I AM THE BEST- SEASON 6

AJAY KUMAR K V

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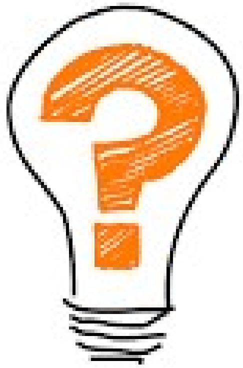


Why SPAC?

Brief Introduction

- **Meaning**
  - A special purpose acquisition company (SPAC) is a public shell company that acquires a private company and takes it public
  - Also known as a Blank Check Company
- **3 stages of SPAC**
  - the SPAC is formed and goes public
  - the SPAC identifies and acquires a target company
  - the SPAC merges with the acquired target and takes this company public (a process known as a "de-SPAC")

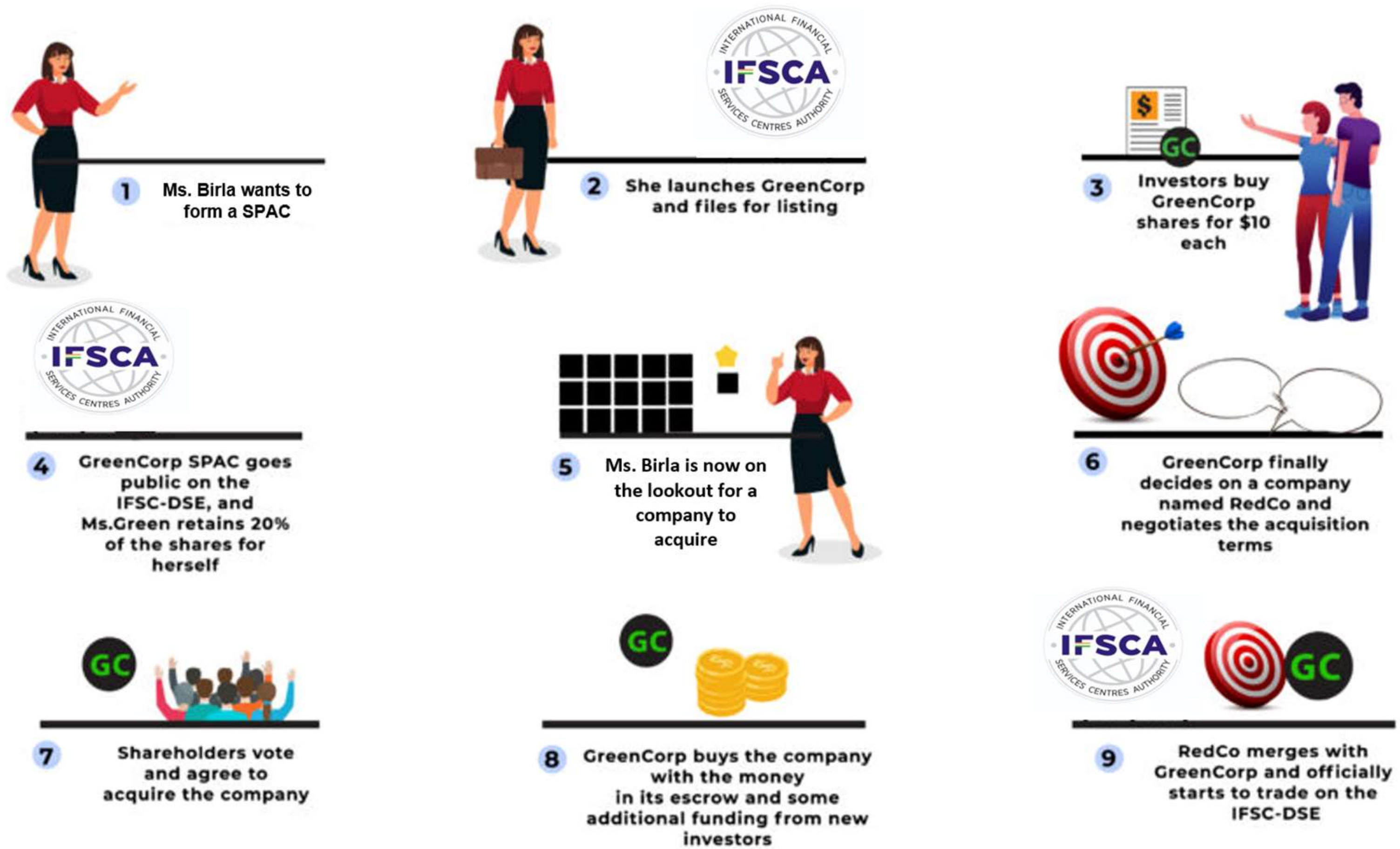
- In a typical IPO, the company's share price is uncertain.
- The price is influenced by investor appetite and market forces as much as by the company's underlying business valuation.
- Also that a traditional IPO can take years from start to finish.
- However, a SPAC IPO eliminates this price uncertainty
- A typical SPAC life cycle of a SPAC ranges from 18-24 months
- The global SPAC IPO proceeds in 2020 alone is estimated to be $83 billion USD.

