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UNDERSTANDING SPECIAL PURPOSE ACQUISITION COMPANIES:
A CASE STUDY RESEARCH AND PERFORMANCE ASSESSMENT OF SPACS.

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To Mum, Dad and Paolo, the safe harbour

To Uncle Dado and Aunt Luisa, the lighthouse on the horizon

To Gian, Bodo and Anna, the wind in the sails

Abstract (ENG)

A Special Purpose Acquisition Company (SPAC) is a firm, established by a team of *promoters*, that raises money issuing securities through an IPO to perform the acquisition of an operating company within a specific time limit. SPACs are also called "blank check companies" and are cash shells. That is, the only asset they have is cash. The acquisition of the company is called Business Combination (BC). SPACs, born in the USA and spread in many countries, are acquiring relevance as investment vehicles and equity financing tools. However, the literature on SPACs is still underdeveloped, their benefits are questioned, and their functioning mechanisms are unclear. The purpose of this work is to provide a detailed description of what a SPAC is, investigating the reasons behind its establishment and the way through which it can create value. To do so, the research focuses on the Italian context and adopts a mix of quantitative and qualitative techniques. At first, it assesses the financial return of investing in a SPAC, computing the short-term abnormal returns around relevant dates in the SPAC's lifecycle and assessing the Internal Rate of Return of the investment in the long term. Then it applies the case study research methodology to analyse why the *promoters* establish SPACs and how the SPACs create value. The study finds that, in Italy, SPACs that completed the BC had on average provided astonishing yields for the *promoters'* and good returns for investors. It identifies a clear distinction between SPACs' established with mainly financial goals (SPAC-as-an-end) and those established with mainly industrial goals (SPAC-as-a-tool), showing how the SPAC can be a vehicle to finance innovative entrepreneurial projects of the *promoters*. It describes the SPAC value chain, recognising four primary activities and four support activities which can be performed in different ways and on which the value-generating ability of the SPAC depends. This research innovates the methodological approach to the analysis of SPACs and shows how they can be good investment and suitable equity financing tools both for existing firms and new entrepreneurial ventures.

Key words: Special Purpose Acquisition Company; SPACs; Equity financing; investment vehicles; Business Combination; Italy; performance assessment; case study research; value chain.

Abstract (ITA)

Una Special Purpose Acquisition Company (SPAC) è una società (anche chiamata "assegno in bianco"), costituita da un gruppo di *promotori*, che raccoglie denaro sul mercato tramite un IPO per eseguire, entro un certo periodo, l'acquisizione di un'azienda (Operazione Rilevante, OR). Le SPACs, nate negli USA e diffuse in molti altri Paesi, stanno acquisendo crescente rilevanza sia come veicoli di investimento sia come strumenti di finanziamento di capitale di rischio. Tuttavia, la letteratura sulle SPACs è poco sviluppata, i loro benefici messi in discussione e il loro meccanismo di funzionamento non chiaro. Lo scopo di questo lavoro è quello di fornire una descrizione dettagliata di cosa sia una SPAC, indagando le ragioni della sua costituzione e le modalità attraverso cui essa può creare valore. Per farlo, la ricerca si concentra sul contesto italiano e adotta un mix di tecniche quantitative e qualitative. In prima battuta, viene valutato il rendimento finanziario dell'investimento in una SPAC calcolando i rendimenti anormali intorno agli eventi rilevanti nel ciclo di vita di una SPAC e il tasso interno di rendimento dell'investimento a lungo termine. Poi, viene applicata la metodologia di ricerca per molteplici casi studio per analizzare le ragioni per cui i *promotori* fondano le SPACs e come queste creano valore. La ricerca rileva che, in Italia, le SPACs che hanno completato l'OR hanno garantito rendimenti straordinari ai *promotori* e buoni ritorni per gli altri investitori. Inoltre, individua una chiara distinzione tra SPACs istituite per finalità prettamente finanziarie (SPACs-come-fine) e per finalità prevalentemente industriali (SPACs-come-mezzo), mostrando come la SPAC possa essere utile per finanziare iniziative imprenditoriali innovative dei *promotori*. Infine, descrive la catena del valore della SPAC, composta da quattro attività primarie e quattro di supporto che possono essere svolte in modi diversi e da cui dipende la capacità della SPAC di generare valore. Questa ricerca adotta un approccio innovativo all'analisi delle SPACs e mostra come queste possano essere buoni investimenti per i loro azionisti e buone risorse di capitale di rischio per le imprese.

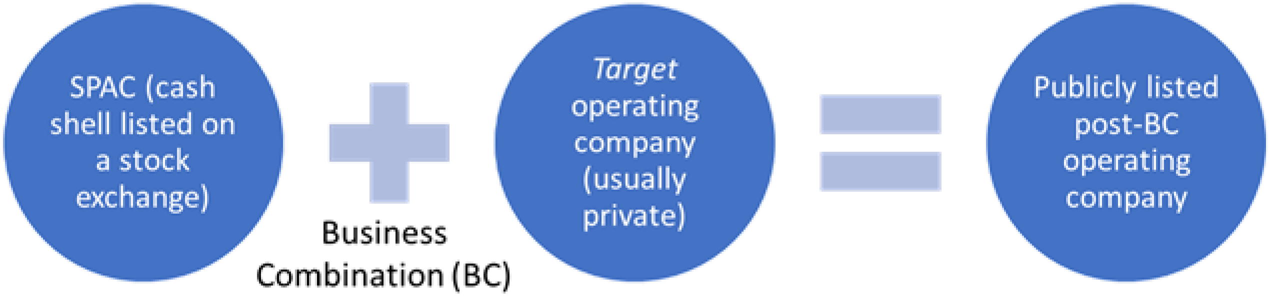
Parole chiave: Special Purpose Acquisition Company; SPACs; capitale di rischio; veicoli di investimento; Operazione Rilevante; Italia; analisi degli investimenti; casi studio; catena del valore.

