EXPLORING SPACs

Considerations for Latin American and Caribbean Entrepreneurs about Special Purpose Acquisition Companies

IDB | Invest   IDB | LAB

Exploring SPACs:

Considerations for Latin American and Caribbean Entrepreneurs about Special Purpose Acquisition Companies

Authors
Caroline Lucas, Accenture USA
Sebastián Rodríguez, Accenture USA
Fernando Sánchez, Accenture Mexico
Jose Buitrago, Accenture Colombia

Coordination
Ruben Doboin, IDB Lab
Luis Alejandro Fernández, IDB Lab
Julius Landel-Mills, IDB Invest

Editing
Diego Courchay

Design
Alejandro Scaff

ACKNOWLEDGEMENTS
We are grateful to IDB Lab and IDB Invest for their partnership in developing this work. Special thanks to Magdalena Coronel of IDB Lab, Gema Sacristán of IDB Invest, and the many investors and entrepreneurs who have contributed their time and shared their insights.

https://bidlab.org/

Copyright © 2023 Inter-American Development Bank. This work is licensed under a Creative Commons

IGO 3.0 Attribution-NonCommercial-NoDerivatives (CC-IGO BY-NC-ND 3.0 IGO) license (http://creativecommons.org/licenses/by-nc-nd/3.0/igo/legalcode) and may be reproduced with attribution to the IDB and for any non-commercial purpose. No derivative work is allowed.

Any dispute related to the use of the works of the IDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. The use of the IDB's name for any purpose other than for attribution, and the use of IDB's logo shall be subject to a separate written license agreement between the IDB and the user and is not authorized as part of this CC-IGO license.

Note that link provided above includes additional terms and conditions of the license.
The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

BY NC SA

Introduction

Special purpose acquisition companies (SPACs) have gained considerable attention in recent years as an alternative vehicle for companies to go public. SPAC activity increased dramatically in 2020 and peaked in 2021. As of March 2023, there were 349 active SPACs globally with a combined US$87 billion of cash seeking an acquisition opportunity. In Latin America and the Caribbean (LAC) alone, 19 de-SPAC transactions total US$3.2 billion.

This report addresses the question: **Are SPACs a desirable exit vehicle for start-up companies in LAC?**

The answers stem from extensive research on the LAC SPAC market, including interviews with LAC SPAC sponsors, investors, and entrepreneurs who have merged with a SPAC.

Despite recent market trends, such as the SPAC bubble boom and bust, and regulatory changes that have altered the SPAC value proposition, this research indicates that the SPAC vehicle could serve as a viable growth capital alternative for LAC companies that want to go public. However, this depends on the vehicle being the "right fit" for a target company; the research has defined "fit" by a set of characteristics for the target company, which will increase the likelihood of a more successful de-SPAC transaction.

The purpose of this report is to provide entrepreneurs and start-up investors in LAC with additional knowledge on the SPAC vehicle, the state of the global and LAC SPAC markets, and "lessons learned" from others in the LAC start-up ecosystem to make better decisions on whether a SPAC merger may be suitable for their business.

Contents

Overview

What are SPACs?

A **Special Purpose Acquisition Company (SPAC)** is a company with no commercial operations formed to raise capital through an Initial Public Offer (IPO) to find and merge with a private company within a specific timeframe, usually 1.5 to 2 years. When the SPAC merges with the chosen private company, (a process referred to as "de-SPACing,") the resulting entity becomes a public company listed in the stock exchange where the SPAC was initially listed. When the deal closes, investors who own shares of the SPAC then own shares in the resulting surviving entity.

While SPACs started gaining popularity by the end of the 2010s, they have existed for thirty years. SPACs originated in the US from the blank-check companies of the 1980s. Unfortunately, these corporations were not well-regulated and were plagued with fraud. In response, in the 1990s, the Securities and Exchange Commission (SEC) imposed tighter regulations, and blank-check corporations were rebranded as SPACs. In the following decades, SPACs focused on distressed companies or niche industries. However, that changed by the end of the 2010s when many serious investors were drawn to SPACs due to an abundance of available cash, an increase of start-ups seeking growth capital, and regulatory changes standardizing SPACs to protect investors further (see Key Implications for SPAC incentive structure for more information on the latest regulatory changes).

Table 1. Key SPAC Stakeholders

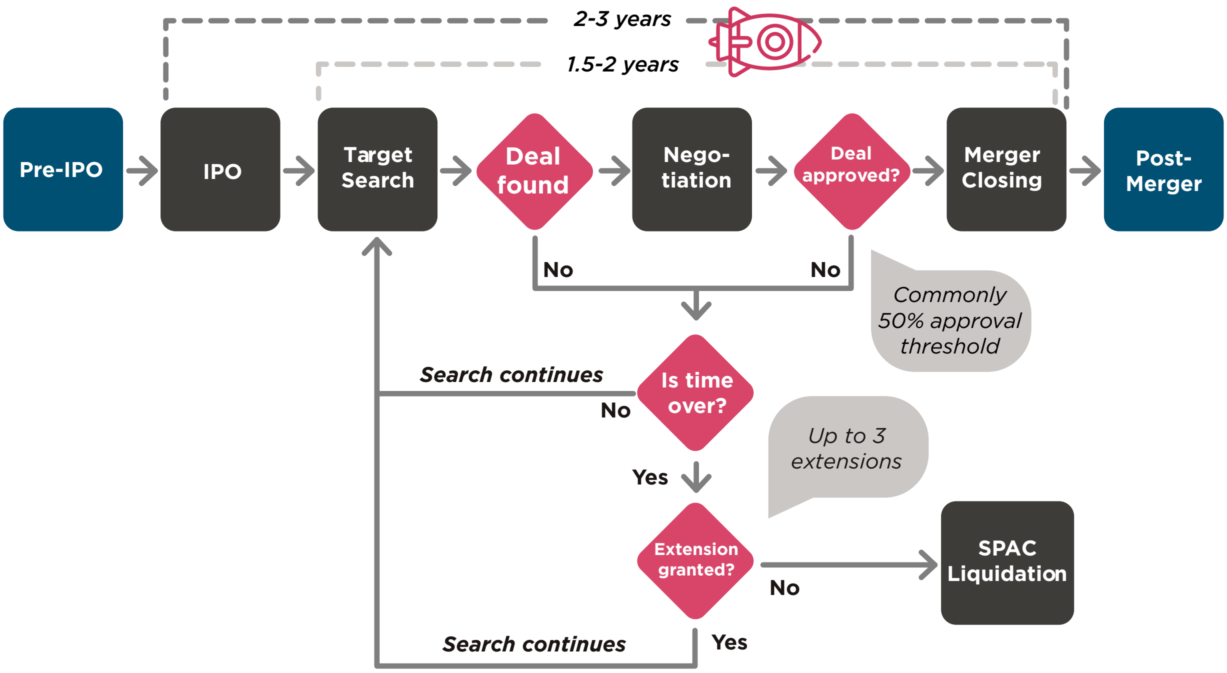
Sponsors	• Sponsors initiate the SPAC process by investing risk capital to create the SPAC; sponsors pay SPAC underwriting fees, IPO fixed costs, and SPAC pre-funded working capital. In return, Sponsors receive an equity interest, often referred to as the "promote," typically worth 20% of the IPO proceeds, which can be vested if a business combination is closed. • Sponsors' involvement in company operations post-transaction can vary, but typically they take board seats and stay for approximately 12 months.
Investors	Four types of SPAC investors range from the general public to Private Equity (PE) funds: • **IPO Investors:** Purchase shares of the SPAC IPO and receive a warrant (whole or partial) for every share purchased (common IPO investors include hedge funds). • **Post-IPO Investors:** Purchase SPAC shares and warrants post-IPO in the open market before the target company is identified. • **Private Investment in Public Equity (PIPE) Investors:** Commit capital to fund the deal with the target company and pay committed capital when investors approve the deal in return for shares of the new company (common PIPE investors include large asset managers). • **New Company Investors:** Purchase shares of the new company in the public market.
Target Companies	• Private companies, typically in the growth stage of their lifecycle or post-venture capital stage, but potentially an established business. • Usually remain as members of the board or C-level executives in the new entity.

