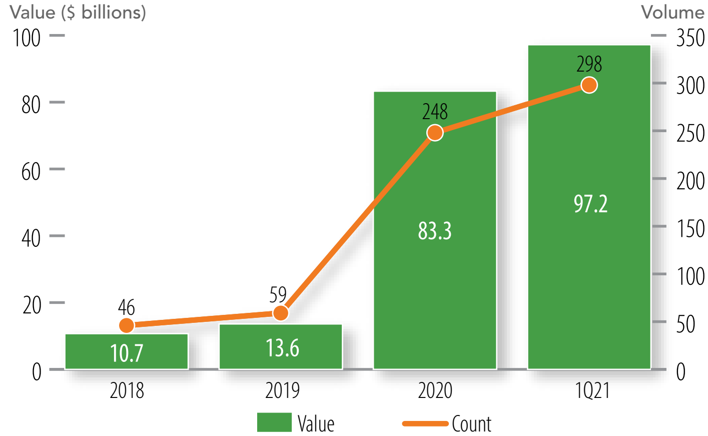
A DEEPER LOOK INTO SPACS

Special purpose acquisition company (SPAC) activity has continued at a blistering pace since the start of 2020. Although SPACs, in their current form, have been in and out of favor since the early 2000s, a confluence of factors has led to their prominence in, and increasing relevance to, both the private equity asset class and the broader capital markets in recent quarters. In 2020, 248 SPACs raised $83.3 billion in proceeds in the United States, far exceeding any prior full-year total. Through the first quarter of 2021, SPAC IPO activity has accelerated even further, already surpassing the prior-year total in terms of both value and volume.

SPAC Overview

A SPAC is a form of blank-check company that raises capital in an IPO for the purpose of acquiring or merging with one or more businesses or operating companies. A distinct feature of the structure is that SPACs are not allowed to identify an acquisition target prior to the completion of their IPO. Following the successful IPO, the proceeds of the IPO are deposited into a trust account, and the sponsor has up to two years to complete an acquisition, which is subject to shareholder approval.

Figure 1. U.S. SPAC IPO Issuance (2018–1Q21)



SOURCE: Bloomberg.

De-SPACing Process Overview

The potential economic benefits to a SPAC's sponsor are significant. Upon formation of a SPAC, the SPAC sponsor will typically acquire founder shares equivalent to 20% of the post-IPO total number of shares outstanding for nominal consideration. These founder shares are considered the sponsor's "promote" and compensation for forming the SPAC, raising capital in an IPO, and identifying and completing an initial business combination. Sponsors also typically acquire warrants at the time of the IPO and use the proceeds to pay upfront IPO underwriting costs and to fund working capital for the SPAC.

A merger with a SPAC provides an alternative path to the public markets that may provide certain benefits relative to a traditional IPO or direct listing for a portfolio company. Private equity firms that have taken portfolio companies public via SPACs have cited the certainty of price and cash proceeds, the efficiency of the transaction process, and the ability to use forward projections as key benefits of this path.

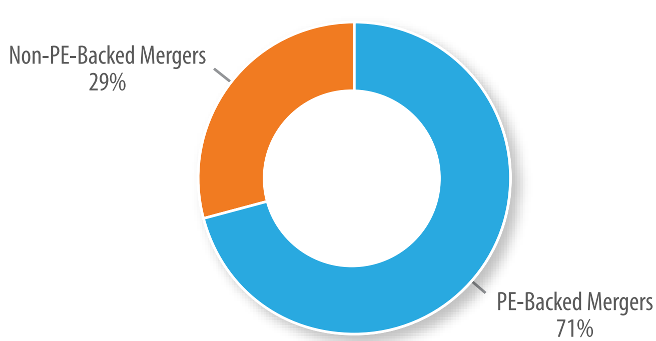
Private Equity's Role in the SPAC Markets

SPACs are impacting the private equity industry in multiple ways, including as competition for prospective investments and by offering an alternate exit path for a private equity–backed company other than a traditional IPO or M&A transaction. PE-backed companies have become prominent targets for SPACs: in 2020, PE-backed companies accounted for 71% of announced SPAC mergers, totaling $113 billion in exit value, according to Pathway Research. In addition, private equity managers have been active in raising SPACs themselves. Since the start of 2020, nearly 100 private equity managers have raised a SPAC for the first time, and PE-backed SPACs have accounted for 35% of total SPAC issuance.