Table of contents

Executive summary

i) Purpose of the study

Special Purpose Acquisition Companies (SPACs) are cash shell companies that issue securities, mainly in the form of shares and warrants, which are then traded on a secondary market, to raise capital for acquiring a business. SPACs are set up by teams of *promoters* who make an initial investment and are responsible for delivering the acquisition of a target company within a given time limit (usually between eighteen and thirty months). The acquisition can take many forms, but usually, it consists of a Reverse Merger (RM) in which the *target*, typically a private company, merges into the SPAC, becoming listed. This operation is called Business Combination (BC). After the BC, the SPAC becomes a regular operating listed company. SPACs are also called "blank-check companies", as investing in a SPAC is like writing a blank-check to *promoters* whose duty is to find a suitable *target* and create value bringing it public.



The SPAC, the target and the Business Combination. Personal elaboration.

Although SPACs are not a new phenomenon, their relevance increased sharply during 2020 in the USA Equity Capital Market (ECM), and their activity rose in Europe in the first half of 2021. SPACs play a double-folded role in the economic system: on one side, they are investment opportunities with very peculiar (and desirable) features for institutional investors and high net worth individuals; on the other hand, they are equity financing tools suitable for Small and Medium Enterprises (SMEs) and innovative firms. SPACs are conveying an increasing amount of capital to ESG Companies (Jessop & Murugaboopathy, 2021). They can foster the growth of innovative, technologically advanced and sustainable companies. SPACs can also improve the transparency and accountability of firms and promote the spread of good governance practices by providing them with a path to go public alternative to the more traditional ways like an Initial Public Offering (IPO).

However, their degree of innovativeness and the systemic role that there are reaching raise concerns among regulators. The main risk associated with SPACs is the opaqueness of disclosure related to the BC. Another risk is linked to the opaqueness and complexity of the securities issued by SPACs at IPO and the hidden costs arising from dilution, redemption rights, and underwriting fees. Investors shall be protected against this complexity. In addition, bad performance of firms that go public via a Reverse Merger (RM) with a SPAC may cause systemic troubles as they often enter the main stock market indexes to which the performances of funds with trillions of dollars of assets under management are linked. Finally, the fashion for this kind of investment that boomed in the last two years may cause a bubble that can burst with unpredictable consequences on the stability of the financial markets and the economic growth. Different practitioners pointed out that the bandwagon effect may become dangerous (Ortenca, et al., 2021) which triggered the regulators' attention (Aliaj & Temple-West, 2021).

Therefore, the primary motivation that led to this research is the belief that to create the foundation for a sustainable diffusion of SPACs, enhancing the benefits they bring to the whole economic system and mitigating their drawbacks and flows, it is primarily necessary to deeply understand the phenomenon, trying to find out the reasons behind the SPACs' establishment, the benefits they deliver and the mechanisms that underpin their functioning.

ii) Notes on extant knowledge

The literature that analyses SPACs covers the timespan between 2007 and 2020 and can be classified into three main streams that partially overlap. The first stream is composed of papers that analyse the characteristics of SPACs, creating a phenomenology of SPACs. The second instead collect the empirical studies which start from a sample of SPACs and try to link their characteristics to their financial and operating performances. The third deals with the discussion on the benefits that SPACs bring to IPO underwriters, *target* companies, *promoters* and investors.

Phenomenology of SPACs

The first stream of literature encompasses all those papers defining what SPACs are and describing their characteristics. The bulk of the literature that describes what a SPAC is and its features focuses on the USA market (Hale, 2007; Heyman, 2007; Murray, 2017; Okutan Nilsson, 2018) or takes the American market as the reference point for cross-countries analysis (D'Alvia, 2014; D'Alvia, 2020). However, some studies depict the phenomenon in Europe and Asia (Ignatyeva, et al., 2013; Kim, et al., 2020; Riva & Provasi, 2019). What emerges from the analysis is that SPACs are very diverse around the world. In particular, the works of D'Alvia (2020) and Murray (2017) disclose how flexible and heterogenous are SPACs. The SPAC is a corporate form open to innovations, very reactive to the market forces and heavily influenced by the regulators' activities. Thus, it is tough to give a top-down and unique definition to SPACs. Also, an updated description of the market practices in Italy and Europe is missing.

Empirical studies

The second stream of literature includes all those papers that analyse the performances of SPACs securities and post-BC entities and adopt statistical analysis to identify and test the linkages between SPACs characteristics and their performances. The investigations in these papers focus mainly on two elements: the determinants of the SPAC performances and SPAC mergers. Jog and Sun (2007), Jenkinson and Sousa (2011), Lakicevic and Vulanovic (2013) and Kolb and Tykvova (2016) compute the buy-and-hold-return for SPACs' shareholders after the BC, finding negative results and spotlighting a structural underperformance of SPACs' shares with respect to different benchmarks. Jog and Sun (2007) and Lakicevic and Vulanovic (2013) found instead that *promoters* of SPACs that completed the BC yielded staggering returns. Lewellen (2009) and Lakicevic and Vulanovic (2013) computed the Cumulative Abnormal Returns (CARs) for SPACs securities around relevant days of the SPACs' lifecycle (when they announce and when they conclude the BC). Other authors (Boyer & Glenn, 2008; Floros & Sapp, 2011; Howe & O'Brien, 2012; Ignatyeva, et al., 2013; Dimitrova, 2017; Klausner, et al., 2021) tried to link the characteristics of the SPACs, of the *targets*, of the BC deal and context factors to their financial performance. Kolb and Tyvkova (2016) explored the differences between SPACs that go public through a BC with a SPAC and those that perform a traditional IPO, while Lakicevic et al. (2014), Cumming et al. (2014) and Vulanovic (2017) and Kim et al. (2020) try to test which factors influence the likelihood for a SPAC of closing a BC deal and the likelihood of survival of the post-BC entity. In general, empirical papers are focused on the USA market (except for Kim et al., 2020 Ignatyeva, et al., 2013) and show that firms that go public via SPAC merger tend to be of a smaller, with lower profitability and higher leverage than those that perform the traditional IPO process, that their operational and financial performances are worse than comparable firms, that adverse incentives to *promoters*, underwriters and redeeming investors, such as the dilution embedded in the SPAC structure (caused by the warrants' conversions, the remuneration of *promoters*, the underwriting fees and the redemptions), negatively affect their financial performances but that the *promoters'* involvement in the post-BC entity, the definition of a sated focus (sectorial SPACs) for the acquisition in the prospectus and the speed in the identification of the *target* are factors that positively impact the return from the investment.

