

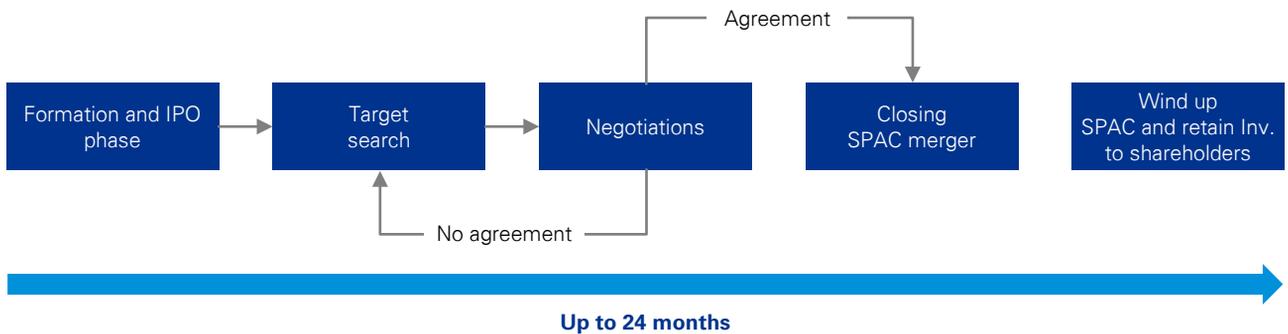
# SPACs

## Increased popularity of SPACs

Special Purpose Acquisition Companies (SPACs) have been around since the 1990s, but fell out of favor after the 2007-08 financial crisis, as the overall economy and investor confidence tumbled, a requisite for a SPAC. A SPAC raises capital through an initial public offering (IPO) for purpose of acquiring an existing operating company. Subsequently an operating company can merge with/ or be acquired by the publicly traded SPAC. A SPAC is formed by an experienced management team or a sponsor with nominal invested capital. The remaining

interest (often around 80%) is held by public shareholders. The surging interest in them is driven by the relatively easy path to becoming a public company they provide compared with the traditional IPO. Deals by high-profile investors are also helping fuel SPAC growth. However, SPACs, also known as blank-check companies and used in reverse listings, are not simple arrangements, and understanding the risks complexities, and trade-offs is essential to a successful deal.

## SPAC timeline



The time of forming a SPAC to closing is depending on several factors of which the duration of the merger process with a target.

## Have SPACs advantages?

SPAC have become a preferred way for many experienced management teams and sponsors to take companies public. Companies contemplating a SPAC transaction often consider the following key issues when considering their alternatives:

### Achieving valuation goals

Sellers often get a significantly higher price than in an IPO (which might be intentionally underpriced to attract enough first-day buyers) and have the potential upside that an equity investment can bring.

### Speed to the market

The road to an IPO is in general slower, where a SPAC can provide a rapid and lucrative transaction.

### Price and execution certainty

At an IPO the final pricing is determined after the roadshow and transaction certainty is only established at

the end of the IPO process. In SPAC transactions the agreement will include the final price and other terms and is negotiated and confidentially executed way ahead of the company's trading debut.

### Structuring flexibility

Historically IPOs are more focused on raising growth capital through sale of shares and often shareholder sell downs can only commence after a lock up period. On the contrary, SPAC have generally permitted greater cash outs for existing shareholders at the time of the merger. Also, as an alternative to a private-equity sale, a SPAC transaction has the advantage of lower debt.

### Sponsor and investor influence.

After an IPO investors can be large and passive shareholders and/or smaller shareholder that are unknown.

Often an IPO enables pre-IPO owners to maintain control over the strategy of the Company. In contrary, the selling companies' management often remain in place and retain their positions and SPAC sponsors can become quality partners, who bring deal-making savvy, managerial knowhow, and a deep understanding of regulatory

requirements for life as a public company. This could spawn higher standards when it comes to fundraising, return on investments and therefore further build investors' confidence.

## SPAC versus traditional IPO



### Branding considerations

An IPO is generally a one off event in the history of a company, which often surrounded by lots of publicity in which the profile of the company is shown as well as possible enhancement of its creditability with customers and suppliers.

There are also tradeoffs for sellers. Typically, sellers wind up acting as co-investors, while SPAC sponsors retain roughly a 20 percent stake in the combined entity. Sellers must also supply all necessary information to facilitate the SPAC's filing for review by authoritative bodies, like the Euronext in the Netherlands and Securities and Exchange Commission in the USA, including audited historical financial statements in compliance with public company standards.

