SPACtacular Times for Investors

Some investors might feel uncomfortable putting their money into an acquisition vehicle only knowing the potential target's general industry focus. But such investments have recently begun to gain steam in Europe after arriving from the United States, where special purpose acquisition companies (SPACs) have been known in a slightly different form since the 1980s.

A SPAC is a shelf stock corporation whose only purpose is acquiring an operating company, after obtaining equity to carry out a transaction through an IPO. At the time of investment in a SPAC, the individual investor does not know which company will later be acquired. SPACs employ various mechanisms to protect investors, such as depositing almost all the equity raised by the public offering into an escrow account. Management may use these funds only after the decision on the investment by the stockholders' meeting and then only for financing the acquisition. Until then, the funds are placed in a low-risk investment, such as U.S. Treasury bonds.

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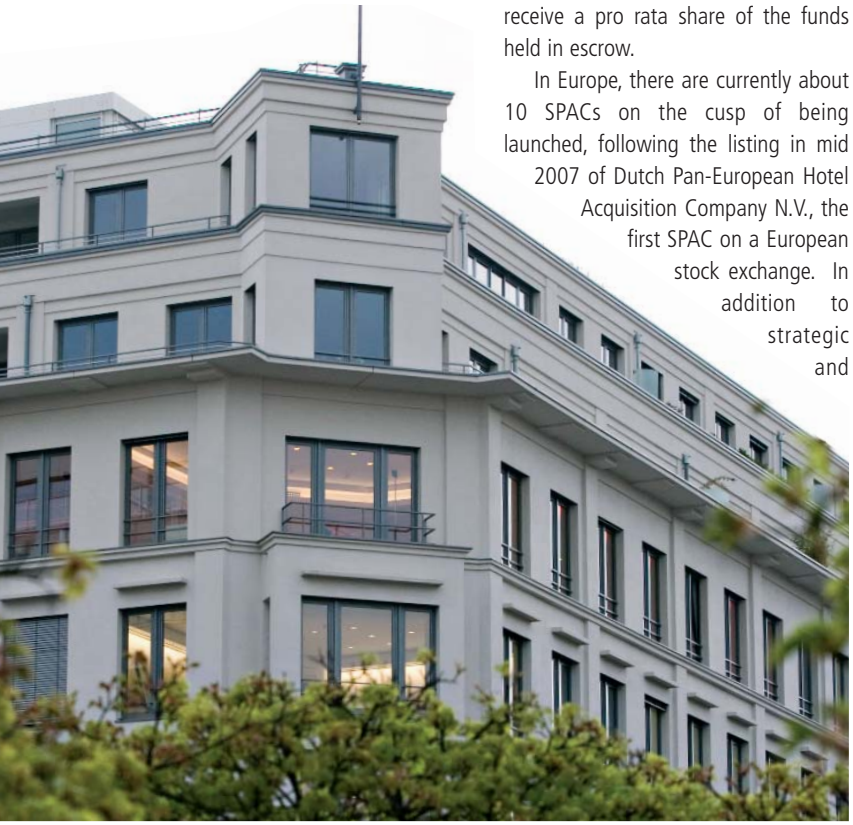
Management also has to follow strict guidelines regarding the timeframe of the investment. A basic agreement (letter of intent) with the seller must be reached within 12 to 18 months, and the transaction itself must be closed within 24 months of the IPO. Should this timeframe elapse without any acquisition, the SPAC's funds must be liquidated, and investors must receive a pro rata share of the funds held in escrow.

In Europe, there are currently about 10 SPACs on the cusp of being launched, following the listing in mid 2007 of Dutch Pan-European Hotel Acquisition Company N.V., the first SPAC on a European stock exchange. In addition to strategic and traditional private equity investors, SPAC investments will soon become an alternate approach to financing acquisitions in the European market. Compared to closed private equity fund transactions, SPAC activities are independent from outside investment (lower leverage) and thus less affected by the credit crisis. Unlike strategic investments, transactions by SPACs raise no potential antitrust issues. However, while private equity houses have the benefit of a lean decision structure in auction processes, SPAC management has to assure a stockholder majority of 60 percent to 80 percent in favor of the investment. This necessity in turn reduces the certainty of the transaction. At most, a SPAC has two years to complete the transaction, whereas a private equity engagement typically takes five.



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SPACs could have an interesting impact on the European mergers and acquisitions market in the future. However, many questions remain unanswered, particularly regarding the founding and public listing of a SPAC in Germany. ■

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