Benefits of SPACs

Performing the BC with a SPAC, the *target* becomes listed. To summarizing, the benefits traditionally recognized to the fact of going public can be clustered into financial benefits (lower cost of equity capital, lower cost of debt, easier access to other financing options), operating benefits (improved visibility on key markets, improved reputation of the firm, increased bargaining power toward customers and suppliers), organizational benefits (better performance measurement system, higher attractiveness for top managers, ease of entering M&A transactions), tax benefits (in the case they are accorded from governments to listed firms) (Pagano, et al., 1998; Brau, 2010). In addition to these, the BC with a SPAC can provide the *target* with the following benefits (Floros & Sapp, 2011):

- Avoid the SEC review process, saving time in the process
- Less legal preparation is needed, and this causes to save direct costs
- No need to time the market. The IPOs are exposed to the market risk, while RM are private negotiations that provide more certainty on the valuation and on the outcome of the process
- *Target* managers do not have to spend time on roadshows and can stay focus on the company's operations
- *Target* company's shareholders generally own the large majority of the resulting public company, keeping control
- The *target* can receive substantial cash infusion and guidance through a knowledgeable management team.

Heyman (2007) took a multistakeholder perspective and highlighted the following benefits of SPACs:

- Underwriters' benefits are related to the opportunity to gain from fees and enter a new market niche.
- The investors benefit from the possibility to obtain financial gains investing at IPO in the unit offered by a SPAC. Moreover, the redemption right and the liquidation in case of missed BC provide them with a floor to potential losses from not successful, or not appreciated, ventures. Overall, the typical SPAC structure *"provides investors with very low risk, liquid investment as well as an option to participate in any future acquisition"* (Jenkinson et al., 2011).
- Smaller firms without the capabilities and the resources necessary to undertake a traditional IPO can access, through a reverse merger with a SPAC, the ECM becoming public.

- The promoters can gain from a BC due to their remuneration after it and eventually additional investments made in the SPAC's securities.

iii) Research framework

The analysis of the literature brought to the identification of some relevant gaps.

1. Missing updated performance assessment and market practices description outside the USA market
2. Missing strategic considerations at the base of the SPACs' establishment and BC deals
3. Missing empirical evidence of the mechanisms underlying the functioning of the SPACs

These three gaps led to the definition of three research questions aimed at filling them.

RQ 1: How do SPACs perform?

RQ 2: Why are SPACs established?

RQ 3: How do SPACs create value?

The research design foresees two different blocks. The first block deals with the first research question employing quantitative analysis tools to assess the SPACs' securities' performance. The first block updates the existing literature on SPACs' performance, focusing outside the USA with an innovative methodology. The second block addresses research questions 2 and 3 through multiple case studies research. It analyses in deep the rationale behind the SPACs' establishment and the mechanisms underlying their functioning, adopting an exploratory approach aimed at providing helpful empirical evidence to create a comprehensive theory on SPACs.

In order to effectively address the research questions, the analysis concentrated on the Italian context. Adopting a single-country point of view permits a description of the legal framework before conducting the analysis and projecting its findings against a uniform background. This provides the ultimate benefit of identifying valuable managerial patterns and conclusions more clearly and coherently with the research's purpose. Three criteria have driven the choice of Italy: the similarity with the American SPACs, the relevance of the phenomenon in the country and the influence that it is having on the latest developments of the market. Moreover, the sample of Italian SPACs is small enough to allow for a case studies approach without the need for a previous selection of cases and, variegated in terms of SPACs' characteristics and integrated with the global network of SPACs.

In Italy, SPACs were imported from the USA in the early 2010s and adapted to the complex local legal context. The Italian SPACs are listed Limited Companies (S.p.A.) that raise the money at the IPO issuing ordinary shares with attached the right to receive (at the IPO or the BC) a certain number of warrants. Both the shares and the warrants issued at the IPO trade on the secondary market. In a SPAC, the funds raised at the IPO shall be tied to be employed for the BC. For this reason, Italian SPACs deposit the bulk of the IPO proceeds in an escrow account while the *promoters* perform an initial at-risk investment in special shares (and, in some cases, special warrants) meant at financing the operations of the SPAC before the BC. The securities bought by the *promoters* are neither traded nor transferable until after the BC, and their release (that is, the conversion in ordinary shares) can be subject to the achievement of performance targets of the post-BC share price. The *promoters* are not remunerated during the activity of the SPAC but can gain money only from a successful BC. They can be individuals or firms. In the second case, the SPAC is *institutional*. The *promoters* have a time limit, defined by the listing requirements and SPAC's bylaw and usually set at twenty-four months, to complete the BC. In Italy, SPACs can list their shares on the Alternative Investment Market (AIM) or the Market for the Investment Vehicles (MIV). The shareholders' meeting must approve the BC, and the shareholders who do not approve it can redeem their shares at a *pro-quota* rate of the money put into the escrow account, keeping the warrants assigned at the IPO. The redemption rate cannot overcome a threshold, usually set between 30% and 33% of the shares and of the money in the escrow account, for the BC to be approved. If the SPAC does not close the BC, the *promoters* have to give the investors back the money in the escrow account. Thirty-one SPACs have been listed on the Italian markets since 2011. Twenty-two of them delivered the BC, seven went into liquidation, and two have not completed the BC yet. In total, they raised more than €4 billion and invested into the *targets* around €2.6 billion.

iv) Methodology

Performance assessment

The financial return of SPACs is assessed in two different ways. Firstly, computing the market reaction at the relevant dates of the SPAC's lifecycle and the short-term return after the BC. Secondly, assessing the return from the investment that SPACs granted to IPO investors and *promoters* in the medium-to-long term. The performance assessment is carried out on the sample of Italian SPACs which delivered the BC.