How SPACs Work

SPAC Process and Timeline

The SPAC process is comprised of five phases: (1) Pre-IPO, (2) IPO, (3) Target Search and Negotiation, (4) Merger Closing, and (5) Post-Merger.

The SPAC vehicle has a crucial feature: a limited timeline of 1.5-2 years for sponsors to finalize the merger transaction. The clock starts ticking after the IPO phase. If they fail to identify a target and complete a merger before the deadline, the SPAC must liquidate, and return money to the investors.



1. **Pre-IPO**: This stage begins once the sponsor (usually someone with a track record in identifying and acquiring businesses) pays the initial costs and commits the required capital to create the SPAC, known as the risk capital. These costs include SPAC underwriter fees, SPAC IPO fixed costs, and SPAC pre-funded working capital. In return, the sponsor receives a promote worth approximately 20% of raised proceeds on the SPAC IPO, which can be vested into new company shares if the deal is closed. The SPAC must then apply to the SEC by filing its prospectus. Once approved, the SPAC is ready to be listed on the stock exchange.

2. **IPO**: After receiving SEC approval, the sponsor begins the SPAC IPO marketing. The underwriting investment bank also helps the SPAC get listed on its desired stock exchange. The SPAC IPO process occurs the morning after the SPAC is listed on the stock exchange. On this day, IPO investors purchase shares for US$10 per share and receive a warrant or partial warrant. The IPO proceeds are held in a trust account and invested in risk-free securities.

3. **Target Search and Negotiation:** During this stage, the SPAC sponsor searches for and selects a target company, carries out due diligence process, and negotiates with the target company's owners. If the sponsor cannot find a deal, a three-month extension can be requested from SPAC investors. If no extension is granted, the SPAC must liquidate, and return investor's funds plus interest, while the sponsors lose all their invested risk capital.

On the other hand, if a deal is made, negotiations commence, and both the SPAC sponsors and target company agree on the company's valuation.

4. **Merger Closing**: Once the SPAC sponsors and the target company owners have reached an agreement on the merger, the deal is publicly announced, and the target company information is sent to the SEC for approval.. If the SEC approves, a proxy meeting with shareholders is held to vote on the merger. If the deal is not approved, the SPAC would likely liquidate. If it is approved, the SPAC merges with the target company. Investors can redeem their shares at this point. Additional capital in the form of PIPE can also occur at this stage to compensate for high redemption rates from IPO investors (redemptions have been increasing since 2022).

5. **Post-Merger:** After the merger, the new company takes the place of the SPAC on the stock exchange with an updated ticker name, officially becoming a new publicly-traded company, in which the target company, SPAC, and PIPE investors now own shares.

Stakeholder Incentives

Understanding each SPAC stakeholder risks, rewards and governance implications is critical to understanding how incentives can be aligned or misaligned within a SPAC transaction.

Stakeholders			Risks		Rewards	Governance
Sponsors		H	• If no deal is closed, lose risk capital investment of ~US$4-5M for a S$100M SPAC IPO and two years of their time.	H	• If deal is closed, sponsors average returns of up to 400% from vesting their Promote	• Select the SPAC team, the professional services teams, and the target company
Investors	IPO Investors	L	• If no deal is found or approved, receive their investment back plus interest minus carry costs.	M	• Make returns on shares and warrants if deal closes and stock rises • Risk-free returns from warrants if redeem shares	• ote on the approval of the merger with the selected target company
Investors	Post-IPO Investors	L	• If no deal is found, get US$10/share back plus interest minus carry costs regardless of entry price.	M	• Make returns on shares if deal closes and stock rises	• Vote on the approval of the merger with the selected target company
Investors	PIPE investors	M	• Must pay committed capital at the closing of the business combination.	M	• Make returns on shares in the new company if its stock rises post lockup period (usually 12 months)	• Can negotiate board seats, liquidity in advance of other stakeholders, and lockup periods among other terms
Investors	New Company Investors	M	• Typical risks that come with buying shares in the stock market for any publicly-listed company.	M	• Typical rewards that come with buying shares in the stock market for any publiclylisted • company	• Voting rights on the New Company
Target Company Investors		H	• Incur costs associated with the merger process and public readiness (US$3M+) • Not raising required capital given high redemptions or no PIPE	H	• Receive a capital injection from the acquisition/ merger proceeds • Access to sponsor network and connections	• Decide whether to go through the deal • Post-close, usually sit on board and/or maintain C-level roles
Target Company		M	• May finance costs associated with merger process • Risk of exiting below expected returns	M	• Higher liquidity in public markets to sell their shares • May sell at a price reflecting cash expansion	• Can steer company into accepting or rejecting the merger

H = High; **M** = Medium; **L** = Low; See appendix for rating definitions.

Implications of Incentive Structure

Many argue that the incentive structure is tilted in favor of the SPAC sponsor and IPO investors, creating a misalignment of interests in the transaction and giving the SPAC vehicle the reputation of being "opportunistic."

- **Sponsors:** Sponsors are highly incentivized to close the business combination. This is due to the downside of the complete loss of risk capital and the strong upside to making significant returns on their investments by closing the deal and vesting their promote. Research indicates that even if the share price is down 60% and they forfeit 60% of their promote, the "house always wins." The former, coupled with the compressed SPAC timeline, may cause SPAC sponsors to either not perform adequate due diligence or pursue targets that lack strong business fundamentals and may not fare well on the public market.

- **IPO Investors:** IPO Investors are highly incentivized to approve the business combination. If the IPO investors approve a merger, they can redeem their shares, get back their investment plus interest, and keep their warrants. This effectively creates an arbitrage opportunity for them. However, it may also incentivize them to approve mergers with targets they do not necessarily believe are the right fit.

To address these concerns, the SEC has recently taken additional measures to further protect investors by requiring additional scrutiny on target companies and limiting the number of forecasted periods to determine the target company's valuation. Nevertheless, the opportunistic reputation of sponsors and the historically poor performance of SPACs has created a ripple effect; many target company investors and leaders may have a negative impression of the vehicle and steer the company to reject merger offers due to fear of exiting their investment below expected returns.

However, the research identified two ways in which incentives could be better structured to tilt more in favor of target companies and better incentivize sponsors to invest in the long-term success of the company: (1) Decrease in the sponsors' promote to reduce dilution and (2) increase lock-up periods for sponsors and company investors to increase the commitment to the success of the target company.

