THE SPAC REPORT

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Big Names, Bigger Deals

Industry Awaits Post-Merger Returns of Larger SPACs

by Mark Mueller

Two years ago, a $100 million SPAC was a headline grabber. Not any more.

Industry watchers just witnessed the first billion-dollar deal make its way to market.

"The deals are only going to continue to get bigger," says one prominent investment banker involved in SPACs.

"Part of it is due to underwriter greed, and part of it is due to the egos of the SPAC's management. Their natural motivation is to outdo each other, and to do better than the last deal," the banker said.

Billion-dollar SPAC **Liberty Acquisition Holdings Corp.** didn't raise the bar very much from where it was. Two $750 million deals were already in registration and a handful of deals breaking the $500 million mark are already trading.

The biggest common thread behind the larger SPACs is the deal's lead underwriters, which now include some of Wall Street's biggest names. The likes of **Citigroup**, **Deutsche Bank Securities**, and **Bank of America** have helped give SPAC deals more legitimacy with their entrance into the market in the past year. They're also giving SPAC management teams bigger war chests to spend on deals.

Trian Acquisition I Corp.'s $750 million deal, filed in November, is backed in part by Deutsche Bank and **Merrill Lynch & Co.** Trian's IPO proceeds will be used to find a "strong business that has been mismanaged or undermanaged," its registration statement says.

Liberty is backed by another pair of heavy-hitters, Citigroup and **Lehman Brothers**. Liberty went public this month raising $900 million. After its over-allotments were exercised, it pushed proceeds to $1.03 billion. Even prior to its over-allotments, Liberty still was 20% larger than any other blank check offering.

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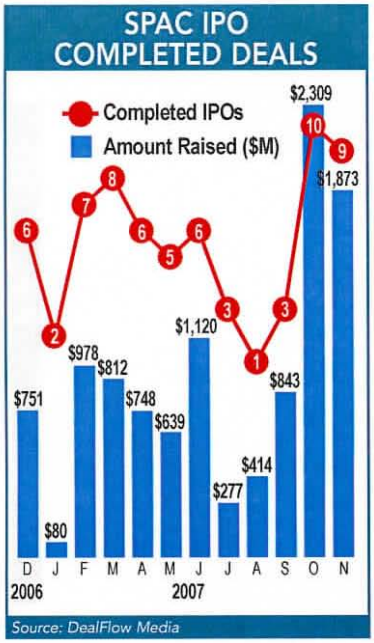

Chinese SPACs Use Innovation to Get Around Circular 106

by Richard Meyer

When it comes to SPACs, it seems that it's a lot easier to raise money than to spend it. Of the 200-plus such vehicles in existence, only about 40 have actually completed acquisitions. It is estimated that more than $12 billion is stagnating in escrow.

The situation is as bad or worse when China is added to the mix. Slightly more than 20 SPACs have been set up to acquire companies in that country. Of those, only seven have announced agreements to undertake business combinations and only four have actually completed deals.

The problem with China is of course regulation. Because of the need for approvals at the local and possibly national level, investing SPAC funds there is more than just a matter of finding a willing company and negotiating a price. The government is a major and sometimes problematic player in any cross-border

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Citigroup has already underwritten two deals exceeding the $500 million mark, for **Hicks Acquisition Co. I,** led by Texas Rangers and British soccer club owner Tim Hicks, as well as **Triplecrown Acquisition Corp.**, whose president is the roll-up IPO king Jonathan Ledecky.

The sizes of the biggest deals this year are a far cry from 2006, when the 30 SPACs that went public averaged about $77 million in size. Of those deals, seven SPACs exceeded $100 million, and just two broke the $200 million mark. The median-sized deal in 2006 was under $60 million.

At the time, many predicted that the sweet spot for SPACs would continue to run in the $50 million to $60 million range, providing private companies that were too small for a traditional IPO an alternative vehicle to go public. That hasn't happened.

Of the first 50 SPACs that went public in 2007, the average size was more than double 2006's average, at roughly $160 million. About 60% of this year's deals exceeded $100 million in offering size.

The growth isn't too much of a surprise, many say, considering that players like Citigroup, Deutsche Bank and Bank of America are starting to take a greater interest in SPACs.

"It's no coincidence that the deals are getting bigger, and larger underwriting firms are taking over. It's a natural fit," says Mitchell Littman, a founding partner of New York law firm **Littman Krooks**, and head of the firm's corporate and securities department.

Firms like Deutsche Bank have begun putting together dedicated SPAC teams, pulling executives from their equity-sales and capital-markets divisions. More deals, and more big deals, are the likely result of the big bankers' increased focus.

"Money-raising is just part of the SPAC process," notes Littman. The larger firms offer a bigger set of services to a SPAC's management team – including bank-financing expertise, merger and acquisition knowledge and traditional banking services – that are needed for complex deals, he says.