The first step of the analysis focuses on how the market reacts to the following events:

- BC announcement (event A)
- BC approval (event B)
- BC clearance (event C)
- BC effectiveness (event D)

The first part consists of an event study, which implies the computation of Cumulative Abnormal Returns (hereinafter CARs) of the shares around the event dates. The benchmark index selected is the FTSE Italy Small Cap. The second part is an appraisal of the long-term performance of the SPACs' securities. It follows the logic of the investment analysis and considers three different investors' profiles: the *promoters*, the non-redeeming investors and the redeeming investors. Moreover, the investment appraisal takes into account the cash flows related to the warrants' exercise and considers the dividends paid by the post-BC entity in the time horizon of the analysis. Coherently, the metric adopted is the Annual Internal Rate of Return (hereinafter IRR) of the investment over two different time horizons: one begins with the IPO and ends twelve months after the BC date (12M), the other begins at the IPO and finishes twenty-four months after the BC (24m). The IRR is also compared with the market's return in the same period, obtaining the Abnormal IRR (hereinafter AIRR). The benchmark adopted is the FTSE Italy Small Cap.

The performance assessment includes the distinction between *good* and *bad* SPACs made by Jenkinson and Sousa in their paper *"Why SPAC investors should listen to the market"* (2011) in which they argue that the share price at the BC approval date has a signalling value about the SPAC's quality. If it is lower than the actualized *pro-quota* value of the funds in the escrow account, the SPAC is *bad*, and investors have approved value-destroying deals, given that they could redeem their shares voting against the BC earning a yield higher than the risk-free. Otherwise, SPACs are defined as *good*.

Case study research

Doing a case study is one of the possible approaches to empirical research. According to Yin (2014), a case study is a particular form of research inquiry which *"investigates a contemporary phenomenon in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident"*. Moreover, it allows to deal with complex phenomena, such as SPACs, including in their analysis contextual evidence (Mason, 2002) and highlighting complex relationships and decision drivers which are material to understand their development. Moreover, this methodology does not require the *control of behavioural events*. The case study approach to research is suitable for theory building in new topic areas starting from empirical evidence and generating *"novel, testable and empirically valid"* propositions that extend the current research (Eisenhardt, 1989). For these reasons, the case study methodology has been applied to address the second and third research questions. The implementation of the methodology requires, at first, the identification of the unit of analysis, that is, the definition and the bounding of the case to be studied. For this research, the unit of analysis is the single SPAC, but it also encompasses the *target* company before the BC, the period before the SPAC establishment that leads to the foundation of the venture, and the post-BC entity in its operations and performance. In order to enhance the external validity of the research, the adoption of multiple case studies is preferred to the single case study (Yin). Herriott and Firestone (1983) state that the evidence from multiple cases is more compelling, and the findings of multiple case studies research are more robust than those of single-case research. The research protocol plays a crucial role in the development of the case study research. It consists of a "*standardized agenda for the researcher's line of inquiry"* (Yin, 2014) and guides *"the researcher in carrying out the data collection from a single case".* It also improves the consistency of the research in multiple case studies and facilitates the analysis of the evidence. The relevant qualitative and quantitative information collected on the case during the research are summarized in the Summary Sheet and regard five different topics: the *promoters*, the investment policy, the IPO, the *target*, the BC and the post-BC. In conducting the case studies, multiple sources of evidence have been employed, and semi-structured interviews with the *promoters* have been conducted. During the interviews, these points have been explored:

- The events, motivations and objectives underlying the creation of the SPAC, with a special focus on the dynamics behind the establishment of the team of *promoters*
- The strategic and tactic considerations behind the definition of the investment policy and the bylaw provisions
- The context in which the SPAC was established, the policy adopted during the fundraising, the obstacles met, and solution implemented to ensure a successful book building
- The strategy, the tactics and the procedures followed during the *target selection* process
- The situation of the *target* before the BC, the rationale behind its choice of exploiting the SPAC to go public and the implementation of the BC
- The benefits brought to the *target* by the BC and the *promoters'* role in the post-BC entity
- The main determinants behind the post-BC entity performance.

The cases are reported anonymously, and the analytic strategy adopted followed the principle of the analytic generalization of the findings meant to build theoretical propositions from the empirical evidence *working the data from the ground.* This inductive approach is the most appropriate to a context in which the first relevant element is to make the evidence speak for itself, without leaving any previously built theoretical framework to hinder possible innovative and unexpected findings. The corresponding analytic technique relies on a cross-case synthesis which treats every individual case as a separate study but then aggregates the findings from all the cases analysed to find robust results. Seven cases of Italian SPACs have been analysed and reported. Given the low numerosity of the case studies effectively conducted, the synthesis does not employ quantitative techniques but strongly relies on word tables and their argumentative interpretation (Yin, 2014).

v) Findings

RQ 1) How do SPACs perform?

The analysis of the CARs around the relevant dates of the SPAC lifecycle reveals that the only statistically significant results regard the BC date. In particular, in the five days at the turn of the BC effectiveness date, the CAR's estimation is positive. This finding shows that companies that go public with a SPAC are subject to a phenomenon similar to the IPO pop for traditional IPOs. For the *target* announcement, the CAR in the window [-2; +2] is positive and slightly significant. On average, the market appreciates that the promoters have completed their task, finding a *target* for the BC. Another interesting result regards the CAR in the month after the BC that it is negative (on average -5.6%) and very significant. If this is partly explainable by the dilution provoked by the conversion of the first tranche of special shares, the magnitude of the price drop may indicate that the BC destroys value instead of creating it. However, the analysis of the share price only and in such a short period does not provide a complete picture of the performance of complex investment vehicles as the SPACs are.

