The SPAC Commitment

Audit Insights

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SPACs: Are you really ready to commit?

Special Purpose Acquisition Company (SPAC) transactions are on a meteoric rise. In 2020, there were approximately 250 SPACs that, combined, raised $76 billion and made up almost half of all Initial Public Offerings (IPOs) for the year. These figures are notable on their own, but even more eye-catching when considering there were only 10 SPAC transactions in 2016, and 2019 saw only 56. So why now?

There are clear reasons SPACs have become so attractive. For one, they can offer companies an accelerated timeline to go public with potentially lower starter cash outlays than a traditional IPO. SPACs can also help to avoid the S-1 filing process, which can take months, steering clear of market delays and earning a quicker SEC review. SPACs also bring upfront pricing certainty as they forgo the traditional IPO pricing process, although the PIPE fees charged by the promoters can come close to those charged by underwriters in an IPO. Finally, regulators have become more comfortable with SPACs, leading to increased activity in capital markets.

But committing to a SPAC can be a difficult process, and not every company is prepared for the long-haul. Against this backdrop, companies questioning whether they are ready to commit to an IPO via a SPAC should consider three areas most likely to trip them up:

1. Audited Financials and Timing

- When going public via a SPAC, three years of audited financials are generally required, as opposed to two in an IPO for an Emerging Growth Company (EGC). If a company was initially gearing up for an IPO in two or more years, is it currently prepared for new reporting requirements during and after a SPAC transaction? One piece to consider: the FAST Act provided new incentives to file traditional IPOs, allowing companies to file confidentially with the SEC with one year of audited financials and submit a second before they go effective.

- Private companies often find accounting challenges when converting to a public company, including precision of historical audits, debt and equity structures, tax considerations, additional disclosures, acquisition accounting, and other similar complexities.

- Since the SPAC is already a registrant, complying with the Securities Exchange Act can bring additional complexity. All the Form 8-K events are applicable in this scenario, including change in auditors, material events disclosures, etc. The post-acquisition process generally requires the new company to be prepared to file a "Super 8-K" within four days of the merger.

2. Timing Pressure

- In IPOs, delays are not unusual and are generally tolerated as part of the process. But since SPACs are under a significant time pressure, they often cannot tolerate hold ups. It is not uncommon for SPACs to drop a deal and move on to a different investment in such instances.

- Because timing is so critical for SPACs, the cadence of check-in meetings throughout the process with the working group can be both a distraction and a time and resource drag for companies and executives.

- When significant time constraints are a factor, questions arise as to whether time pressures result in less than robust evaluation of investment decisions, which can have an important impact on long-term returns.

3. Lack of Accommodations

- There are several accommodations available for smaller reporting companies and EGCs, which may not be able to be leveraged with a SPAC. SPACs also call for additional prerequisites, including faster SOX 404(b) compliance. Therefore, EGC accommodations can oftentimes outweigh SPAC speed and benefits.

There are a number of options to raise capital available, so companies should be fully prepared before committing to the SPAC route. For more information on the challenging world of SPACs, visit the KPMG SPAC Intel Hub. Other articles that may be of interest to you:

- SPAC insights: Public company readiness (kpmg.us)

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