Comparing Options to Go Public

When a company decides to go public, there are two main alternatives to consider besides a SPAC Merger: Traditional IPO and Direct Listing. To better understand the key differences and trade-offs between the options, below is a comparison of the SPAC alternative against the better-known Traditional IPO route and the lesser-known Direct Listing.

	1. SPAC Merger	2. Traditional IPO	3. Direct Listings
Definition	Process by which private companies go public by merging with a SPAC	Process by which a private company goes public by selling new shares in the stock market	Process by which a private company goes public selling existing shares on stock exchanges without an IPO
Main objective	Raise capital	Raise capital	Increase shareholders' liquidity
Time	10-12 months for LAC-based companies (3-5 months for US-based companies)	9-18 months	Few weeks to a few months
Costs Incurred by Companies	***Required:*** • Financial statements auditing readiness (US$1M+) • Legal counsel (US$2M+) ***Other:*** • Capital raising, M&A, and capital market fees • SEC registration statement filing	***Required:*** • Financial statements auditing readiness (US$1M+) • Legal counsel (US$2M+) • IPO fees including underwriting fees (3.5%-7% of IPO proceeds) • SEC registration statement filing • Other miscellaneous costs	***Required:*** • More cost-effective than a traditional IPO as it avoids the underwriters' and most other financial intermediaries' fees
Valuation	Agreed upon target company and SPAC before merger agreement	Share price typically determined through book-building process	Share price determined by the market's supply and demand

Unlike the Traditional IPO and the SPAC merger options, the purpose of the direct listing is not to raise capital but to increase the liquidity of its shares for the benefit of its investors. Therefore, the analysis focuses on comparing SPAC mergers to Traditional IPOs.

Time:

One advantage of SPAC mergers over Traditional IPOs is the quicker access to capital. In the US, the SPAC merger process takes only 3 to 5 months, while a traditional IPO can take 9 to 18 months. However, it is important to note that LAC-based companies take longer to complete the SPAC merger, averaging 10 to 12 months. This is due to two reasons: (1) LAC companies take longer to comply with the SEC reporting and auditing standards (4 to 8 months), and (2) it takes longer the secure the minimum cash to close the transaction (3 to 4 months). Therefore, LAC companies don't enjoy the same advantages of a faster access to capital as US companies do.

Costs Incurred:

According to interviews with LAC-based SPAC sponsors and entrepreneurs who have de-SPACed, it is estimated that SPAC mergers cost target companies a minimum estimated amount of US$3 million. These costs are driven by (1) costs to comply with the PCAOB auditing standards, and (2) costs for legal counsel. In comparison, traditional IPO also require these expenses, but the target companies must additionally pay for the IPO costs that SPAC sponsors typically cover. These costs include the underwriting fee (3.5%-7% of IPO proceeds), and fixed costs for lawyers, bankers and accountants.

While the IPO process might appear costlier, assessing whether that is true across most transactions is difficult due to the variance in terms across deals. For example, sometimes target companies pay for a portion of SPAC IPO underwriting fees, PIPE raising fees, and other fixed costs related to professional services. The actual additional costs and the amounts that will end up being covered by the target companies will depend on the outcome of the negotiation with the SPAC.

Other Considerations:

When comparing SPAC mergers to Traditional IPOs, it's important to consider factors beyond just time and costs . SPACs mergers often provide a higher valuation than a Traditional IPO as the valuation is agreed upon between the target company and the SPAC and because it can incorporate two years of projected financials into the valuation. SPACs also bring the advantage of the potential strategic partnerships that can be formed through the sponsor, which the Traditional IPO process lacks. However, the Traditional IPO offers more control over the initial investor base of the private company, and companies can get help from the investment bank to increase their initial trading volume. Lastly, Traditional IPOs are well known by the broader investor base and are generally considered a vehicle with higher credibility. For more information on size requirements for SPAC mergers, see *Key Considerations for LAC entrepreneurs, Determining if the SPAC is the right exit vehicle.*

Market Trends

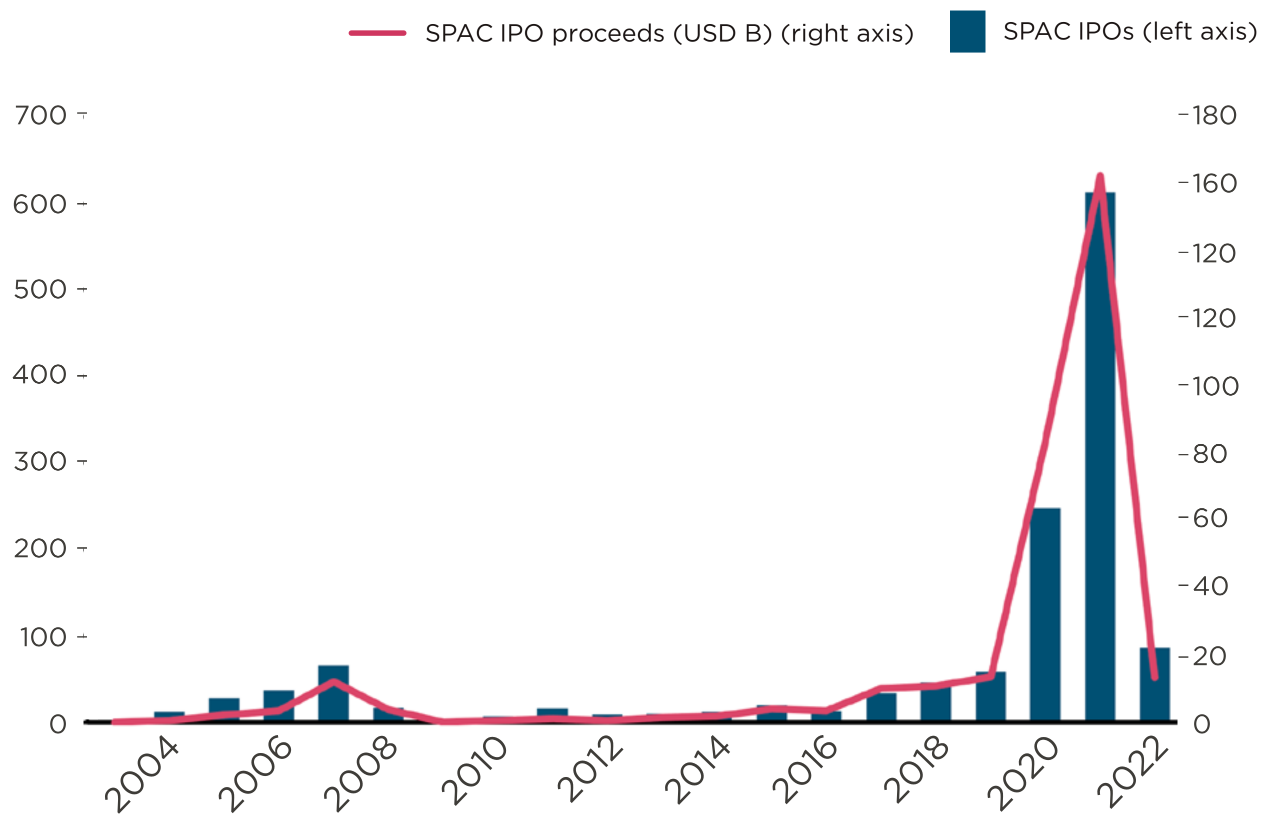
Global SPAC Market

The SPAC market grew substantially during the last seven years, followed by an abrupt decline. Between 2015 and 2021, the number of listed SPACs grew by 2,965%, with most of the growth occurring during the 2019 SPAC boom. The boom was caused by a long period of low interest rates, an increased number of start-ups aiming to raise growth capital, sponsors highly incentivized to close the transactions, and a considerable amount of cash available in the market. During this period, 95% of the SPACs listed were on US exchanges. However, in 2022, the market suffered a significant decline as the number of SPACs listed fell by 85%, and the amount of money raised decreased by 91.7%.