From the IPO to twelve months after the BC, the *promoters* of the SPACs gained on average more than 90% of IRR, and only in three out of twenty cases, the *promoters* did not get a positive return. Looking at the 24M horizon, still, the *promoters* got, on average, the 56% of IRR. It is clear that setting up a SPAC and delivering the BC is a very profitable business for promoters. Still, the risk of not delivering the BC is substantial. In these cases, the *promoters* could hardly receive back half of their investment, in addition to having worked without being paid for nearly two years.

Cumulative Abnormal Returns for SPACs stocks around relevant dates adopting a market model. The estimation window is from the day after the IPO to the sixth day before the event A. Personal elaboration.

BC announcement (A)			
Observation window	**Average CAR**	**t-test**	**n sample**
[-5;+5]	0,9%	1,20	15
[-2;+2]	0,8%	1,74	15

BC approval (B)			
Observation window	**Average CAR**	**t-test**	**n sample**
[-5;+5]	0,5%	0,69	15
[-2;+2]	0,4%	0,90	15

BC clearance (C)			
Observation window	**Average CAR**	**t-test**	**n sample**
[-5;+5]	-0,8%	-1,10	15
[-2;+2]	0,3%	0,69	15

BC date (D)			
Observation window	**Average CAR**	**t-test**	**n sample**
[-5;+5]	0,8%	1,11	16
[-2;+2]	1,9%	3,94	16
[+1;+30]	-5,6%	-4,73	16

IRR and AIRR over twelve and twenty-four months after the BC for redeeming investors, non-redeeming investors and promoters

	IRR promoters 12M	AIRR promoters 12M	IRR non-redeeming investors 12M	AIRR non-redeeming investors 12M	IRR redeeming investors 12M	AIRR redeeming investors 12M
Average	92,0%	94,1%	1,3%	3,5%	3,6%	4,6%
Median	56,3%	57,0%	3,1%	3,6%	2,3%	2,9%
Minimum	-6,9%	3,2%	-42,0%	-31,9%	-0,6%	-7,0%
Maximum	797,5%	820,9%	24,1%	33,4%	15,1%	18,9%
n sample	20	20	20	20	19	19
	IRR promoters 24M	**AIRR promoters 24M**	**IRR non-redeeming investors 24M**	**AIRR non-redeeming investors 24M**	**IRR redeeming investors 24M**	**AIRR redeeming investors 24M**
Average	56,0%	55,1%	2,3%	1,5%	3,5%	3,1%
Median	48,5%	46,4%	-0,6%	1,3%	2,5%	3,0%
Minimum	-16,4%	-8,4%	-39,0%	-31,0%	-0,7%	-9,9%
Maximum	294,6%	284,3%	30,8%	22,9%	15,6%	21,1%
n sample	19	19	19	19	18	18

For non-redeeming investors, the return from the investment is more mixed. However, on average, the IRR for non-redeeming investors has been positive in both the time horizon and in absolute (+1.3% and +2.3%) and relative terms (+3.5%, +1.5%). It seems that Italian SPACs do not tend to underperform the market benchmark. Interestingly, for redeeming investors, the average IRR is even better than for non-redeeming ones. Also, they are protected against bad performances of the post-BC entity. This poses a severe problem to SPAC *promoters* as it gives public investors a solid incentive to redeem their shares, hindering the mechanism that led to the BC. However, from the point of view of the IPO investor, this is positive as he knows that if he dislikes the BC, he can exit the investment and still gain money if the post-BC entity creates value.

Comparing the performance of *good* and *bad SPACs* emerges that, for *bad SPACs*, the CAR of the shares in the month after the BC is negative and strongly significant, while, for *good* SPACs, it is still negative but not significantly different from zero. Even in the long-term, the *good* SPACs perform on average way better than the *bad* ones. This is a clear indicator that the share price at the BC approval date has a signalling value about the quality of the SPAC. Further analysis shows that investors who “listen to the market” and redeems the shares of *bad SPACs* can earn an extra return with respect to someone who does not “listen to the market” and keep or redeem the shares in any case.

Short term IRR for good and bad SPACs. Personal elaboration.

BC date (D)			
Observation window	**Average CAR**	**t-test**	**n sample**
[+1;+30] good SPACs	-3,6%	-1,58	6
[+1;+30] bad SPACs	-10,9%	-8,77	9

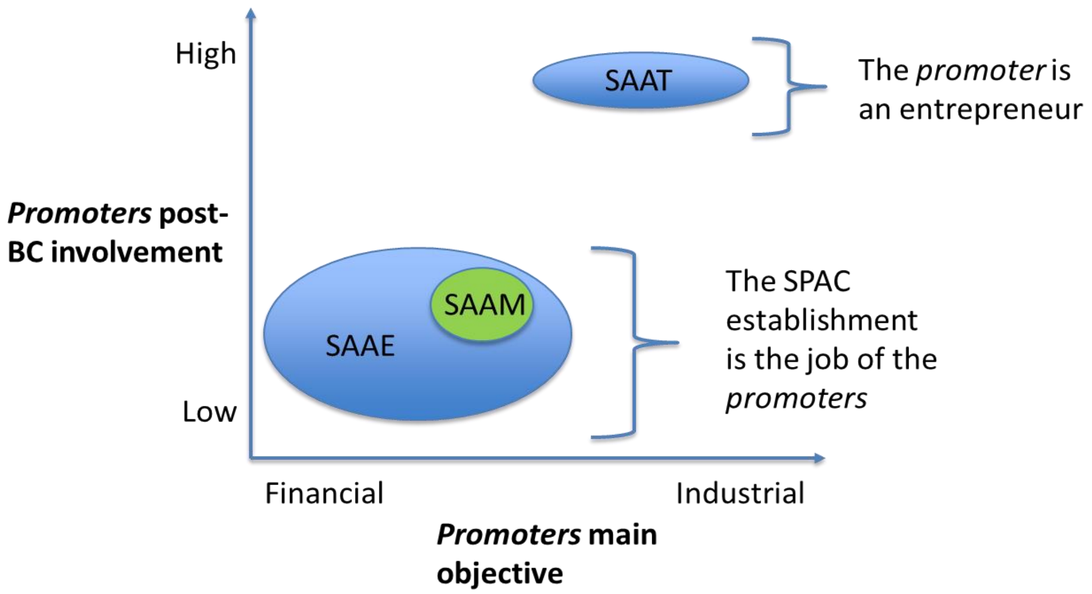
Long term IRR for good and bad SPACs. Personal elaboration.