Key Terms

Key Terminologies

- **Sponsor-** seasoned professionals with well-established track records who forms the SPAC
- **Minimum issue size** – Minimum amount to be raised in the Initial Public Offer
- **Pricing of IPO-** Price of a Unit/Share of SPAC in the IPO
- **Escrow account** – An account opened by the Sponsor for safekeeping of IPO proceeds
- **Sponsor's contribution-** Minimum amount to be brought in my the sponsors as % of the total issue size.
- **Target company-** The unlisted company which will be acquired by the SPAC
- **De-SPAC** – The process of merging of SPAC with the target company where SPAC loses its existence
- **Exit route-** Where the SPAC is unsuccessful in identifying a target and returns the money held in escrow back to the public

SPAC Life Cycle



1 Ms. Birla wants to form a SPAC
IFSCA
2 She launches GreenCorp and files for listing
GC
3 Investors buy GreenCorp shares for $10 each
IFSCA
4 GreenCorp SPAC goes public on the IFSC-DSE, and Ms.Green retains 20% of the shares for herself
5 Ms. Birla is now on the lookout for a company to acquire
6 GreenCorp finally decides on a company named RedCo and negotiates the acquisition terms
GC
7 Shareholders vote and agree to acquire the company
GC
8 GreenCorp buys the company with the money in its escrow and some additional funding from new investors
IFSCA
GC
9 RedCo merges with GreenCorp and officially starts to trade on the IFSC-DSE

Motivation For SPAC

Benefits for Company :

Certainity

Unlike tradiitional IPOs, comapnies can negotiate the terms of their public offering, giving employees and shareholders more certainity.

Speed

The SPAC merger process can take 3-4 months, much shorter than the 24-36 months in a traditional IPO.

Strategic Partnership

Some SPACs offer experienced leadership teams that a company could use for guidance after going public.

Benefits for Investors :

Retail Investor Involvement

Retail investors can't access traditional IPOs - this structure allows them to get a piece of the pie, with some restrictions.

Redemption Options

If the sponsor can't find a target company in 2 years or if investors are unhappy with the chosen acquisition, initial shareholders can redeem their shares for their money back.

Additional Profit Opportunities

Institutional investors can invest in the initial SPAC and purchase additional shares after the acquisition through warrants.

Benefits for Sponsors :

Easy access to Capital

The SPAC IPO process is relatively simple, as the shell comapny faces fewer regulatory hurdles than traditional IPOs. This makes this route potentially easier than say, raising a new VC fund.

Significant Upside

Sponsors typically receive 20% of SPAC shares post IPO, which can lead to millions of dollars in gains even if the target company shares drop after the merger.

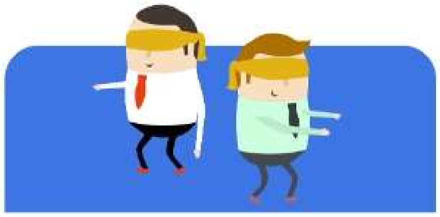
Invest In Late-Stage Companies

The SPAC merger allows sponsors to invest in later- stage private companies and potentially help to drive strategy post IPO.

