCXU	10.14	Unit = 1 common share + 1/2 warrant	11/15/19	10.44	2.0%	Chairman of this real estate-focused offering that just came public on May 15 is Lee Neibart, head of the global real estate practice at private-equity firm Ares Management.

Sources: Bulldog Investors, publicly available information; Notes: (1) Reflects closing bid price; (2) "Worst-Case" Value and IRR estimated as of offering terminal date