To sell to a SPAC, a seller must also complete an extensive pre-acquisition due diligence. Moreover, everything must be done on tight deadlines because SPACs expire-if a deal is not completed by a certain date, the SPAC must liquidate, leaving the seller to start over again. This race against time could give the seller an advantage since the SPAC is motivated to complete the transaction, but at the same time involves additional work and challenges to the deal process. Sellers should also remember that, as in an IPO, there likely will be a lock-up period, during which sellers cannot sell their SPAC shares.

### Do not underestimate the complexity

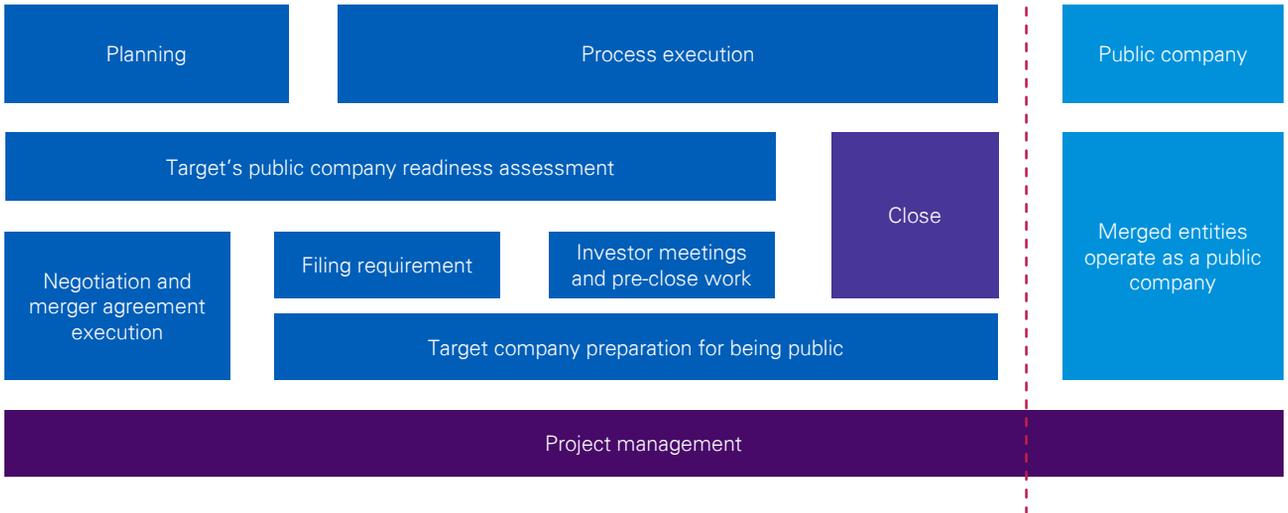
Before initiate a SPAC transaction you should at least ask yourself:

Sponsors forming a SPAC	Target company
<ul style="list-style-type: none"> <li>— Is there a list of potential target businesses?</li> <li>— Are you confident that a deal will close within the time limitation?</li> <li>— Is there enough time to meet due diligence and tax requirements?</li> <li>— Do you have enough seed funding to address ongoing expenses?</li> <li>— Once a Qualifying acquisition is found, is it priced to fit investors' expectations?</li> <li>— Do you have access to alternative financing should an investor decline to participate?</li> <li>— Do you have the securities and filing requirements in place?</li> <li>— Does the acquisition require additional involvement of financial institutions?</li> </ul>	<ul style="list-style-type: none"> <li>— Is a SPAC the right strategy, or should you consider an alternative financing approach?</li> <li>— Are you comfortable disclosing your financial information to the public?</li> <li>— Are you prepared to operate as a publicly listed company?</li> <li>— Will you need to transform your business's operations, internal controls, and processes before you merge with a SPAC?</li> <li>— Can you handle new challenges of a public company regarding management, financial reporting, accounting requirements, internal controls, governance, and processes</li> <li>— Can you complete the deal on a tight deadline?</li> </ul>

To execute a successful deal, potential stakeholders must be mindful of all the nuts and bolts of working with SPACs. Realizing the full promise of a SPAC deal will depend on minimizing the complexities involved. This comes down to careful preparation. Be realistic about the special considerations and nuances of a SPAC deal. Take

a systematic approach to building the team and lining up the resources (both internal and external) to create a smooth SPAC sale process.