Why did the SPAC bubble bust?

Though difficult to single out what caused the bubble to bust, two factors most likely contributed to the loss of popularity of the vehicle. Firstly, the rise in interest rates to combat the increasing inflation rates in the US, and secondly, the excess supply of SPACs in the market.

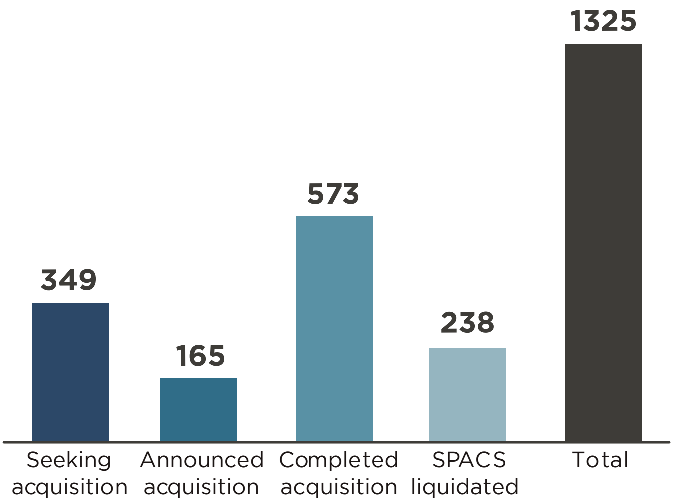
When the US Federal Reserve started hiking interest rates in January 2022, the capital available for sponsors looking to form a SPAC began to tighten up. At the same time, many SPACs in the market struggled to find a quality target company to acquire. In turn, this limited the appetite for other sponsors to form new SPACs and further incentivized existing SPACs to merge with less desirable targets, i.e., unprofitable and/or cash-burning companies to recoup their investment.



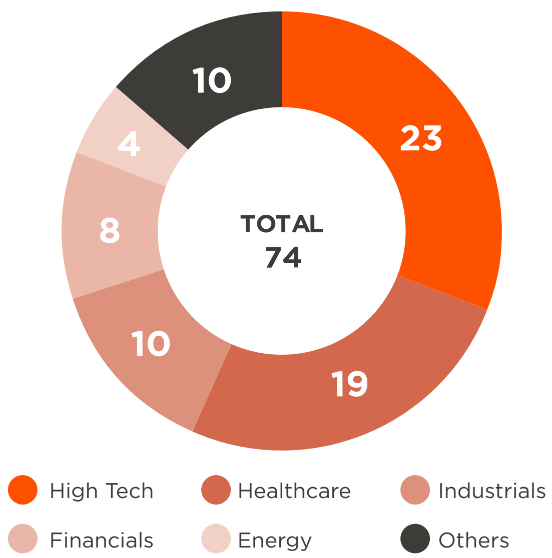
State of SPAC Market in the United States

Since the creation of the SPAC vehicle in the 1990s, 1,325 SPACs have been listed in the US. There are four groups reflecting the different stages of the SPAC lifecycle: SPACs seeking acquisition (349) totaling US$87.8B raised; SPACs that have already announced acquisition (165) totaling US$33.5B raised; SPACs that have completed an acquisition (573) totaling US$141.4B raised; and SPACs that liquidated (238) totaling US$62.2B originally raised. Despite the recent decline of SPACs, there is still the potential opportunity for target companies from a range of industries to enter public markets via SPACs due to the high amount of cash available in this market.

US SPAC Pipeline by # of SPACs (January 1990- Sept 2022)



De-SPAC deals by target industry (Jan-Sept 2022)



Recent SPAC Market Trends

PIPE Financing	Earnouts	Redemptions	SEC Scrutiny
• Use of PIPE financing has decreased due to poor performance of the vehicle and higher interest rates • The # of de-SPAC mergers involving PIPE financing has declined from 91% to 75% • As PIPE financing has eased, sponsors are now looking into debt options to finance de-SPAC deals	• The use of earnouts in de-SPAC • transactions increased. • Nearly half of the transactions that closed have included earnouts as part of the agreement • 90% of the earnouts were tied to stock price	• An increasing number of stockholders are exercising redemptions right at the time of thede-SPAC merger approval vote • 60% of total approved de-SPAC transactions had a redemption rate of 50%+	• SEC indicated that SPACs will be • part of its enforcement agenda • The average time between signing and closing of de-SPAC transactions increased due to heightened scrutiny • Reduced the financial projections of target companies from 5 years to 2 years

LAC SPAC Market

Since 2013, 32 SPACs have sought to acquire companies in LAC, raising US$5.6 billion5.1.1. Of these (as of March 2023), 19 have found a target company across six countries in the region, 11 are still seeking company, and two have already been liquidated. This data indicates that the vehicle has managed to attract capital from different geographies and has been a recourse to go public in international markets for companies whose countries of origin do not have stock exchanges developed enough to be listed on them.

19	**De-SPACed companies**
US$3.2B+	**Raised on proceeds**
US$169M	**Average deal size**

13
Industries Represented

- Industrial
- Housewares
- Cannabis
- Waste Management
- Biotech
- Pharma
- Hospitality
- Aerospace
- Technology
- Food
- Industrial
- Oil & Gas
- Agribusiness
- Fintech

The 19 companies are distributed across 13 different industries, ranging from technology to natural resources and hospitality sectors. This data indicates no clear industry preference for SPACs seeking a target company in the region; instead, the target company is selected based on other factors, such as the company's strength, financial fundamentals, growth opportunities, among other elements.

Currently, there are 11 SPACs seeking to close a business combination with a company from the LAC region. This group of SPACs is still looking for a target company raised +US$2.4 billion. A concerning factor is the time remaining for them to complete the transaction. Up to 9 out of the region's 11 SPACs have ten months or less to complete the business combination.

Lessons Learned from De-SPACed Companies in LAC

- **The readiness of the company's owners to go public is key:** Owners need to prove they can deliver on growth and have a good reputation to succeed in the public markets, which is significantly different from being a start-up founder or private company executive.
- **Understand all associated fees from the beginning**: This will be imperative to decide whether the SPAC is the right option, as many entrepreneurs were surprised at the number of fees incurred throughout the process.
- **Ensure company representation throughout the process**: Companies with more negotiating power were able to obtain the best terms for the target company in areas such as fees, promote, and board seats.
- **International financial reporting standards will be a challenge**: For all companies interviewed in LAC, becoming compliant with PCAOB standards for SEC was lengthy, expensive, and complex.
- **Defining the appropriate valuation is crucial**: Though tempting to seek higher valuations, redemptions will increase if investors perceive the deal as overvalued, and, ultimately, the stock price may be punished by the market post-merger.
- **Assume a 90-95% redemption rate**: Better to be prepared with additional financing secured than to receive less funding than expected, as higher redemptions put pressure on getting PIPE funding to close the transaction.
- **Hire a financial advisor with prior experience with SPACs to support additional financing**: someone experienced with the process is critical to complete the transaction and raising additional funding more smoothly as it is critical to close the transaction.
- **The merger takes longer than expected**: Assume a 10–12-month period after agreeing terms with the target company.
- **NASDAQ rewards performance**: If the target company is growing at a loss or has no clear path to profitability, it will likely be punished in the public market post-merger.

