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Virtual Event Series

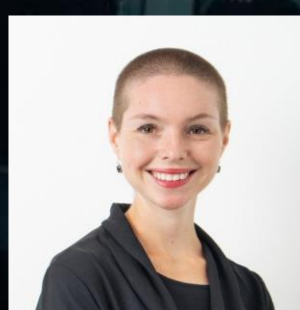
Rise of the SPAC

Guest Speaker:

Venu Raghavan

VP of Strategy and Development
Wasson Enterprise

Hosts:



Kenny Estes
CEO and Founder
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Ayla Kremb
Chief of Staff
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DiffuseTap: Rise of the SPAC

Last time on DiffuseTap, our guest speaker Venu Raghavan, VP of Strategy and Development at Wasson Enterprise, clarified whether the SPAC boom will continue to reverberate throughout 2021 and what the recent SEC clampdown means, and answered the question: Are SPACs a fad or are they here to stay?

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas) … straight from your armchair like a boss.

Meet the Speaker

Venu Raghavan is VP of Strategy and Development at Wasson Enterprise (WE), a Chicago-based single family office that is committed to creating a meaningful legacy by building businesses that have a lasting positive impact. LinkedIn: @venu-raghavan

Recently, WE became a sponsor for Foresight Acquisition Corp, a SPAC which intends to carry on the value-add proposition of its sponsor family office.

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KENNY ESTES: Venu, do you want to briefly introduce yourself before we start the fireside chat?

VENU RAGHAVAN: Yep, sure. Thanks everyone for having me and letting me speak today. A brief overview on Wasson Enterprise. We're a single family office headquartered in Chicago, and we're primarily focused on direct investments, as well as funds. Those direct investments are typically centered around healthcare, retail, and consumer funds, which are largely the same sectors as well. But we are looking to diversify capital commitments across asset classes and geographies as it relates to our fund deployments.

One area that we've expanded into as part of our direct investment efforts, is that we're looking to actively be involved with the companies that we're investing capital into. We call these partnerships, which are kind of a subset of our private direct investments. But for those areas where we are actively involved, we call them partnerships.

One of the new partnerships we've gotten involved in over the last year is into sponsoring a SPAC called Foresight Acquisition Corp. We launched in February, priced on the 12th of February, and are in the market now. So that's a bit about us. We mostly do private investments in funds, directs, various levels of involvement from the family office, and sponsoring a SPAC.

KENNY: Well, that's great. And one clarifying question for you, just because it plays into this strategic value add: Whose family office is it?

VENU: Our family office was started by Greg Wasson, the former CEO of Walgreens Boots Alliance.

KENNY: Hence the focus I suppose, and how you're adding a lot of value to these companies. That's great. My partner in crime, who's going to take over in just a second to ask some questions, is Ayla Kremb. Ayla, over to you.

AYLA KREMB: Awesome. One good starting point is what attracted you to a SPAC? There are so many other ways in which you invested before that, so what helped your team make that decision to swap over into SPACs as a vehicle?

VENU: Yeah. For us, it was an organic process. Through the family office, in the last five years, we've met some strong institutional investors, former operators, former fortune 500 CEOs, presidents, and other C suite execs. So it kind of came together very serendipitously for us early in 2019, before the SPAC boom really started.

We had it put on our radar through some of the investment banks because at that time, in its nascency, on the second iteration of SPACs, you're seeing former C-level executives from large public companies, private equity executives, and government officials launching SPACs. So, we really started thinking about it then. In 2020, we truly started looking at it meaningfully as something that we could get involved in and help to sponsor. And it came through our family office micro network.

Our CEO of our SPAC is a guy named Mike Balkin. Mike is involved in some of our private investments, and we have been involved in some of his private investments, as well. So, when Mike brought it forward, we started looking at it more seriously. The group came together very organically.

So, starting with Mike and Greg, they went out and said, let's put together a network of our peers who we know could add value to any company that we want to take public, and let's do it in a way where we have complementary skill sets, complementary industries, and the people are all synergistic to one another.

What we did is we put together a team of people that have run fortune 500 companies, and people that have managed institutional equity, private and public, as well as credit funds that all collectively comprise our sponsor group. Within our sponsor group, I'll just name a few, we have Greg and Mike. Mike previously ran the small cap Growth Fund at William Blair.

