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NAVIGATING SPACS: STRATEGIC IMPLICATIONS FOR PRODUCT MANAGEMENT IN PUBLIC MARKET ENTRY

Ridhima Arora
Senior Product Manager
Walmart e-commerce
ridhima.arora@walmart.com

Manu Handa
Principal Product Consultant
ION Group
manuhanda@gmail.com

Abstract

This paper examines Special Purpose Acquisition Companies (SPACs) as an alternative path for private companies to enter the public market, contrasting their approach with traditional Initial Public Offerings (IPOs) and Direct Listings. For product managers, the analysis highlights how SPACs enable quicker access to capital and public markets, allowing companies to accelerate product development and market expansion. It details the SPAC process, its rising popularity during the COVID-19 pandemic, and its strategic advantages, such as faster go-to-market timelines and retained leadership influence, which are critical for product roadmaps and stakeholder alignment.

The paper also compares the regulatory, financial, and operational differences between IPOs, Direct Listings, and SPACs, emphasizing their impact on product management strategies and market positioning. Notably, it addresses the potential risks, such as reduced regulatory scrutiny and instances like the Nikola controversy, which could affect product credibility and brand trust.

The discussion includes when SPACs are most suitable, particularly in markets requiring swift funding or during volatile conditions. Regional differences in adoption and their implications for product localization and market entry strategies are also analyzed. The conclusion evaluates the future of SPACs, presenting considerations for product managers as they navigate funding strategies, regulatory compliance, and long-term product success in dynamic market environments.

Keywords: SPAC, Special Purpose Acquisition Company, IPO, Direct Listing, Product Management, Market Entry Strategy, Go-to-Market, Capital Acquisition, Regulatory Scrutiny, COVID-19 Impact, Nikola Controversy, Corporate Governance, Investment Strategy, Public Market Access, Investor Risk, Financial Market Trends, Product Development Acceleration, Regional Differences in SPAC Adoption, SEC Involvement, Funding Strategy in Product Management.

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I. INTRODUCTION

1.1 SPAC

SPAC (Special Purpose Acquisition Company), also known as blank-check[1], are public shell companies that exist for a single purpose to find and acquire a private company and take it to market quickly. The company would get a spot on the exchange with its ticker. SPAC transforms into the target company taking on its name. Once the deal closes, investors who own shares in the blank check company now owns the piece of share in the new entity.
The below diagram explains the process flow in a picture.

Figure 1: SPAC Process Flow [2]

SPAC companies are owned by veteran corporate leaders and big investors like private equity firms.

1.2 Trends

SPACs have been around for decades, roughly from the 1980s, but it is becoming more popular recently. As shown in the below chart, we can see that SPACs have grown 20 times since 2012 and have tripled since last year.

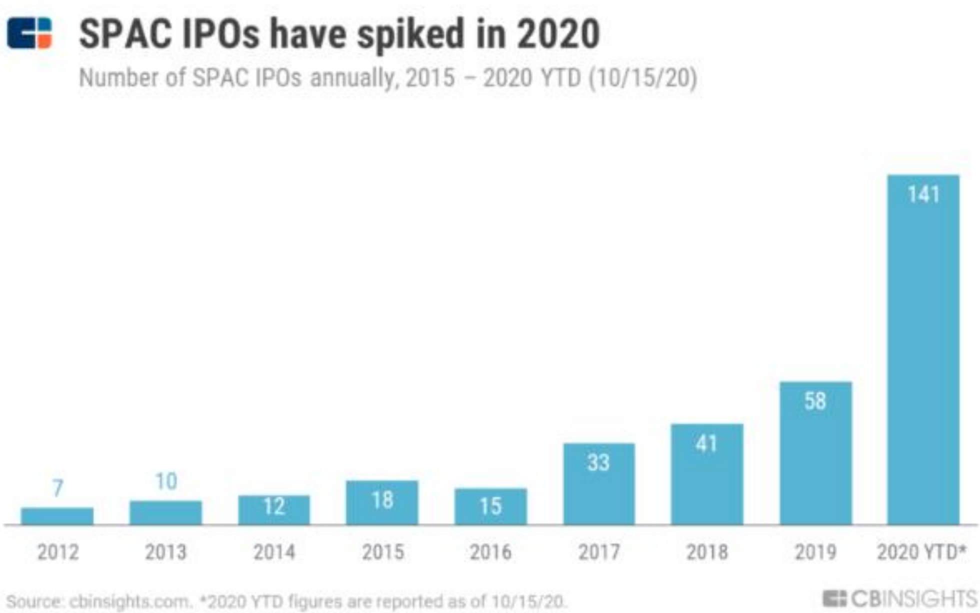

Figure 2: SPAC IPO trend [2]

SPACs have become an attractive offer amid COVID-19 when it has become challenging for the companies to go public in the year 2020, SPAC contributed to 44% of the total IPOs.

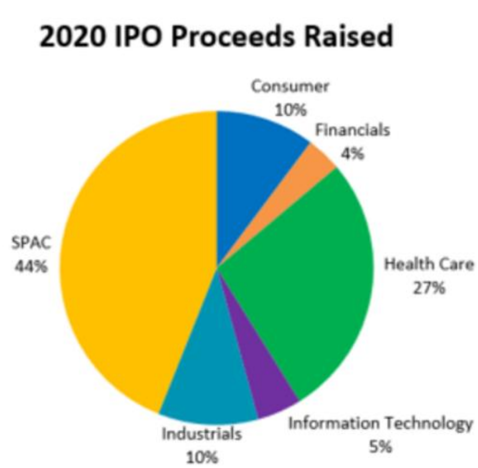

Figure 3: SPAC share of the Total IPO in 2020 [3]

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Recent examples include: [4]

1. Sports-betting operator DraftKings Inc. merged with SPAC Diamond Eagle Acquisition Corp. and a gambling tech business, SBTech Global Ltd., earlier this year. The renamed DraftKings has been on a tear, gaining 258% in the year to date
2. Electric truck maker Nikola Corp. merged with VectolQ Acquisition in June and immediately benefited from the cult status enjoyed by fellow electric vehicle maker Tesla Inc., which has propelled that stock to record levels this year. Nikola has gained 232% in the year to date.
3. Space travel company Virgin Galactic Holdings Inc. merged with Social Capital Hedosophia last October. The stock is up 35% in 2020.

