MOORE

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When SPACs Come Irresistibly Close – How Asia Stock Exchanges' Card Up Their Sleeves?

What is a SPAC and how popular is it?

A special purpose acquisition company ("SPAC") is a shell corporate or blank-check listing looking for an acquisition opportunity to bring another private company listed. In short, it is led by a management team, a.k.a. a sponsor, and it raises money through an IPO before an acquisition target is identified.

Typically, money raised from an IPO is placed in an interest-bearing trust account. Such money will be used when a SPAC consummates a business combination, a.k.a. a De-SPAC transaction, or will be returned to investors if it fails to seek an appropriate acquisition target and eventually liquidates. In the case a merger succeeds, the SPAC will accomplish its mission and be given a new stock code, and the acquired target will become the truly listing entity.[i]

There were 248 successful SPAC IPOs in 2020, which is a fourfold increase of that in 2019 (59 cases) and contributed more than half of the total IPOs in the US (248/450 cases) for the year. **Draftkings** and **Open Lendings** are two of the US-based SPAC-listed super-stars of 2020, which raised US$1,664 million and US$275 million in their respective SPAC IPOs.

As for Asian investors, there have been emerging China-HK based companies seeking SPAC-listing since early 2020. In the past two months, we can see De-SPAC announcements such as the merger of Ace Global Business Acquisition Limited with **DayDayCook,** a company specialising in the sale and production of healthy ready-to-cook, ready-to-heat; and plant-based meat products in the PRC, which had been invested by a tycoon Peter Lee Ka Kit, Henderson Land and Towngas in previous Series C financing, and the merger of Magnum Opus with **Forbes Global Media Holding Inc.**, a global media company headquarters in the US.

Mushrooming of China-HK domiciled SPACs

As compared to only 17 Asia-domiciled SPACs listed in the US in 2020, some 34 Asia-domiciled SPACs have already filed a SPAC IPO application on the Nasdaq for the first four months of 2021. According to Refinitiv, US-listed SPACs are very fascinating for Asian investors, particularly when the acquisition targets are also domiciled in Asia.

"*For every publicly filed one, I would say there are three or four that have not filed publicly, but have been kicking around SPAC opportunities*," said Peter Kuo, the CEO of PTK Acquisition Corporation [ii]. Bonnie Chan, the Head of Listing of the HKEX, added that a lot of companies had expressed interest in exploring a SPAC listing in Hong Kong. According to HKEX's statistics, 25 US-listed SPACs are headquartered in greater China, and approximately 12 companies in Asia have been acquired by a SPAC in recent years[iii]. Listed below are recent cases of China-HK domiciled SPACs in 2020-2021.

Table 1: Some recent cases of China-HK domiciled SPAC-listings in 2020-2021

SPAC	Base	Amount Raised in IPO	Stock Code (Pre De-SPAC)
Ace Global Business Acquisition Limited *	US	US$ 40 million	ACBA
PTK Acquisition Corporation	Hong Kong	US$ 115 million	PTK[iv]
Magnum Opus Acquisition Limited #	Hong Kong	US$ 200 million	OPA
Bridgetown Holdings Limited	Hong Kong	US$ 550 million	BTWN
Bridgetown 2 Holdings Limited	Hong Kong	US$ 299 million	BTNB
Artisan Acquisition Corporation	Hong Kong	US$ 345 million	ARTAU[v]
Angel Pond Holdings Corporation	China	US$ 250 million	POND[vi]
Trinity Acquisition Corporation	China	US$ 250 million	TRNYU[vii]
Silver Crest Acquisition Corporation	China	US$ 250 million	SLCR[viii]

Source: Moore Analysis

** Announcement has been made on 26 August 2021 to merge with DayDayCook*

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The HKEX's SPAC consultation – The act of strategic prudence?

In Asia, Singapore is obviously much more aggressive to fight for the SPAC market. The SGX has announced new rules that enable SPACs to list on its mainboard from 3 September 2021 onwards. Other Asia exchanges, such as the Japan Stock Exchange and the Indonesia Stock Exchange, are both considering having their own SPAC-listing rules, said their government bodies.

On the other hand, the HKEX is known to have been actively imposing more stringent requirements for continuing listing and IPO applications in recent years. The market has been mulling and giving grave concern when HKEX is going to announce its SPAC-listing rules, and whether savvy SPAC speculators are attracted.

Better late than never, the HKEX released a 45-day consultation on 17 September 2021 to seek market feedback to create a Hong Kong listing regime of SPACs. Nevertheless, the adoption of a fast-tracked SPAC-listing route still appears self-contradictory to HKEX's current listing policy development. It is therefore reasonable to the proposed SPAC-listing rules are perceived by the market to be even more stringent than that of the US. By doing so, the adoption of the SPAC-listing route, up to a listing-threshold close to a traditional IPO, becomes justifiable to all the stakeholders who have been believing and following HKEX's sustainability strategies, including its strategic prudence and patience to introduce SPAC-listing in Hong Kong.