	Promoters		Non-redeeming investors	
	Average IRR 12M	**Average IRR 24M**	**Average IRR 12M**	**Average IRR 24M**
Good SPACs	86,3%	54,7%	10,5%	7,0%
Bad SPACs	24,2%	25,3%	-9,4%	-6,7%

RQ 2) Why are SPACs established?

The findings related to the second research question are based on the interview with the SPACs' *promoters*. In some cases, the main objective that *promoters* want to achieve establishing a SPAC is mere financial gain. In these cases, the primary motivation of the *promoters* coincides de facto with the possibility of earning much money from a successful BC. However, it can go hand in hand with some intrinsic motivations, such as the willingness of acting as principals investing their own money in the venture or the aspiration of bringing innovation into the market. In other cases, the objectives of establishing a SPAC go beyond the mere financial gain and responds to personal aspirations or organizational goals (for instance, to bring an Italian firm public or to enlarge the customer base of the *promoters'* firm). These situations have in common that, for the *promoters*, establishing a SPAC is a job per se that ends once they have delivered a successful BC. Consequently, the *promoters* have low-to-null involvement in the post-BC entity activities. These situations are clustered under the SPAC-as-an-end (SAAE) paradigm, which encompasses the case of SPAC-as-a-mission (SAAM) when, besides the financial objective, *promoters* aim at reaching a personal or organizational mission.

However, there are situations in which the *promoters* only see the SPAC as a tool to finance their entrepreneurial project. Thus, their job starts once the BC is delivered as they take an executive role in the post-BC entity. In these cases, the *promoters* adopt a SPAC-as-a-tool (SAAT) paradigm, which



SAAE and SAAT: classification of SPACs according to the promoters' main objectives and their involvement in the post-BC entity. Personal elaboration.

encompasses the predominance of the industrial objectives over the financial ones and heavy involvement in the post-BC entity of the *promoters.*

RQ 3) How do SPACs create value?

The critical analysis of the case studies allowed the identification of the main activities and functions that a SPAC carries out to create value. They are classified as primary activities (essential to add value and create a competitive advantage for the SPAC) or support activities (those that help the primary ones be more efficient and effective) and organized in the SPAC's value chain. Then they are analysed in deep one by one.

SPAC's value chain. Personal elaboration.

Fundraising

Through the fundraising process, SPACs' *promoters* sell the SPACs' securities on the market and collect the money needed to conclude the BC. The fundraising ends with the IPO and the listing of the SPAC. During the fundraising, the *promoters'* need to bring onboard investors that will likely stick with the investment even after the BC. The network of knowledge of the *promoters* plays a crucial role in this phase. Moreover, to attract the investors, the *promoters* can rely on structural elements of the SPACs, such as the free warrants assignment (a *"free ticket for the lottery"*), the redemption right (which make the investment in a SPAC theoretically risk-less until the BC and gives the control over the BC to the shareholders) and the liquidity of the securities, which trade on the secondary market after the IPO, and on idiosyncratic factors, that are mainly the credibility of the *promoters'* team, the attractiveness of the investment policy and the bylaw provisions. Some contextual factors influence the ability of SPACs to raise money, such as the level of liquidity available in the economy to be invested in listed assets and the SPACs' knowledge and reputation. A problem that *promoters* may face during fundraising is overcollection. They can solve it by splitting up the SPAC after the first BC assigning the idle funds to a new vehicle, returning the exceeding money to investors after the BC or rationing the assignment of securities at the IPO. All these situations may create frictions with the investors and should be managed carefully, with the maximum transparency.

Target selection

The target selection starts with the origination of potential targets, which are put in the pipeline. During the origination, *promoters'* rely heavily on their knowledge network, while a proactive approach to the origination seems not very effective. Then, the *promoters* screen the companies in the pipeline trying to understand whether they are interested in the BC with the SPAC. If the firms do not know what a SPAC is, this activity can be more complex. After this, firms potentially interesting for the BC are shortlisted. On the shortlisted companies, the due diligence and valuation are carried out, and the one that accepts the best conditions in terms of the price should be the one selected for the signing of the *"master agreement"* that is then disclosed to the market and must be approved by the shareholders' meeting to allow for the conclusion of the BC. However, in practice, the target selection is a nonlinear process that can take unpredictable turns and suffer significant risks and uncertainty. The timing of the completion of the process is a critical success factor for the SPAC, as well as the quality of the selected *target.* To reduce the delay between the IPO and the end of the *target selection*, this process can begin before the IPO and, in some cases, also end before the IPO (accelerated BC).

