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Platform SPACs: It Was The Best Of SPACs, It Was The Worst Of SPACs

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"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair."

- Charles Dickens, A Tale of Two Cities

We wrote about SPACs a few times, back in 2018 **"Investing in SPACs: How To Do It Right"** and even back in December 2016 we suggested an attractive investment opportunity in shares of Nomad Foods **"Nomad Foods: Story and Narrative For A 100% Return"** as an example of our approach and what type of SPAC might be attractive to investors.

After the huge wave of SPACs that followed in 2019-2021, we wrote that **"SPACs Revolution Turns Into Public Equity Market Transformation"** and both **cautioned** investors but also emphasized the fact that SPACs possess certain characteristics similar to spin-offs and with due caution attractive investment opportunities could be found in this niche as well.

The warning about the pain to come materialized in the end, and the pain came.

According to a recent Bloomberg **article** The De-SPAC Index, a basket of companies that completed their tie-ups, has crashed 67% and more than 700 SPACs are either on the hunt for deals or racing the clock to close ahead of deadlines.

Merger or acquisition by SPAC vehicle of an operating business represents an important corporate event. Similar to spin-off it becomes an important turning point in the company's **story.**

Many companies that merge with SPACs try to sell investors a growth or transformation **story** for the next three or five years.

Recently we **highlighted** Ardagh Metal Packaging and a luxury fashion company **Ermenegildo Zegna, APi Group Corporation,** and **Bowlero Corp** as interesting examples of investment opportunities in the SPACs space.

Today we want to emphasize two important aspects that we believe are important for deciding if a SPAC might work well for investors.

First, is the size of the SPAC vehicle versus the value of the company being merged with the SPAC. This is even more important I believe than the dilution from warrants or mechanics of SPACs as investors usually think.

According to Etalon Capital estimates, an average SPAC raises about $300 million of capital. If you assume that it merges with a target company at an Enterprise Value to SPAC capital ratio of x5, this means that $200 billion of SPAC capital can bring public more than 650 companies with a combined enterprise value or market capitalization of $1 trillion dollars. (Data as of **April 2021** – over 650 SPACs raised a total of more than $180 billion since 2018).

To put this into perspective, the current market capitalization of S&P MidCap 400 companies is $2.06 trillion while the market capitalization of S&P SmallCap 600 companies is $0.93 trillion.

To see how important this is, take a look at WillScot Mobile Mini Holdings Corp, a former SPAC (Double Eagle Acquisition Corp).

When it announced the initial transaction in August of 2017 (before the current wave of SPACs), it was a $500 million SPAC with a committed PIPE of $500 million (to accommodate the redemptions if needed) and a total Enterprise Value of $1.1 billion.

The ratio of Enterprise Value to SPAC size of only x2.2.

The expected future “dilution” from warrants and other shares was 42.8 million shares at the time, compared with about 84.6 million shares outstanding, so the future dilution was approximately 50% percent!

Despite this, this SPAC performed exceptionally well over the past 5 years, returning +229% percent or approximately +46% annual return.

What can be learned from this is that even though public capital markets are large and liquid, they do have limitations and capacity, and if somebody thought that he can just drop any size onto them and expect public markets will “swallow” anything - this is just not the case.

SPAC sponsors and companies going public through SPACs have the responsibility to make sure that those companies are at least somehow “digestible” by the market.

The second aspect which can help differentiate good companies is if the SPAC in question is a so-called “platform” company.

What this means is that SPAC sponsors and companies’ management are not just bringing a company public but have certain plans to grow the company, and often through M&A transactions.

WillScot Mobile Mini Holdings Corp is a good example in this case as well.

The company made several acquisitions to grow the business through M&A over the past 5 years, with two large deals.

A year after the initial transaction with SPAC was announced, the company made a large acquisition in 2018 of ModSpace (the Enterprise Value of ModSpace represented 53% percent of the before-deal EV).

Then in 2020 company merged with MobileMini (the Enterprise Value of MobileMini was ~74% percent of the before-deal EV) in a merger of equals transaction, essentially doubling the company.

What can be learned from this is that it can be very beneficial for investors if the SPAC (and the company it acquires) has some strategy of growing as a “platform” company through M&A or perhaps through organic means as opposed to just becoming public and that’s it.

The two large deals in the case of WillScot Mobile Mini Holdings Corp essentially turned it into a “platform” company and such **stories** are usually found attractive and perceived well by investors.

We provide independent research on SPACs and many other event-driven situations, and you are welcome to **contact us** to receive more details.