II. BENEFITS OF SPAC

Target Companies

1. The target companies can go public without much of the volatility associated with a traditional IPO
2. Target companies go public faster than traditional IPOs
3. In the SPAC merger, the management team will often retain at least one key person for an active role within the company or on the board as a key consultant. This mitigates the risk of the company failing to meet investor objectives after any key deal is consummated.
4. SPAC is a good alternative for companies that may not make a cut for Traditional IPO but still have large potential growth prospects.

Investors

1. Investors get access to high-reward investments with limited risk.
2. A larger number of investors can participate in the SPAC pool, like crowd funding.
3. Investors get 20% shares of the company for acquiring the target company.

III. COMPARISON (IPO VS. DIRECT LISTINGS VS. SPAC)

	Traditional IPO	Direct Listing	SPAC
Definition	In Traditional IPO, a Private company works with underwriters or investment banks to work out a deal and then takes the company public	Companies that cannot afford underwriting, don't want share dilution, or are avoiding lockup periods often choose the direct listing process	In SPAC, a private company can merge into the already publicly traded (blank shell) company with significantly less work than needed for a traditional IPO
Proceeds	Under traditional IPO rules, the private company must stay quiet and refrain from promoting its	Same as Traditional IPO	With a SPAC deal, companies can talk about themselves and promote themselves to

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	shares until they start trading.		investors
Time Frame	The entire process is a yearlong process	Roughly the same time as traditional IPOs	The process to acquire takes only a few months
SEC involvement	Heavier involvement of SEC	Heavier involvement of SEC	Lighter involvement of SEC
Share Price and Valuations	In IPO, new shares are created, and the company price its share at a certain level, but the wild swings of the market determine the actual price	No new shares are created, and only existing outstanding shares are sold with no underwriters involved. The offer price is set on an exchange, not by bankers	SPAC acquisitions are pre-negotiated
Deal Size	IPO deals are relatively larger in size	Direct Listing deals are relatively larger in size	SPAC deals are relatively smaller in size compared to other options

IV. PERSONAL PERSPECTIVE ABOUT SPAC RELATIVE TO TRADITIONAL IPO

THE more I read about SPACs more I feel suspicious about it. It remains a point of concern that companies going public through SPACs are not getting as much scrutiny as those using traditional IPOs. It can or is opening a bridge for companies to commit frauds, and there are no regulations to monitor or control the companies creating deceptions.

A recent example is Nikola, which went public through a SPAC a few months ago and has turned out to be the center of a firestorm of fraud allegations. Nikola shares are tumbling after a short-seller called the company quote, "An intricate fraud built on dozens of lies."

An article from Hindenburg Research [5] writes in detail about Nikola's frauds, which could have been averted if it had gone through a traditional IPO. There would have been more time for investors to kick the tires and scrutinize the company for fraud before it went public, like the same way investment banker caught the WeWork fraud before going public.

Federal regulators are raising concerns as well. The SEC is now examining how blank-check companies disclose their ownership and how compensation is tied to an acquisition.

They want to make sure that investors understand those things. At the time of the transaction, when they vote, they are getting the same rigorous disclosure that you get in connection with bringing an IPO to market.

SPACs have often been a lousy deal for companies going public. When they do a deal, the founders of the SPAC get to have a 20% stake in the company that results from the deal without having to pay very much for it. And so essentially a way they can line their own pockets. The future of blank-check companies remains unclear. Investors say SPAC deals are here to stay, while critics argue that the blank-check boom is just a trend that is not destined to last.

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When are SPACs appropriate?

Jan Robertson's (Managing Partner & CEO SiVal Advisors LLC) recent session gave a fascinating insight on SPACs. I am echoing some of her insights here to write about when the SPACs are appropriate. The two essential points that come to my mind are stated below.

1. When Private companies are reportedly less sure that they will be able to raise large rounds soon but still need access to capital. Some are looking for public markets for liquidity but do not have enough time to go through traditional IPO's excruciating and time-consuming process.
2. COVID-19 pandemic has injected uncertainty into the market and delayed the traditional IPO process significantly. Private companies are eying for the available option, i.e., SPAC to raise capital from the public.

Are there regional differences in adoption? Why?

There are a few regional differences in adopting SPAC as it traditionally had a bad reputation in the 90s when it was compared with penny stock fraud. Some grievances still hold at this time and are stated below.

1. Risky Investment

a. There is no an underwriter or underwriter counsel to serve as "the second set of eyes." SPAC personnel and counsel involvement is less rigorous
b. Initial investors are betting on the sponsor, not on the company
c. SEC involvement is minimal
d. Nikola fraud has again raised suspicions about SPACs

2. Expenses for the target company

a. Sponsors pay nominal amounts for 20% of the SPAC shares before the acquisition. This leads to a costly loss of equity for the target company.

3. Time Constraints

a. Sponsors usually have two years to find and acquire a company. If the deadline is approaching, the sponsors rush to find a viable company to acquire. In that case, SPAC may entice companies that need cash fast, which can lead to worse results for investors

4. SPAC Boom

a. As SPACs are gaining more popularity, there may be too many SPAs and not enough companies to acquire, which could cause the SPAC trend to crash[6]

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