And then there's the matter of the bottom line. Underwriters of all sizes "realize that they make a hell of a lot more money on a $300 million SPAC than a $50 million deal," Littman says. Underwriters typically can earn about 7% of an IPO's proceeds in commissions and other fees. The higher-end investment banks generally aren't inclined to work on IPOs of less than $100 million.

In many ways, the increasing size of SPACs mirrors the direction of the traditional IPO market at large, which continues to focus on bigger deals.

The average size of a traditional IPO ran about $275 million in the third quarter of 2007, up from $204 million a year ago, according to data from **Renaissance Capital**. The number of traditional IPOs filed this year is also up 25% from a year ago.

Whether the bigger deals are ultimately better for investors remains to be seen. Most of the larger SPACs are still waiting to complete mergers.

So far, the best-performing deals have been under the $100 million range, with the deals closer to $50 million showing the best post-merger returns, said one investment banker who has several SPACs in registration.

"The big question is: What's the post-merger performance of the $200, $300, even $500 million deals? Right now, we don't know," he said.

As of November, the typical SPAC has had an average return of 16%, exceeding the returns from traditional IPOs this year, according to representatives of **Media & Entertainment Holdings,** which went public in March. That includes a 6% return before an acquisition announcement and more than 40% returns thereafter.

Only two SPACs with proceeds above $200 million have completed

acquisitions and their performance has varied to an extreme. **Information Services Group**, which raised $258 million in its public offering, acquired **TPI** this year and has a total return of negative 7%, according to SPAC underwriter **Ladenburg Thalmann**. **GLG Partners** and **Freedom Acquisition** merged recently, in a $3.4 billion deal financed partially with $528 million in IPO proceeds. The company has generated a total return of 108%.

As recently as last year, it was assumed that SPACs raising $100 million or more faced several steep challenges in finding adequate businesses to acquire.

Most notably, private equity firms, which can act faster to buy a target business and don't require approval from shareholders, were expected to beat bigger SPACs to the punch in getting deals done.

Recent events in the credit markets have made it less likely that a private equity firm will simply outbid a SPAC for a good target business. "We're already seeing a lot less competition from private equity firms, and prices are coming down," said Media & Entertainment chief financial officer Robert Clauser.

"The credit crunch has become a positive for SPACs," noted one underwriter involved in such deals.

"In the current credit environment, shell companies can be more competitive against private equity firms as leverage is not as widespread," said Jeremy Fox, director of equity capital markets at Deutsche Bank.

Deutsche Bank, which was one of the first big investment banks to join the SPAC fray in late 2005, recently said it had hired a team of three to focus on SPACs.

The team includes Gil Ottensoser, who will be the managing director of U.S. cash equity for Deutsche Bank. He had been with **Legend Merchant Group**, where he had been vice-chairman and one of the three founding partners of the broker-dealer in 2002. Also joining Ottensoser are Eric Hackel, former co-head of Legend's institutional sales, and John Shaw, the former co-chairman and president of Legend.

Another byproduct of the bigger SPACs are a different group of legal, accounting and other professional-services firms entering the market, who are brought on by the larger underwriters that handle big-dollar securities and M&A work.

In 2004, there were fewer than 10 law firms that were involved in SPACs. Now there's closer to 90, according to data compiled by *TSR*.

National law firms taking an interest in SPACs include **Akin Gump Strauss Hauer & Feld**, which worked on the $550 million Hicks deal.

The $750 million Trian deal in the registration pipeline includes a pair of firms more associated with big, traditional IPOs, **Paul, Weiss, Rifkind, Wharton & Garrison** and **Cleary Gottlieb Steen & Hamilton**.

Likewise, Big Four accounting firms are showing up much more in SPAC deals, observers note.

"The cast of professionals is expanding. But I don't expect many firms that did the first group of SPACs to go away," said one underwriter.

While the SPAC scene is seeing bigger institutional players, many of the firms behind the growth of the SPAC movement have adjusted their strategies to handle bigger deals.

Investment banking firm **EarlyBirdCapital**, considered by many to be behind the re-emergence of SPACs, acted as the lead or co-manager of 36 SPAC IPOs between 2003 and the end of September.

For those 36 deals, the average IPO size was about $70 million, with only seven offerings of more than $100 million.

The past year has seen the company change its focus. EarlyBird-backed deals completed in the first nine months of 2007 have averaged about $130 million. That includes **Aldabra 2 Acquisition Corp.**, a $414 million deal where **Lazard Capital Markets** is acting as the lead underwriter.

EarlyBird representatives say they expect to work on about half a dozen SPACs next year in excess of $200 million.

Littmann notes that his law firm has reacted to the changing SPAC market by focusing more on reverse mergers combined with PIPEs, to continue targeting the smaller sized alternative IPO market. If smaller SPACs become obsolete, it could eliminate one of the better methods for smaller companies in the $25 million to $75 million range to go public.

"Larger reverse merger/PIPE deals are starting to take the place of smaller SPACs," he said.

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