Overview of going public using a SPAC



Dutch regulation

In December 2017, Euronext Amsterdam issued a notice containing a new set of rules for reverse listings. Starting from 1 January 2018 any prospective issuer entering the stock exchange by means of a reverse listing, will need to comply with a new set of requirements, as set forth in the Notice. Below a short overview of the new requirements.

Euronext describes a reverse listing as being *“a transaction by an Issuer that lacks any meaningful assets (as determined by Euronext in its sole discretion), whether effected by way of a direct acquisition by the issuer or a subsidiary, an acquisition by a new holding company of the issuer, a legal merger, demerger or otherwise, of a business, a company or assets which in substance results in a fundamental change in the business”*

Euronext considers the following factors as indicators of the “fundamental change” as referred to above:

- the extent to which the transaction will change the strategic direction or nature of the issuer’s business; or

- whether the issuer’s business will be part of a different industry sector following the completion of the transaction; or
- whether the issuer’s business will deal with fundamentally different suppliers, clients and end users.

In case of a reverse listing Euronext requires the issuer to comply with the customary review and assessment policy. The issuer will be required to prepare and publish an extensive information document. The requirements for the contents of the information document are listed in the annex to the Notice.

Other requirements for reverse listing include:

- a 3 year track record as referred to in the Euronext Rule Book (Rule 6702.1(ii)), which includes audited annual accounts;
- appointment of a listing agent (as is the case with the regular listing procedure) a sufficient number of securities be available for free float as referred to in the Euronext Rule Book (Rule 67021(i) being at least 25%.

Benefit from our experience

 Whether you are the SPAC entity or the identified target merging with a SPAC, the KPMG SPAC deal team can adequately assist you. This cross-functional team of diverse and deeply experienced professionals have done this before; they do not just understand the

mechanics of the transaction, but also how to realise efficiencies and reduce risks throughout the process.

 Our professionals have a track record of working with our clients, their counsel, and bankers to successfully close transactions and assist in transitioning

into a newly formed public entity. They take a holistic approach to the transactions, getting to know your business, identifying your needs and gaps, and establishing a relationship built on trust and outstanding service.

 The team understand that a SPAC deal is not solely a financing event; it also a transformational process for a target company. The approach is to plan and prepare an accurate timeline and workplan that considers financial reporting, tax, governance and controls, operational and strategy initiatives and human resources impacts. The team is mindful of taking an approach that allows your company to execute on the transaction while still running the day-today business.

 You also benefit from our innovative technology capabilities and industry-leading automation and data and analytics tools. This enables us to provide objective data-supported recommendations and supports our professionals in implementing the agreed upon strategy, both pre- and post- merger, with reduced disruption of your business.

 In addition, you will benefit from our global strength and capabilities. The global network of KPMG member firms includes professionals located in all of the world’s financial hubs; our global SPAC public company readiness process enables us to serve you wherever you do business- now of in the future.

The KPMG SPAC deal team bring a market leading data-driven approach with well-established methodologies to portfolio strategy, due diligence and post transaction value capture. We have extensive experience in the following areas that are relevant to SPAC transactions:

Due diligence	Public company readiness	Support and expedite the filing process	Internal control and review	Taxation planning/reporting
<p>We help clients to evaluate whether a SPAC transaction is the right option. Working with a SPAC means completing a deal within its allotted lifespan. To expedite the transaction, the seller should prepare robust sell-side due diligence materials. We help to prepare assets for a smooth transaction, conducting extensive pre-acquisition due diligence, and preparation and distribution of required communication requirements to potential buyers.</p>	<p>To operate and report as a public company immediately after the merger, a private company must concurrently work toward readiness for public company regulatory compliance requirements, such as, corporate governance, investor relationship and communications, and financial and internal control reporting for public companies. We help private companies prepare for public company financial reporting and compliance requirements. This includes the production of historical financial statements and an appropriate level of disclosure about historical acquisitions that are material to the financial statements.</p>	<p>To facilitate the merger process, the seller must supply all information necessary for the filing requirements. Our professionals update financial statements to public company standards, address complex transaction specific accounting and filing issues, and prepare filing disclosures such as MD&amp;A and pro forma financial information.</p>	<p>Our review includes an assessment of the company’s internal controls and the documentation of such controls for readiness (in US environment: Sarbanes Oxley).</p>	<p>Our tax specialist help structuring taxation planning/reporting involving SPACs, including entity-level tax issues (i.e., for the target or the SPAC), as well as compensatory issues for founders and management.</p>