A detailed versions of the case studies and the full list of transactions may be found in the Appendices.

Considerations for LAC Entrepreneurs

Benefits of a SPAC Merger

Entrepreneurs in the LAC region have the potential to promote economic growth and development by utilizing the SPACs vehicle. Research indicates that SPACs could help bridge the gap for companies in the region to raise growth capital.

However, for the vehicle to serve this purpose, it must be the “right fit” between the SPAC and the target company. “Fit” is defined as a set of transaction characteristics that will make it more likely to succeed long-term (see page 12 for a comprehensive description of fit). If a target company determines a SPAC merger is the right fit, a SPAC can be a viable alternative for target companies to overcome obstacles faced by many start-ups in the LAC region through the following benefits:

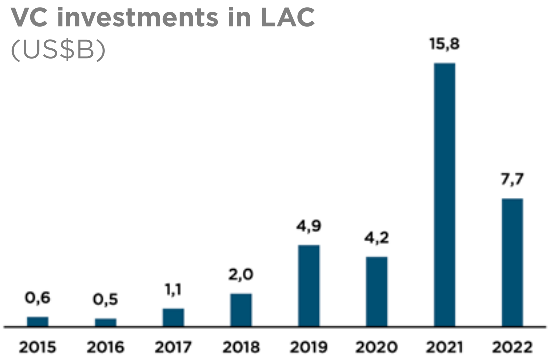
1. Additional source of growth capital

2. Overcoming investment barriers

3. Potential entry to US public market

1. Additional source of growth capital: Venture capital investment in LAC peaked during 2021.

However, the region saw a marked deceleration in 2022 due to the deterioration of macroeconomic conditions. While late-stage investments (which in 2021 represented the bulk of the investments at 60%) saw a decline of 76% in 2022, investment in Venture Debt increased by 19%.



This investment behavior suggests that equity financing has become tighter, but the need for growth capital from entrepreneurs remains. Businesses appear willing to pay higher interest rates to finance their growth. For some of these later-stage businesses, SPAC mergers could be a viable option for those companies that require capital and want to avoid pursuing the debt-financing alternative.

2. **Overcoming investment barriers**: While current macroeconomic conditions are exacerbating investment barriers for LAC entrepreneurs, these start-up founders have traditionally faced both fact-based and perception-based barriers when seeking international investment. Fact-based barriers are supported by data and evidence, while perception-based barriers stem from misconceptions or stereotypes that persist despite a lack of supporting data.

- **Fact-based barriers:** The first is that LAC currencies have shown significant depreciation over the past ten years versus the US dollar, which has hampered US investors' returns. The second is that while LAC is part of the broader emerging markets group, it is hypothesized that it is less understood than the Asian members of the group, like China and India; this is because most of the emerging market operations in investment firms in the US and Europe are usually led by executives with more expertise in Asia.

- **Perception-based barriers:** A key pain point identified across many of the interviews with LAC entrepreneurs and investors was overcoming certain stereotypes or misconceptions of companies in the LAC region. According to Transparency International, the LAC region is perceived as more corrupt than most developed markets and many Asian developed markets. In addition to corruption, LAC entrepreneurs reported having to combat other misconceptions when speaking with international investors, such as assumptions that LAC companies lagged in the use of technology or that labor in the region is generally unskilled.

By electing a SPAC merger with a sponsor that is from or knows the LAC region and has an equity-raising proven track record, companies could overcome these types of barriers to successfully access US public markets.

3. **Potential entry point to US public market:** According to Crunchbase data, initial public offerings (IPOs) have been the predominant vehicle for LAC companies to go public. Since 1998, most IPOs (67%) have happened on the Brazil stock exchange. However, most of the raised proceeds were raised in the US stock exchanges, with approximately 82% of the total raised capital.

Throughout this period, the average capital raised in US stock exchanges was approximately 22 times larger than in LAC stock exchanges. Therefore, in terms of capital raising, it would make more sense for LAC companies to go public in the US rather than in their local stock exchanges. These numbers suggest that companies stand to raise more money in the US stock exchanges than in the LAC stock exchanges.

However, the average IPO size in the US makes it difficult for LAC companies to reach the US market (the average LAC IPO in the US is 22x larger than the IPOs in local exchanges). Hence, SPACs present a viable alternative for LAC companies that want to reach the US market but do not meet the IPO size requirements (US$1B-$1.5B) SPAC target companies average US$450M to US$700M in size.

Defining the "Right Fit"

Despite the benefits of undergoing a SPAC merger, not all companies are the right fit for this particular transaction. Though success is never guaranteed for any company that decides to go public, the research has identified a set of factors that will increase the likelihood of a more successful de-SPAC transaction. A company that meets these criteria will be more likely to experience a smoother transaction and reap positive returns in the future.

To assess the fit, the research outlines four key steps that target companies should consider before merging with a SPAC. These steps include: (1) Assessing readiness to go public, (2) Determining if the SPAC is the right exit vehicle, (3) Selecting the right sponsor, and (4) Hiring the right professional service providers. In the following sections, each of these four steps will be explored in more detail.

1. Assessing readiness to go public	2. Determining if the SPAC is the right exit vehicle	3. Selecting the right sponsor	4. Hiring the right professional service providers

1. Assessing Readiness to Go Public

Interviews with LAC entrepreneurs who de-SPACed highlighted that running a venture-backed private company vastly differs from running a publicly-traded company on a US exchange, altering how they spent their time and shifting their level of responsibility. Therefore, if a target company is uncertain whether it is ready to become a public company, it should consider the following checklist to assess its readiness to go public:

A clear objective to go public	• First and foremost, the company should want to go public. If so, it should be clear why they want to become a public company, such as increasing liquidity for their shareholders or raising capital to fund an expansion. However, without clarity on this, investors will be less likely to buy into the company	☑
Solid financial fundamentals	• Target companies should have solid financial fundamentals demonstrating the company's well-being and showing it is creating value. These fundamentals will increase the chances of post-close success and include: (1) Steady revenue growth, (2) positive cash flow generation, and (3) profit generation or, at minimum, a clear path to profitability	☑
Proven business model	• It is imperative for companies to have a proven business model that clearly demonstrates market traction and customer appeal. To go public, the company should preferably be in a relatively mature lifecycle stage (i.e., post-VC stage). Companies must also have a bullet-proof equity story that conveys the company's value proposition to the markets and public opinion.	☑
Compliance to financial statement standards	• Regardless of the vehicle the company selects to go public, it must have its financial statements and relevant financial data for the past years in order and, at minimum, in compliance with IFRS. This will make it easier for the company to meet the required PCAOB auditing standards. Otherwise, the company will face a very lengthy and costly process to comply with this requirement to go public.	☑
Understanding implications of being public	• Companies must understand that becoming public entails additional responsibilities and implications that significantly change how they operate. For example, being public implies time-consuming tasks such as investor relation activities, quarterly reporting, and additional disclosure of their relevant activities to satisfy the scrutiny of the public markets.	☑