The HKEX's proposed SPAC requirements and the requirements of the SGX and the Nasdaq are tabularised below:

Table 2: Comparison of SPAC-listing requirements

Requirements	US (Nasdaq and NYSE)	HKEX (proposed)	SGX
Share Issue Price	A minimum issue price of US$4.	A price of HK$10 or above.	A minimum issue price of SG$5.
Fundraising Size	Minimum Market Capitalisation Requirement: - **NASDAQ (Cap. Market):** US$50 million - **NYSE (American):** US$50 million	At least HK$1 billion.	At least SG$150 million market capitalisation.
SPAC Promoters	With experience and/or track record of SPAC Promoters.	With at least 1 SPAC promoter which is an SFC licensed firm holding at least 10 per cent of the Promoter Shares.	With track record and repute of the founding shareholders and experience and expertise of the management team of a SPAC.
Investor Suitability	No restrictions.	Restricted to professional investors only prior to a De-SPAC transaction.	No restrictions.
Shareholder Vote and Redemption Option	Public shareholders voting against the De-SPAC transaction must be entitled to a right to redeem their SPAC shares.	SPAC shareholders must be given the option to redeem their shares prior to a De-SPAC transaction.	All independent shareholders have a redemption option regardless of their voting decisions.
Lock-up Period	No restrictions, but normally 12 months upon completion of the De-SPAC transaction.	12 months upon completion of the De-SPAC transaction.	At least 6 months and up to 12 months from the completion date of the De-SPAC transaction.
Acquisition Target	No restrictions as long as it fulfils the listing requirements.	Shall not include investment company (as defined by Chapter 21 of the Listing Rules). But biotech companies and mineral companies would be eligible De-SPAC targets.	Expressly contemplates De-SPAC transactions involving life science companies and mineral, oil and gas companies.
De-SPAC Transaction Deadlines	Within 36 months of its IPO without further extension. However, many US-listed SPACs voluntarily set a shorter deadline of 24 months.	Announcement within 24 months of the date of its listing. Completion within 36 months of the date of its listing.	Within 24 months, with the options for an extension of up to further 12 months.

Source: HKEX consultation paper on SPAC dated 13 Sep 2021, Moore Analysis

Who is the Mr. Right in Asia? The tug of war between HKEX and SGX

It is not unreasonable to believe that SPACs may become more popular than traditional IPOs in the near future. The latest US Stock Market data revealed that SPAC IPOs had contributed to 63% of total 2021 IPOs in the US up to September 2021[ix]. SGX, being the first Asia SPAC-listing stock market, has definitely made a right move to absorb the unequivocal demands of a new listing channel while the HKEX still sticks to the rules.

While some of the capable investors have had their SPACs listed on the Nasdaq, the borderline investors may eventually choose their SPAC-listing through SGX. If the whole idea of SPAC-listing is about fast and investment flexibility, the marketing position of Hong Kong SPAC-listing would rather be too prudent like a traditional IPO albeit it is reasonably understood that a more stable stock market is protected in return. We do not see a winner, but only the first mover right now.

How can Moore Transaction help?

In Moore Transaction Services Limited, we have a team of financial analysts and accountants who are experienced in performing valuations and financial due diligence for purposes such as De-SPAC transactions and other M&As, financial reporting, listing and litigation purposes.

For more information on how we can assist you, please contact our Director - Kenneth Ma.

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What are the most common SPAC-listing successful factors?

Greater deal size, greater chance of success

SPACs generally acquire a target that is at least three to five times the size of the SPAC trust account. The main purpose for this multiple is to mitigate the many forms of dilution of the founder shares.

Balance of sponsor and investor incentives

It is common to find a SPAC sponsor gets 20% of stock paid as promotion stock in nominal consideration after De-SPAC. SPAC Alpha conducted a research which concluded that *"Deals where the sponsor has been willing to sacrifice something have traded better than deals where the sponsor has held onto the entire promote."*

In order words, the more promotion stock is retained, the lower stock price is traded in long term. It is a strategic decision to let sponsors give up some of their compensation to sufficiently attract private investment in public equity ("PIPE") to participate in long term stock trades.

Successful deals tend to have a strong management team

The success of SPAC deals can also come from the management teams behind them, their expertise, and popularity. An analysis with a sampling size of 36 SPACs from 2015-2019 indicated that operator-led SPACs outperformed all other SPACs by 40%; and their individual sectors by 10%. "Operator-led" refers to a SPAC in which their chairman or CEO has former executive-level operating experience. These operators can efficiently select sectors and target companies, while also taking on more responsibility for the success post-merger. The business expertise in operator-led SPACs may be enhanced by high-profile investors taking on the sponsor role and leveraging their reputations and popularity to raise funds for their SPACs.

[i] Investopedia, "Special Purpose Acquisition Company (SPAC)"
[ii] South China Morning Post, "Asian investors and targets remain hot on SPACs, as fundraising by blank-cheque companies cools"
[iii] Reuters, "Hong Kong proposes new listing regime for SPACs with tight restrictions"
[iv] PTK, "PTK Acquisition Corp. Announces Closing of $115 Million Initial Public Offering"
[v] The Standard, "Artisan Acquisition raises US$300m in US"
[vi] Renaissance Capital, "SPAC Angel Pond Holdings prices downsized $250 million IPO, formed by Alibaba co-founder Simon Xie"
[vii] NASDAQ, "Consumer-focused SPAC Trinity Acquisition files for a $250 million IPO"
[viii] NASDAQ, "Private equity firm's consumer SPAC Silver Crest Acquisition files for a $250 million IPO"
[ix] SPAC Analytics, "SPAC and US IPO Activity"