He started that fund in the 90s, had a quick hiatus to co-found Magnetar Hedge Fund located here in Evanston, and then went back to William Blair to run his old fund. He has over 30 years of institutional public equities experience.

We also have Karl Brewer, his former co-Portfolio Manager of that fund at William Blair, and Mark Thierer, former CEO of Catamaran, which sold to Optum RX for $14 billion. He was CEO of Optum for a while, which is a sub of United Healthcare. Matt Shattock, former CEO of Beam Suntory, the largest global spirits distributor, with Jim Beam as their largest brand. Kermit Crawford, former president of Rite Aid, and previously, head of health and wellness for Walgreens. Those are just some of the names representative of our SPAC.

What we're really looking to do is similar to our private investment ethos of being able to add value meaningfully to the companies that we're getting involved with. The same thing applies within our SPAC. We're not going to be one-and-done with the group we've assembled together of people that have done really well for themselves and have been able to add value in different ways to different enterprises. We want to create something meaningful over the long haul.

We're focused on areas and industries that we know well. I think we're viewing it as something where it's a vehicle for us to do what we've been doing in the private investment landscape, but to do so in the public landscape with people that have been there and run large public companies and have invested in large public companies.

KENNY: That's great and quite an impressive sponsor list. One of the questions from the chat is a two-parter, because they are related: SPACs – are they a fad or are they here to stay? And then the flip side to that is how are our institutions looking at it? Sounds like you have the long-term vision, but how is that changing? How is the perception of SPACs changing in the market right now?

VENU: Obviously, 2020 was a big year for SPACs, and I think you really saw an onslaught of sponsors coming into the market getting priced in and off to the races, looking at targets. Just with the sheer volume of the SPACs that were getting into the market at that point, I think you could say that there was a fad there.

I think some of the sponsor groups, while they may have capital raised, I don't know if there's the same view of having that long-term value add to any targets that they're getting involved with. I think what you're really seeing now is probably a further curation of quality amongst the sponsors. I think what you're going to see, moving forward, is higher-quality sponsors that are truly looking to be a value-add to targets over the long haul.

One of the criticisms of SPACs is the amount of economics that SPAC sponsors get as a result of getting a transaction done. And in some instances, it may not be as warranted or well earned. But I think that's going to change. In terms of the quality of the sponsors, too, I think you'll probably see a bit more gatekeeping done by the underwriters, or the investment banks that are taking these things public. With investment banks, there's a lot of fee generation opportunity by being able to take these SPAC sponsors over to their institutional equity investors that have placed money into some of these SPACs previously, and just keep rinsing and repeating.

As you're starting to see the quality of sponsor groups increase in their ability to add value to targets, I think you're going to see more of a gatekeeping function being played by some of the investment banks that are then taking the sponsor groups out to get priced. So, while 2020 was a big year in terms of SPACs, 2021 I think will carry that momentum. By Q1 at the end of March itself, there were more SPACs priced and more capital raised into SPACs than the entirety of 2020.

There's been a bit of a slowdown, just given some recent ambiguous guidance provided by the SEC as it relates to safe harbor provisions and warrant valuations. That has slowed down the velocity of new SPACs hitting the market, as well as the capital being raised, and even some of the transactions that are going to be coming over to announcement because of some of the ambiguity and lack of clarity. That's been provided by the SEC as it relates to financial statement submission in queues in case.

I think that's where we are right now in the SPAC market. While you did see a pretty big onslaught of SPACs coming to market over the last five quarters, we're in a bit of a pause right now as the SEC has thrown a grenade into the SPAC market. But certainly, there's a ton in the backlog. I think there's over 300 that are on file that are waiting to price just as a result of this SEC issue. But I think we'll see some of those get done. I don't think we're going to see all of them get done as a result of overheating.

AYLA: That leads nicely to one of the questions that Thomas Nastas posted, which is: Who is the book runner? Is it the investment bankers? Who takes care of that?

VENU: Typically, the way that SPACs get done is that basically you choose an investment bank, and in some ways the investment banks choose you. Recently, we saw all the investment banks taking the SPACs to market. They have their equity capital markets desks that are dedicated to setting up, testing the waters, processing the roadshow, and getting you in front of their institutional clients, which are hedge funds, long-onlys, long biased funds, and public equities. So yes, the investment banks are the ones getting these things to market price and ultimately allowing the sponsors to go after targets.