2. Determining if a SPAC is the Right Exit Vehicle

If the company has determined it is ready to go public, the next step is to evaluate if a SPAC will be the most appropriate alternative compared to a Traditional IPO or Direct Listing. Since most SPAC mergers aim to raise capital to fund business growth and create liquidity for current investors to exit, the analysis focuses on comparing a SPAC merger to a Traditional IPO. LAC entrepreneurs should consider the following factors when evaluating a SPAC merger:

Time

Estimated total time for LAC Companies: 10-12 months

One of the main attractive features of SPACs is their faster speed to capital. However, the research shows this is not the case for LAC companies where it typically takes two to the three times longer to complete a SPAC transaction than for US companies (10-12 months average for LAC-based companies vs. 3-5 months for US-based companies). This prolonged timeline is primarily due to LAC companies' difficulties in becoming compliant with the required PCAOB auditing standards (assuming merging with a US-based SPAC). Hence, LAC companies should be mindful of and plan for the prolonged timeline, particularly when approaching SPACs who may be near the end of their vehicle timeline.

Costs

Estimated minimum fees for LAC Companies: US$3 million

For reasons outlined when comparing the different options to go public, it is difficult to say for certain if a SPAC transaction is less expensive for a target company than a Traditional IPO. However, from the interviews with SPAC ecosystem stakeholders, it is estimated that target companies should plan for a minimum amount of US$3M throughout the transaction, mostly in fees to professional service providers.

Although the SPAC merger alternative does not often include the costs associated with the IPO process, as the SPAC sponsors typically cover these costs, target companies may end up paying part of these fees; the actual additional costs being covered by the target companies will be wholly dependent on the outcome of the negotiation with the SPAC.

Dilution

Higher dilution in SPACs than a Traditional IPO

The SPAC merger alternative will likely imply a higher dilution for target companies' shareholders than a traditional IPO, a non-cash cost often difficult to compare to the other cash costs presented above. This dilution is mostly attributed to the promote received by the SPAC sponsors in the form of shares of the new company (typically 20 percent), which they receive without contributing additional capital for the merger.

Execution Risk

Lower risk of a lack of execution for a SPAC merger than a Traditional IPO

One main advantage of SPACs over the Traditional IPO alternative is a substantially lower risk of a lack of execution. In a SPAC merger, the target company and SPAC sponsor agree on the valuation upfront, providing price discovery at the outset. Additionally, SPAC mergers offer greater certainty in the amount raised compared to IPOs. Lastly, the merger agreement often includes a minimum cash condition for the completion of the transaction.

Company Size

Size range of LAC Companies that de-SPACed: US$400-750 million

The average size of LAC companies that completed a SPAC merger at the time of the business combination ranged from US$400-$750 million, which is substantially smaller than the typical size of a Traditional IPO (US$1-$1.5 billion) yet larger than the average size for US-based companies that de-SPACed (US$200 million). However, the determining factor of the right size for a SPAC merger is the ratio of equity value to cash in trust. It is recommended to aim for a ratio of 6:1 or higher, as otherwise the sponsor's promote dilution effect would be greater for the company's current shareholders. Companies must also consider that the larger the size, the more likely it will be for its shares not to be traded as penny stocks.

3. Selecting the Right Sponsor

The sponsor plays a crucial role in ensuring a successful transaction but also has the potential to become an important long-term relationship for the target company. Though some LAC entrepreneurs expressed a preference for sponsors who essentially served only as transaction agents, most indicated a strong preference for sponsors who stayed involved in the company for the long term. The reason for this is additional benefits sponsors can bring, such as industry expertise, business operations experience, or network to attract new partners or board members. Therefore, target companies should consider the following characteristics when selecting a sponsor:

Proven track record	It is preferred for the sponsor to have previous experience with SPAC transactions, which will help the company comply with the transaction requirements, understand the vehicle's operation, and facilitate a smoother capital-raising process.
Strict due diligence	Good sponsors follow a strict due diligence process on target companies. Many de-SPAC failures in the market have been attributed to the sponsor's lack of due diligence.
Ability to raise capital	In a market in which redemption rates are increasing, it is important to have a sponsor who has the network and relationships to raise capital and attract new PIPE investors.
Market knowledge	Knowledge of the capital markets will enable the sponsor to identify the most reputable service providers to hire to support the transaction process (note: sponsors hire their own professional services team separate from those hired by the target company for transaction support).
Post-merger Involvement	In a market where sponsors may have incentives to close the business combination and abandon the target company, it is ideal to find sponsors committed to the company's long-term success to protect against the opportunistic nature of some sponsors.
Industry expertise	This will be valuable to the company since the sponsor will understand the market trends and growth opportunities of the sector, plus increase the likelihood of attracting the right investors.
Strong network	A sponsor with a strong network will increase the possibilities for target companies to create strategic partnerships.

After considering the ideal sponsor profile, target companies should use the below questions are a starting point (non-exhaustive) when evaluating sponsors and negotiating specific deal terms:

Considerations

- What is my sponsor bringing to the table?
- What are my sponsor's incentives?
- Will my sponsor be able to deliver?
- Will my sponsor allow fair representation throughout the process?

Negotiation

The key points to negotiate with sponsors are:

- Fees: What are fees and who will be covering them?
- Promote: What is the amount?
- Board seats: How many and for how long?

4. Hiring the Right Professional Service Provider

Strong service providers will help the target companies comply with the complex SPAC merger criteria and help target companies get the best possible outcomes out of the transaction. Service providers to consider include the following:

Auditing: Meeting the PCAOB reporting standards can take 4 to 6 months and cost US$1.5-2 million. Hiring a reputable international auditing firm will get it done faster and more efficiently due to their experience doing this for other US companies.

Legal: Legal counsel is needed to advise the target company throughout the merger, review the operations to draft the prospectus, and qualify as foreign issuers.

Financial: Financial advisors can counsel on the company's financials, help value the company, and provide support to raise additional capital, in case it is required due to high redemptions or lack of ability of sponsors to raise the PIPE financing.