Downside of SPAC

Expenses for Target Company

Sponsors pay nominal amounts for 15-20% of the SPAC shares before the acquisition. This leads to a costly loss of equity for the target company

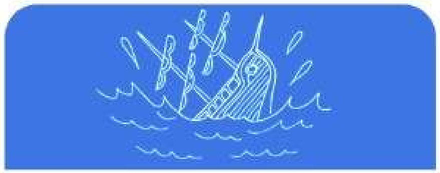


Sponsor quality

Initial investors are betting on the sponsor, not the company. This gives lots of powers to the sponsors and add a layer of risk for investors

Time Constraints

Sponsors usually have 2 years to find and acquire a company, or to return the money in escrow. If the deadline is approaching, the sponsor may rush to find a target



Target company quality

SPACs may entice companies that are in urgent need of funds with the worst financial standings compared to an IPO. This also adds up risk for investors

Target company supply

As SPACs boom in popularity, there may be too many SPACs but fewer targets for acquisition leading to unhealthy competition

High risk for all retail investors

Retail investors assume the highest risks, with lesser rewards. They are highly dependent on the sponsors

Regulatory Framework Snapshot

Snapshot Of Regulatory Framework Across Jurisdictions (1/2)

Particulars	India	USA	UK	Malaysia	Canada
Issue size	USD 50 million	not specified	USD 260 million (equivalent to £200 million)	RM 150 million	CAD 30 million
Pricing	Not less than USD 5 per share	USD 10 per unit	Not specified	Not specified (Shares issued to Sponsor- at least 10% of the price at which the securities are offered under the IPO and the same shall at least 60% of the price at which securities offered to pre-IPO investors)	USD 2 per share
Time limit for acquisition	36 months	18-24 months	24 months	within permitted time frame	36 months

Snapshot Of Regulatory Framework Across Jurisdictions (2/2)

Particulars	India	USA	UK	Malaysia	Canada
Approval from shareholders	Majority of non-founder shareholders	At least 60% of the shareholders and in some cases up to 80%	Majority of shareholders	Approval by majority in no. representing 75% of shareholding	Approval by majority of directors unrelated to the qualifying acquisition and majority of shareholders casting votes
Escrow account	All the IPO proceed together with 50% of the underwriting commission	At least 90%	All the IPO proceeds after basic charges and related expenses	At least 90%	90% of IPO proceeds plus 50% of underwriter's commission
Regulatory framework	The IFSCA (Issuance and Listing of Securities) Regulations, 2021	The Securities Exchange Commission governs through The Securities Exchange Act, 1934; NASDAQ through its Listing rules; NYSE through its Listing rules.	The Financial Conduct Authority (FCA) via the LSE Listing rules. Disclosure obligations transparency w.r.t. and market abuse.	The Equity Guidelines issued by Malaysian Securities Commission	The Toronto Stock Exchange Company Manual

Regulatory Aspects of India

IFSCA (Issuance and Listing of Securities) Regulations, 2021

- Notified on July 16, 2021
- The Chapter VI of the Regulations provides the framework for IPO and listing of SPACs within its jurisdiction.
- Conditions for IPO
  - the target has not been identified prior to the IPO
  - the provisions for redemption and liquidation in line with the Regulations
- Restrictions on transfer of shares
- Post combination requirements
- Lock-in of Shares

Regulatory Concerns

Companies Act, 2013

FEMA & RBI approval

SEBI-ICDR

Stamp duty

Taxation

DE-SPAC

DE-SPAC

- It refers to the process of business combination with a potential target company.
- The SPAC **loses its existence** as it is no more a 'shell company'.
- It can also be said to be the **completion of its object of acquisition**.
- The unlisted target company obtains the status of a listed company.
- Listing compliances will have to be fulfilled by the target upon acquisition by SPAC.

Routes for De-SPAC

- SPAC merges with the target company
- SPAC acquires the company however remains as two separate entities