What is Driving the Surge in SPAC Issuance?

- Attractive Sponsor Economics
- Risk-Free Arbitrage for SPAC IPO Investors
- Platform Extension for Investment Managers
- Efficient Alternative to an IPO
- Strong Retail-Investor Interest
- Large Number of Highly Valued Private Companies
- Increased Quality of SPAC Sponsors and Targets
- Strong Performance of Notable SPACs

Figure 2. 2020 SPAC M&A Activity
At December 31, 2020



Source: Bloomberg, Pathway Research, Refinitiv.

Table 1. Notable PE-Backed SPAC Mergers Announced in 2020 & 2021

Company	Deal Value ($B)	Announced	Status
IronSource	11.1	Mar-21	Pending
MultiPlan	11.0	Jul-20	Completed
eToro Group	10.4	Mar-21	Pending
Paysafe	9.0	Dec-20	Completed
WeWork	9.0	Mar-21	Pending
Social Finance	8.7	Jan-21	Pending
Alight Solutions	7.3	Jan-21	Pending
CCC Information Services Group	7.0	Feb-21	Pending
Cazoo	7.0	Mar-21	Pending

Source: Pathway Research.

Key Considerations & Best Practices

- Investors should be aware of the competing interests among the SPAC sponsor, the target company, and SPAC public investors.
- For private equity firms seeking to raise a SPAC, limited partners should understand the firm's motivations for raising a SPAC, how the SPAC's strategy is differentiated from the firm's private funds, and how the firm's resources will be allocated between the private fund and the SPAC.
- SPAC activity slowed in the early parts of the second quarter, hampered by capital constraints from public investors and declining pre- and post-merger SPAC performance.
- The SEC has increased its focus on the SPAC sector, recently issuing a series of public statements and guidance related to disclosures, reporting requirements, and the accounting treatment of SPAC warrants.
- Sponsor economics will likely decrease given the number of current SPACs in the marketplace. Pressure to deliver attractive post-merger performance will drive further alignment of interest.
- SPACs will continue to be a viable and potentially attractive exit avenue for private equity firms' portfolio companies. As of March 31, 2021, more than $130 billion in proceeds had been raised by SPAC sponsors currently searching for an acquisition target.

NOTE: The information contained in this document is proprietary, confidential, and a trade secret and must not be disclosed to any third party except to the extent required under applicable law with prior notice to Pathway Capital Management, LP, or as expressly permitted pursuant to a written agreement with Pathway.

Certain information contained herein has been obtained from third-party sources Pathway believes to be reliable for the purposes used herein, but Pathway has not independently verified such information and accepts no responsibility or liability (including for indirect, consequential, or incidental damages) for any error, omission, or inaccuracy of such information.

The statements made in this document may include forward-looking statements regarding the future operations, opportunities, or financial performance of Pathway. Any projections shown are provided for information proposes only and should not be construed as investment advice or as providing any assurance or guarantee of returns that may be realized in the future from your private equity commitments. Projections and expected returns are subject to high levels of uncertainty regarding future economic and market factors that may affect future performance. Accordingly, such projections and expectations should be viewed only as one possible outcome out of a broad range of possible outcomes.

Past performance is not indicative of future results. This document is intended to illustrate a form of investment. The information provided herein should not form a primary basis for any investment decision made by you or on your behalf. This document has been prepared by Pathway solely for informational purposes; it is not an offer or solicitation and may not be used or relied upon in connection with any offer or solicitation with respect to any Pathway fund.

©2021 Pathway Capital Management, LP. All rights reserved.

About Pathway Capital Management, LP

Founded in 1991, Pathway provides private market fund solutions for institutional investors worldwide. Pathway manages capital on behalf of some of the largest corporate and public pension plans, government entities, and financial institutions around the globe. Since its formation, the firm has committed more than $85 billion to more than 700 private market investments.

Pathway is registered as an investment adviser with the SEC in the United States and as a portfolio manager and exempt market dealer in Ontario, Quebec, and Saskatchewan, Canada. Pathway's wholly owned UK subsidiary is regulated in the UK by the Financial Conduct Authority. Pathway's wholly owned Hong Kong subsidiary is regulated in Hong Kong by the Securities and Futures Commission.