Appendix A: SPAC Transactions in LAC as of March 2023

SPAC	Ticker	IPO Proceeds (US$M)	Target	Sector	Stage	Time Remaining*
Mercato Partners	MPRA	200	Nuvini	Technology	Announced deal	-
DD3 Acquisition	BWMX	55	Betterware	Direct to consumer Household	Closed deal	-
Union II	PROC	160	Procaps Group	Pharma	Closed deal	-
Schultze Acq	CLVR	130	Clever Leaves	Cannabis	Closed deal	-
Union ACQ	BIOX	117	Bioceres	Biotech	Closed deal	-
Boulevard II	ESTR	370	Estre Ambiental S.A	Waste management	Closed deal	-
BOA Acquisition Corp.	SLNA	175	Selina	Real estate/Hospitality	Closed deal	-
CF Acquisition Corp. V	SATL	250	Satellogic	Aerospace	Closed deal	-
Alpha Capital	STIX	230	Semantix	Technology	Closed deal	-
HPX Corp	HPX	22	Ambipar	Industrial	Closed deal	-
Promecap		300	Acosta verde	Real estate	Closed deal	-
Andina Acquisition Corp I	TGLS	42	Tecnoglass	Industrial	Closed deal	-
Vista Oil & Gas	VISTAA	95	Vista Oil & Gas	Oil & Gas	Closed deal	-
XPAC	XPAX	180	SuperBac	Biotech	Closed deal	-
The production board	TPBA	221	Lavoro	Agribusiness	Closed deal	-
LIV Capital Acquisition I	AGIL	91.5	AgileThought	Technology	Closed deal	-
LIV Capital Acquisition	CVTO	114.5	Covalto	Fintech	Closed deal	-
Zanite Acquisition Corp	EVEX	237	Eve air mobility	Aerospace	Closed deal	-
Rose Hill	ROSE	143	Prize	Food	Closed deal	-
DILA Capital Acq	DILA		Liquidated	Liquidated	Liquidated	-
Benessere Acquisition Corp	BENE	115	Liquidated	Technology	Liquidated	-
Patria LatAM Opportunity	PLAO	230	Searching	Healthcare, food and beverage, logistics, agri-business, education or financial services	Pre-deal	3 months
LatAmGrowth SPAC	LATG	130	Searching	High-growth tech	Pre-deal	2 months
Apx Acq I	APXI	172.5	Searching	TBC	Pre-deal	9 months
Crescera Capital Acq	CREC	201.2	Searching	Technology-enabled sectors	Pre-deal	8 months
Enphys Acq	NFYS	345	Searching	Energy	Pre-deal	7 months
MELI Kaszek Pioneer	MEKA	287.5	Searching	Technology	Pre-deal	7 months
Valor Latitude Acq	VLAT	230	Searching	TBC	Pre-deal	2 months
LDH Growth Corp I	LDHA	230	Searching	TBC	Pre-deal	1 month
Itiquira Acquisition	ITQRU	230	Searching	TBC	Pre-deal	1 month
Maquia Capital Acquisitions Corp.	MAQC	175	Searching	Technology	Pre-deal	11 months
Agrinam Acquisition Corp	AGRI.U	138	Searching	Agribusiness	Pre-deal	15 months

Appendix B:
Case Studies

Case Study 1: Tecnoglass

Company overview
Tecnoglass Inc. is a leading producer of architectural glass, windows, and associated aluminum products serving the multi-family, single-family and commercial end markets. Tecnoglass is the second largest glass fabricator serving the U.S. and the #1 architectural glass transformation company in Latin America.

Transaction overview
SPAC amount raised: **US$42 M**
Approximate Enterprise value: **US$313M**
Transaction date: **12/2013**
Average volume traded per day in the last 3 months : **249.2K**
Existing Tecnoglass shareholders to remain as operating owners

Sponsor Profile

Andina Acquisition Corporation is a U.S. publicly traded Nasdaq acquisition fund. AAC was formed for the purpose of investing in one or more fast-growing companies in the Andean region. Andina's vision is to make an investment in a high potential company in the Andean region. Following that investment, the Andina team brings business experience and further access to U.S. capital markets to enhance growth.

Stock Performance

Source: Yahoo Finance

Fast Facts

- Tecnoglass was the first ever LAC SPAC
- The company transitioned from selling mostly in Latin America to selling more than 95% of its production in the US while maintaining its production in Colombia
- By the time of the SPAC merger closure, Tecnoglass had ~US$100M in sales; today sales have grown to US$700M+
- Tecnoglass is one of the top 5 top performing SPACs of all time.

Lessons Learned

- The level of sophistication in the financial reporting is a challenge that is endemic to most private companies when going public
- Defining the right valuation is a challenge; redemptions will come if the deal is overvalued
- The readiness of the company ownership to go public is key; they need to prove their ability to deliver on growth strategies.

Case Study 2: Betterware

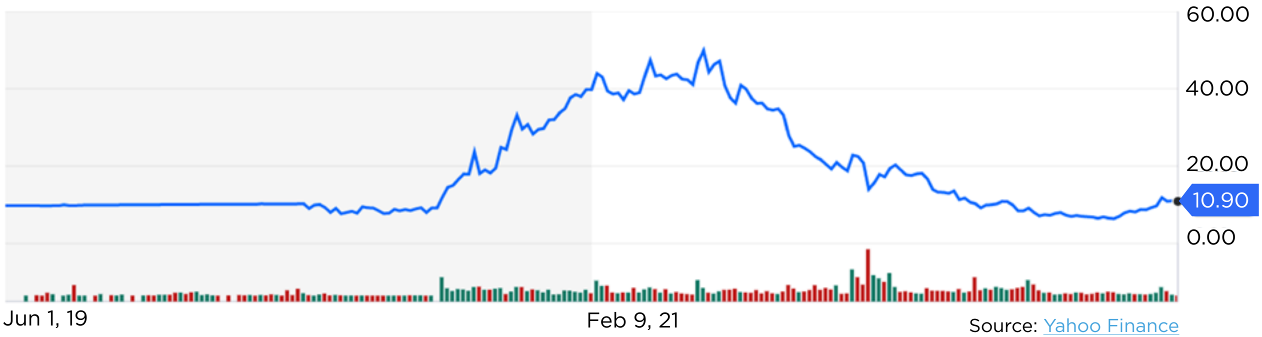
Company overview
Betterware is the leading direct-to-consumer company in Mexico. Betterware is specialized on the home organization segment, with a wide product portfolio for daily solutions including home organization, kitchen, commuting, laundry and cleaning, as well as other categories.

Transaction overview
SPAC amount raised: **US$55.7 M**
Approx Enterprise value: **US$367M**
Redemption rate **+90%**
PIPE investment: **US$10M**
Transaction date: **3/2020**
Average volume traded per day in the last 3 months: **29.4.K**
Existing Betterware shareholders to remain as operating owners with 80% of consolidated business

Sponsor Profile

Andina Acquisition Corporation is a U.S. publicly traded Nasdaq acquisition fund. AAC was formed for the purpose of investing in one or more fast-growing companies in the Andean region. Andina's vision is to make an investment in a high potential company in the Andean region. Following that investment, the Andina team brings business experience and further access to U.S. capital markets to enhance growth.

Stock Performance



Source: Yahoo Finance

Fast Facts

- Betterware was the first Mexican company listed in Nasdaq
- Before the de-SPACing, the company was growing at a 30% rate year-over-year
- The redemptions were over 90% and the Sponsor ended up paying for most of the transaction with own financing
- Getting the company ready to comply with SEC requirements took about one year
- At its peak, the stock price was 5 times the initial price

Lessons Learned

- Assume a 90-95% redemption rate; better to be prepared and expect to seek additional financing through a PIPE
- The merger takes longer than expected; once you shake hands with the target company, it takes 3-4 months to close the business combination agreement, plus ~6 more months to close the transaction and secure the funds
- Nasdaq market rewards performance; if the company is performing well, the stock will perform well.

Case Study 3: Clever Leaves

Company overview
Clever Leaves is a multi-national cannabis company with a mission to operate in compliance with federal and state laws and with an emphasis on ecologically sustainable, large-scale cultivation and pharmaceutical-grade processing as the cornerstones of its global cannabis business. The company has operations and investments in USA, Canada, Colombia, Germany and Portugal.

