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Back to Basics

Most readers of *Value Investor Insight* have likely watched the market for special-purpose acquisition companies [SPACs] with detached bemusement. The concept isn't at all new, but SPAC issuance over the past year has exploded and the market has at times provided one of the clearer signals of potential speculative excess. In February when SPAC Atlas Crest Investment Corp. [ACIC] announced a deal to buy "electric air-taxi" developer Archer, its stock – which came public in December at $10 – rose on the news to above $17. That was despite the fact that Archer didn't really have a product yet, just some solid financial backers and an "order" to buy from United Airlines if they were actually able to produce a viable electric air taxi. ACIC shares have since come back to earth and today trade at around $9.90.

We've covered SPACs before, turning to experts on the subject at Bulldog Investors [*VII*, May 31, 2018] who have actively invested in them since 2005. Rather than seeing SPACs as speculative fliers, Bulldog generally considers them low-risk plays, better than cash when cash actually paid something. SPACs upon issuance usually price at $10 per unit, with a unit typically consisting of a share of stock and some fraction of a warrant to buy the stock over the next five years. The cash raised in the IPO is held in trust, to be returned if the sponsors can't find a deal, often over a two-year period. If a deal is announced and the market likes it, the SPAC common shares and warrants often rise in price. If the market doesn't like it and the shares trade below the cash in the trust, holders can opt to get their money back for the cash amount in the trust. The warrants, which will have some value in the business combination, can be sold or held. "We never pay more than $10 per unit and will try to pay less, so our downside is limited and often positive," says Bulldog portfolio manager Rajeev Das. "If a good deal is announced, we can have nice upside."

With the SEC threatening stricter SPAC regulation and with less secondary financing available to complete deals, air has come out of the market in recent weeks. Bulldog's Das is doing what he always does, looking for offerings from good sponsors with proven records of closing successful deals. When their units trade for $10 or less – either at the IPO or in the aftermarket – he's potentially interested.

What is Das finding interesting today at the right price? He offers three current examples:

Gores Guggenheim [GGPIU] is co-sponsored by private-equity firm and serial SPAC issuer The Gores Group, which has already successfully closed a number of deals to take public a diverse set of companies including snack-food maker Hostess Brands, technology company Verra Mobility and government-services firm PAE [see p. 2].

FTAC Hera Acquisition [HERAU] is the latest SPAC from financier Betsy Cohen, who has also announced or closed a number of recent deals, most of which have been related to financial payments.

Longview Acquisition Corp. II [LGV.UN] is the second SPAC sponsored by Larry Robbins' Glenview Capital, a leading hedge fund with particular expertise in healthcare investing. Its first SPAC, now trading as medical-imaging company Butterfly Network [BFLY], currently trades at 40% above the IPO price.

"It's more about the team than anything else," says Das. That's often true, of course, but even more so in today's wild and woolly world of SPACs. VII