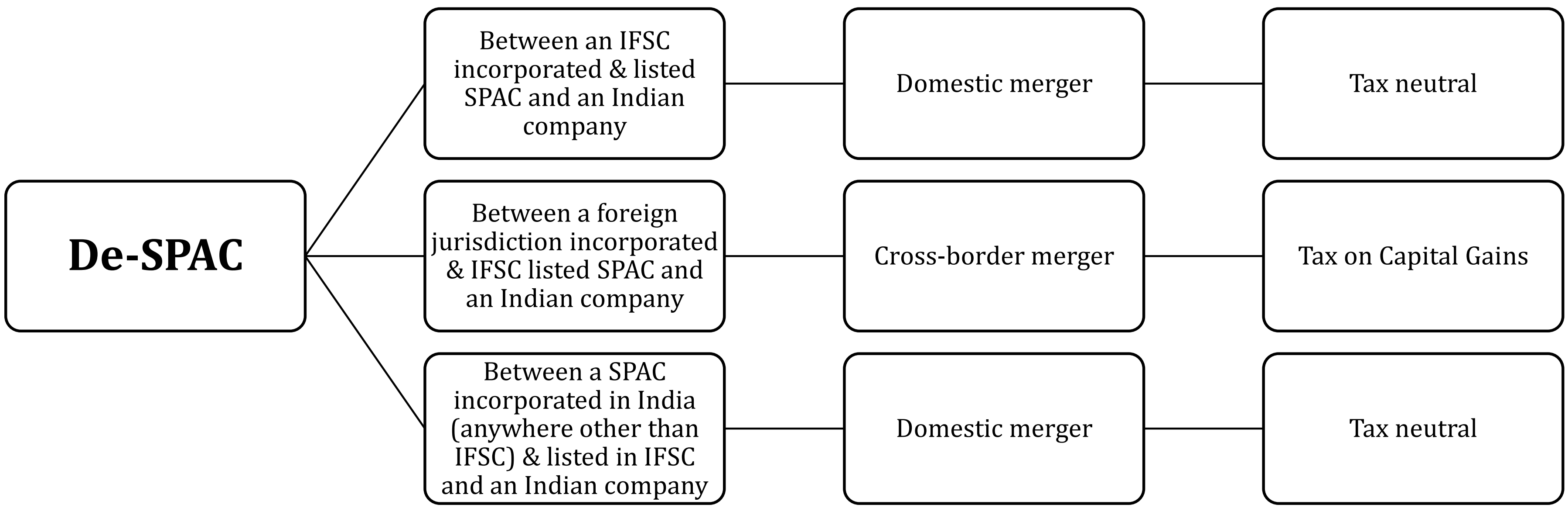
Illustration

- ABC SPAC is an incorporated in Gujrat IFSC. **Mr. Bill Gates & Mr. Warren Buffet** are the sponsors of the SPAC. The SPAC raised **USD 1 billion** through its IPO. The shares were issued at **USD 5 per share** to the investors. The Sponsors together hold **30% of the total post-IPO capital** of ABC.

- ABC had identified **Brinnova Datamining Corporation** which has turned out to be a the stat-up that has bagged contracts worth millions of USD from the US govt agencies and has become one of the leading start-up in the field of datamining.

- The management of ABC lead by Mr. Vivek Veda has successfully completed the initial discussions and have arrived on a **potential combination arrangement**.

- The management has now decided to approach the **shareholders for their approval** on the acquisition of Brinnova Datamining Corporation at a valuation of USD 80 million.


De-SPAC
Between an IFSC incorporated & listed SPAC and an Indian company
Domestic merger
Tax neutral
Between a foreign jurisdiction incorporated & IFSC listed SPAC and an Indian company
Cross-border merger
Tax on Capital Gains
Between a SPAC incorporated in India (anywhere other than IFSC) & listed in IFSC and an Indian company
Domestic merger
Tax neutral

Basis	**Route-1 - Merger**			**Route 2 – SPAC as the Holding Co.**
	Scenario 1	**Scenario 2**	**Scenario 3**	
Type of transaction	Domestic merger	Cross-border merger	Domestic merger	Acquisition/ Swap of Shares
Resulting entity	Indian	Foreign	Indian	Indian
Status of shareholder	Indian Resident	Foreign Resident	Indian Resident	Indian Resident
Stamp duty	Applicable	Applicable	Applicable	No implications
Taxation	Tax neutral	Tax is payable on CG	Tax neutral	Tax is payable on CG

Basis	Route-1			Route 2
	Scenario 1	Scenario 2	Scenario 3	
Listed entity	Target gets listed	Target gets listed	Target gets listed	SPAC remains listed Target is held by the SPAC
FEMA	Applicable- LRS limits will be applicable to shareholders	Applicable- LRS limits will be applicable to shareholders	Applicable- LRS limits will be applicable to shareholders	Applicable- SPAC is a PROI
Fresh Listing	Applicable	Applicable	Applicable	No implications
Implications under Companies Act	Compliances w.r.t merger	Applicable	Applicable	None