Transaction overview
SPAC amount raised: **US$130M**
Approx Enterprise value: **US$255M**
Redemption rate: **Less than 1%**
Transaction date: **12/2020**
Average volume traded per day in the last 3 months: **197.3K**

Sponsor Profile

Andina Acquisition Corporation is a U.S. publicly traded Nasdaq acquisition fund. AAC was formed for the purpose of investing in one or more fast-growing companies in the Andean region. Andina's vision is to make an investment in a high potential company in the Andean region. Following that investment, the Andina team brings business experience and further access to U.S. capital markets to enhance growth.

Stock Performance

Source: Yahoo Finance

Fast Facts

- The company was the first cannabis company from LAC to went public via SPAC
- The company projected high sales and a positive EBITDA in 2021 which led to a less than 1% redemption rate; the company gained US$81M from the transaction for expansion plans
- However, the company has never achieved its projections and is still not profitable, resulting in low share price

Lessons Learned

- Overly optimistic projections may result in a higher valuation, but the market will punish overvalued companies who underdeliver and do not turn a profit
- Quality due diligence by sponsors will help prevent future stock performance issues by increasing the odds that they are picking a company that can meet its projections

Appendix C:
Risk and Reward Rating Definition and Assumptions

Risk/Reward Rating	How Rating is Defined	Example
High	Combination of: • Probability that the stated risk or reward will occur (based on market trends to-date) and; • Investment (both of time and financial) in relation to what stakeholders can receive in return	Sponsors have a high-risk and a high-reward rating due to the high probability they will not be able to close a business combination; if they do, the potential returns are very high (400%+)
Medium		IPO investors have a low-risk rating but a medium reward rating as they receive warrants at no additional cost, which enables them to make returns with a low downside
Low		IPO investors have a low-risk rating, but a medium reward rating as they can always get their investment back plus interest

Key Assumptions

Assumptions assigning risk and reward ratings are based on how the SPAC market has historically performed, current SEC regulations, and "typical" deal terms. If the market trends shift or the regulations change, or if the deal terms deviate from the norm, the risk/reward profiles may be impacted. For example:

Deal Terms	• Assuming a standard sponsor promote of 20%, if the sponsor promote decreases or its forfeit percentage increases, the reward will also decrease. • Assuming target companies are covering part of the IPO fees (in addition to the SPAC merger fees typically covered by the target company), but the risk may decrease if fees are reduced for target companies
Market Trends	• Assuming a 60-90% redemption rate based on existing trends, but risks will lower if redemption rates decrease
Regulatory Changes	• Assuming no changes in SEC regulation. If, however, there is a regulation change indicating that SPAC investors can only keep their warrants if they did not redeem their shares, then arbitrage opportunities and rewards for pre-IPO investors would decrease

References

Alfaro, Y. (2022).Venture Capital in 2023: What LatAm Startups Can Expect. Bloomberg Línea. Retrieved from URL https://www.bloomberglinea.com/english/venture-capital-in-2023-what-startups-can-expect-according-to-investors/

Andina Acquisition (2022). About us. Retrieved from URL: Home page | ANDINA ACQUISITION II

Archaea (2019). Archaea energy merger completed, setting up major landfill RNG producer. Retrieved from URL Archaea Energy merger completed, setting up major landfill RNG producer | Waste Dive 2021

Archaea (2019). Renewable energy defined. Retrieved from URL: Renewable Energy Redefined (archaeaenergy.com)

Ávila, J. (2022). El futuro de EU y México no está con China, afirma Ken Salazar. Expansión. Retrieved from URL https://expansion.mx/economia/2022/09/06/el-futuro-de-eu-y-mexico-no-esta-con-china-afirma-ken-salazar

Bazerman, M. H. (August 2021). SPACs: What you need to know. Retrieved from URL https://hbr.org/2021/07/spacs-what-you-need-to- know

Betterware (2021). Investors relations. Retrieved from URL: FAQ :: Betterware de Mexico, S.A.P.I. de C.V. (BWMX)

Bloomberg (2022). Is it the end of the Road for Latin American SPACs. Retrieved from URL: Is it the End of the Road for Latin American SPACs? (bloomberglinea.com)

Bloomberg (2022). Latin American SPAC LatAmGrowth. Retrieved from URL: Latin America SPAC LatAmGrowth Prices $130 Million IPO (bloomberglinea.com)

Bloomberg Law (2022) Analysis: IPOs fall to earth. A requiem for SPACs? Retrieved from URL: ANALYSIS: IPOs Fall to Earth; a Requiem for SPACs? (bloomberglaw.com)

BOA (2022). Investor info. Retrieved from URL: Investor Info | BOA Acquisition Corp 2022

Business Wire (2021). Agile Thought, a global provider of digital transformation services. Retrieved from URL: Agile Thought, a Global Provider of Digital Transformation Services, Announces Completion of Business Combination with LIV Capital Acquisition Corp. | Business Wire

Business Wire (2021). Selina and BOA acquisition corp. Retrieved from URL: Selina and BOA Acquisition Corp. Announce Closing of Business Combination and Commencement of Trading | Business Wire

Business Wire (2022). Alpha Capital´s SPAC Closes $230 Million IPO on Nasdaq. Retrieved from URL: Alpha Capital’s SPAC Closes $230

Million IPO on Nasdaq | Business Wire

Crunchbase (2023). List of Latin America Public Companies. Retrieved from URL: List of top Latin America Public Companies - Crunchbase Hub Profile 2023

Crunchbase. (2023). Latin American public companies [Graphs]. Retrieved from URL https://www.crunchbase.com/hub/latin-america- public-companies

DD3 Capital partners (2021). Service breakdown. Retrieved from URL: DD3 Capital Partners Company Profile: Service Breakdown & Team |PitchBook

Deloitte. (2017). Are you ready for an IPO? Deloitte.com. Retrieved from URL https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/audit/lu-IPO-Readiness-part-1.pdf

E&Y. (2022). IPO in Latin America 2021. E&Y M&A and Capital Raising. Retrieved from URL https://www.ey.com/en_gl/strategy- transactions/m-and-a-and-capital-raising/ipo-in-latin-america-2021

EGADE (2018). SPACs: La evolución de los instrumentos de inversion en México. Retrieved from URL: SPACs: La evolución de los

instrumentos de inversión en México | EGADE (tec.mx)

Fintech Future (2022). Covalto to become Mexico´s first US-Listed fintech. Retrieved from URL: Covalto to become Mexico's first US-listed fintech following SPAC merger (fintechfutures.com)

Fitzgerald (2021). About us. Retrieved from URL: Home - Cantor Fitzgerald

Hayes, A. (2019). Dotcom Bubble. Retrieved from URL Dotcom Bubble Definition (investopedia.com)

Heyman, D. K. (2008). From blank check to SPAC: the regulator's response to the market, and the market's response to the regulation. Ohio: Entrepreneurial business law journal. Retrieved from URL https://core.ac.uk/download/pdf/159610375.pdf

ICLG (2021). Crescera capital completes USD 200 million SPAC IPO. Retrieved from URL: Crescera Capital completes USD 200 million SPAC IPO | ICLG

Kalisvaart, J. & Sutherland, C. (July 2022). A brief history of the SPAC and the development of its characteristics. Magazine for Financial Statements Law no. 3. Retrieved from URL https://www.gtlaw.com/en/insights/2022/1/published-articles/een-korte-geschiedenis-van-de-spac-en-de-ontwikkeling-van-haar-karakteristieken


IDB
Improving lives