Deal making

With the BC, the SPAC must provide the *target* with a valuable solution that matches its needs. The analysis of the cases shows that companies that performed the BC were dealing with some challenges induced by the shareholders or the business. For companies facing financial troubles while showing good operating performance in the core business (*good P&L*, *bad A&L* companies), the BC has been a solution for recapitalisation and restructuring the corporate structure. For companies that wanted to finance their growth, the BC has been an accelerator of their development plans by injecting fresh capital into the firm. For what concerns the challenges induced by the shareholders, the BC proved to be a solution to solve shareholders' conflict, allowing for the cash out of those investors willing to exit and for the reorganisation of the shareholding structure. Also, the BC allowed shareholders willing to keep the control to reach their objective without imposing shareholders' agreements and drag and tag along clauses typical of the PE funds. Finally, as an alternative to IPO for firms willing to go public, the BC allows the *targets'* shareholders to evaluate the book's quality in advance, save time and costs, better manage the communication during the process, and reduce reputational and market risks.

To conclude, in some cases, the BC deal has been the unique possible solution to solve the *target's* problems, while in other cases, it proved to be a valuable alternative to the IPO and the PE financing. Two key factors seem to be crucial for the success of the SPAC: the company's price, which shall be at a discount to allow for the appreciation of the price after the BC and to increase the likelihood of the BC approval, and the mix between primary and secondary proceeds. It seems more appreciated and better for the SPAC performance a deal with more primary proceeds. Finally, the BC deal has some drawbacks for the *targets'* shareholders in terms of undervaluation and dilution, which are worse than PE investments and IPO. Thus, they shall have strong motivations to conclude a BC and a long-term orientation. It seems that for shareholders' willing to cash out, the BC is a suboptimal solution.

Post-BC

The discussion of how the SPACs can create value influencing the post-BC operations is different between SAAE and SAAT. In the case of SAAE, the *promoters'* involvement in the post-BC is low-to-null. Still, they usually enter the BoD of the post-BC entity in non-executive roles. They can support the *target* during the transition between the private and the listed status, helping the management dealing with the listing requirements, setting up the governance structure and playing the role of filters between the market and the company. Also, they can help the post-BC entity reach its strategic goals, mainly supporting the execution of M&As. It has been found that *promoters* with industrial backgrounds also gave some advice to the post-BC management in developing the business strategy, thanks to their market knowledge. Institutional *promoters* set up the investor relation office and helped the post-BC entity develop an ESG strategy. This shed light on how a BC with a SPAC can bring to the *target* innovations which go beyond the traditional financial-centric activities. In the case of SAAT, instead, the *promoters* effectively manage the post-BC entity and give a new vision and mission to the *target*, kick off a new business plan and execute it. They create value by generating a competitive advantage in the market for the post-BC entity. The evidence shows a significant relevance of innovation in this kind of entrepreneurial venture. This gives a lead that SPACs can be vehicles of innovative firms in the economic system.

Investment strategy

In the investment strategy disclosure, the *promoters* outline the desirable profile of the *target* company and the kind of deal that they are willing to close with it. The investment strategy usually foresees an acquisition of a minority stake in the *target*. However, a more flexible investment strategy, opened also to taking control of the *target*, can improve the likelihood of closing the BC. The investment strategy can be sectorial if it indicates a specific sector in which the *target* shall operate. A sectorial SPAC seems to be more appealing to the investors (who can better allocate their money), more credible for the *target* and can carry out the *target selection* more efficiently with respect to generic SPACs. Even if traditionally the SPACs start the *target* selection after the IPO, there are cases in which the investment strategy discloses the *target's* identity in advance (if the IPO follows the signing of the master agreement, the SPAC performs an *accelerated BC*). This reduces the uncertainty for the IPO investors and speeds up the process that leads to the BC but requires the disclosure of the *targets'* information already at the IPO of the SPAC, similarly to a traditional IPO.

Bylaw provisions

The bylaws provision refers to the terms and the conditions of the securities offered to the market and of those bought by the *promoters*. They have a double-folded role. On one side, they should provide the investors with attractive features. On the other side, they determine the *promoters'* remunerations. The mechanisms of assignment of warrants and conversion of special shares mean to provide the *promoters* with a suitable incentive to find a good *target* and align the interests of *promoters* and investors (Chatterjee, et al., 2016). Whenever the bylaw provisions were not meant to add value for the SPAC, the *promoters* tried to standardize them. This is the case of SAAT, in which the main focus is on the ability of the *promoter-entrepreneur* to run a new business, while the SPAC has only the function of channelling funds toward the new entrepreneurial venture. The standardization makes the SPAC's structure easier to be understood by the investors, easing the fundraising. On the other hand, for SAAE, the definition of innovative and appealing bylaw provision can be a source of competitive advantage during fundraising and deal-making. The empirical evidence shows that the innovations are generally introduced by *serial* and *institutional promoters*.

Investor relation

After closing the master agreement, the SPAC's *promoters* have to "sell the deal" to the SPAC investors. Thus, jointly with the *target's* management, they pitch investors a BC presentation and begin a roadshow. The ability to keep good relations with the investors in this phase is critical to increase the likelihood of the BC approval and minimize the redemption rate. In SPACs, the relation between the *promoters* and the main block holders is usually straightforward. So, the *promoters* can receive immediate feedback and can provide ad hoc explanations. From this derives a way shorter and more efficient roadshow of SPACs than the traditional IPO roadshow and is a source of the attractiveness of the BC deal for the companies willing to go public. Also, the *promoters* can play the function of IR even in the post-BC entity.

Promoters' team

The *promoters'* team is the core intangible asset of a SPAC. The first requirement is that the *promoters* of a SPAC must be well known and highly credible individuals or firms as a guarantee for the investors. The characteristics of *promoters'* teams vary between SAAE and SAAT.