KENNY: One of the questions from the chat is kind of a nuts-and-bolts SPACs versus IPOs, cost differential timeline. If you're a company considering one of those two options, what do you think positions a company better to go in one direction versus the other? And what are the tradeoffs?

VENU: After looking at companies that have still been able to go to the market with an IPO, I think that firstly, it requires a certain level of traction, as well as a sort of sizzle around the company itself. I think you see companies like Databricks and Snowflake that are able to IPO traditionally, and they just have a lot of aura around them as a result of marketing, investor relations, and largely their business and having a healthy financial profile.

With SPACs, you're seeing companies that require a certain level of financial health and financial profile as well. But the other thing that you are seeing with SPACs though, is that companies that traditionally wouldn't have gone public — except in the area of biotech, where you're looking at earnings well into the future — have been able to go public via SPAC.

I think companies really need to weigh in on what they're gaining out of the sponsor group that is taking them public. If they want to go the SPAC route, they want to consider the ability of that sponsor group to add value as they're going out to raise money. And it's not just the money that's coming into the company and on the balance sheet through cash and trust from the SPAC, but also, typically, a SPAC transaction is coupled with what's called a pipe raise, and that essentially adds more cash to the balance sheet through those same public equity investors that might even be SPAC holders.

I think you also need to look at the level of fees. While the SPAC is largely responsible for the fees, coupled with their IPO, you're also giving up a certain level of promote, which is common shares in the pro forma company, as a result of going public with the SPAC. So, you really need to ask yourself the question, are you deriving value from the SPAC that's taking you public? And are you providing the right compensation in the form of shares to that SPAC for what you'll gain into the future?

The other thing is currently under SEC review, one thing I touched on with the Safe Harbor provision. SPACs, when they announce transactions, those companies are able to provide two years of forward guidance. You can't do that with traditional IPOs. This is something the SEC is currently investigating, but it's an area where up to date SPAC transactions and companies that are going public via SPAC have been able to provide forward guidance. So that's another area that could be helpful to those companies, to really be able to project into the future and give qualitative feedback as it relates to their companies.

These are all considerations. But ultimately, it comes down to, my opinion, what value is the SPAC sponsor adding relative to what you would get out of a traditional IPO? Do you enjoy working with the team? Is there going to be a strong board put in place as a result of a SPAC versus an IPO? I think those are probably the biggest considerations.

AYLA: One of the questions links up with something we chatted about previously as well, and it's about the different stakeholders in the SPAC. You've got the sponsor, the person being acquired by the SPAC, the teams, and then the shareholders of the SPAC. What are some of the individual interest areas? For sure, some people in the room might be sponsors, some might be looking for their portfolio companies to be acquired by one, and then others might be shareholders of the SPAC. How do they differ?

VENU: In terms of roles and responsibilities, as a SPAC sponsor, you're getting your vehicle public with the help of the investment bank that is taking you to their institutional equity investors. You're responsible for fronting the at-risk capital, which typically in today's terms is 2% of the desired SPAC size plus two and a half million dollars.

So, for a $200 million SPAC, you're responsible for raising six to six and a half million dollars that fronts underwriting fees to the investment bank, working capital, as well as fees for the NASDAQ listing, including legal accounting firms and auditors.

As for the SPAC sponsor, you're going to the investment bank, you're saying you're going to do this SPAC, you get priced, you have money that sits in the trust, and your responsibility is to go out and find a target for your SPAC to merge with.

SPAC shareholders are those institutional equity investors that are buying into the SPAC at its IPO. While those people are buying the shares of the SPAC at the IPO, similar to any other IPO, there is a secondary market once you're listed on the NASDAQ, or the NYC. Kenny or Ayla or I could go and buy shares of a SPAC on any publicly listed exchange, but largely speaking, it's the large institutional equity investors that are buying shares of the SPAC when the SPAC IPOs.

And when you're a target of a SPAC, you are technically the company that the SPAC is looking to merge with. You might be the CEO of a startup that has done well, and you have 100 to 200 million dollars in revenue. In that case, you will have a bunch of SPACs approaching you, looking to be a suitor for your company. That is technically what a target for a SPAC is. Those are the primary roles.

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