In the case of SAAE, the *promoters'* team should be built to maximise the efficiency of the SPAC. The *promoters* should carry out most of the activities internally to minimise the initial investment requirement and enhance the return from a successful BC. In this perspective, the complementarity and completeness of skills are desirable, and the *promoters'* teams tend to be more numerous as it allows to internalise skills that otherwise must be acquired on the labour market (mainly by consultants). The *promoters* should have specialised skills in all the primary activities of the SPAC. Usually, this means that they should have experience in PE, M&As and Investment Banking. Also, legal competencies, experience in strategic consultancy, and as top managers in industrial companies improve the SPAC's ability to carry out the BC. Always in this perspective, the seriality can enhance the SPAC's efficiency thanks to the learning effect of *serial promoters* and the reputational boost. It can be argued that *institutional* SPACs should be the most efficient because they can rely on a vast pool of resources internal to the founding firms and save advisory costs. However, it seems that they require formal coordination mechanisms between *promoters* that can hinder the flexibility and dynamism of the SPAC. In fact, *promoters* teams are usually small and exploit informal coordination mechanisms and the shared leadership principle. Also, *promoters* shall have a high-risk propensity, the possibility of working for two years without getting a salary and an important loss-absorption capacity.

For SAAT instead, the team is built around the *promoter-entrepreneur.* He plays the role of the *dominus* and defines the identity and the roles of the other *promoters.* The role of his network of knowledge and charisma is even more important than in the SAAE case, as he has to "bring on board" as investors people who believe in his entrepreneurial talent and his ability to build something new. In these cases, what seems to be more important for investors is the quality and credibility of the industrial plan, which relies on the credibility built previously during his career in the sector of interest. For SAAT, the main focus should be the effectiveness of the SPAC in launching the new venture. SAAT *promoters* are entrepreneurs and shall build a team of people able to support their entrepreneurship venture and make use of the best consultants and advisors for reaching their goal of establishing a new venture

vi) Originality and practical implications

This research innovates the methodological approach to the study of SPACs. For what concerns the SPACs' performance assessment, it provides an integrated view which includes both the short-term and the long-term and, it adopts, for the first time, an investment analysis approach to assess the long-term performance of SPACs, including in the computation of the returns the cash flows derived from the conversion of the warrants and the dividend distribution after the BC. Moreover, this work applies systematically for the first time the case study research methodology to SPACs and shows how it can be adapted to the topic. Finally, the innovations introduced in the methodology can be helpful for other researchers willing to update this study or replicate it in other contexts.

It also provides new results. Firstly, it shows that SPACs are not a toxic investment and that their shareholders can exploit market information to improve their portfolio allocation. Then, it demonstrates that the BC with a SPAC is not a second-handed solution that bad firms may exploit to go public but can add value in ways that an IPO cannot. It reveals that promoters play a relevant role as intermediaries in the financial markets (taking relevant reputational and financial risks) with benefits for the whole economic system and that, to perform this job, they need a stable legislative framework. On one side, the SPAC offers investors an appealing opportunity. On the other side, it provides the target with potentially tailored and unique solutions to overcome challenges derived by the business and the shareholders. In this framework, this research asserts that *serial* and *institutional promoters* in the SPACs' market can be beneficial to its efficient functioning. Also, *sectorial* SPACs present some desirable features but need a broader market of potential *targets* than the Italian one to operate efficiently. From this derives the need for truly integrated financial and legal systems at the European level. Finally, it reveals that the SPAC can also be a vehicle for financing innovative entrepreneurial ventures (SAAT paradigm). The policymakers should consider this while establishing policies meant at fostering innovation and economic growth.

The research offers a new interpretative framework of what is a SPAC and of how it works. Two significant results are the identification of two different paradigms of SPACs (SAAE and SAAT) with very different features and hardly comparable and the drafting of the SPAC value chain. These results can be the blueprint for further research on the topic.

vii) Limitations and further research

For what concerns the performance assessment, one limitation relies on the limited numerosity of the sample. Further development of this work can regard a broader sample of SPACs and aim to test whether and how some variables highlighted in the qualitative analysis impact the SPACs' performances and the likelihood of closing the BC deal. Also, the analysis shows that, in some cases, the shareholders' meeting approves even value destroying BCs (bad SPACs). Further research can try to understand why this happens. Another limitation is the lack of a suitable benchmark for the long-term return from the investment. The choice of using the return of the FTSE Italy Small Cap as the benchmark has been suboptimal as it does not include the dividends and other cash flows that the investment in a SPAC instead involves. For this reason, it would have been better to use as a benchmark an index that tracks the return from PE investments that, however, does not exist at the Italian level.

For what concerns the case study research, the first limitation is that it has been not exhaustive. In particular, it analyses only one SAAT case, which did not allow to draft sweeping conclusions on this kind of SPACs. Still, this discovery has high potential and deserves further analysis, for instance, by developing a single case study of a prominent example of SAAT. Moreover, the analysis is missing the standpoint of the investors. Therefore, it can be interesting to analyse who invested in the Italian SPACs and to investigate the reasons why they decided to invest in a SPAC.

Finally, a limitation of the study is that the findings cannot be generalized beyond the Italian market. However, further developments may exploit the methodological and theoretical frameworks developed here and adapt them to different contexts.

Chapter 1: Introduction

Special Purpose Acquisition Companies (SPACs) are cash shell companies that issue securities, mainly in shares and warrants, which are then traded on a secondary market, to raise capital for acquiring a business. SPACs are set up by teams of *promoters* who make an initial at-risk investment and are responsible for delivering the acquisition of a target company within a given time horizon (usually between eighteen and thirty months). The acquisition can take many forms, but usually, it consists of a Reverse Merger (RM) in which the *target*, typically a private company, merges into the SPAC, becoming listed. This operation is called Business Combination or Relevant Operation. After the Business Combination (BC), the SPAC ceases to exist as an investment vehicle and becomes a normal operating listed company. SPACs are also called "blank-check companies", as investing in a SPAC is like writing a blank-check to *promoters* whose duty is to find a suitable *target* and create value bringing it public.

Although SPACs are not a new phenomenon, their relevance increased sharply during 2020 in the USA Equity Capital Market (ECM), and their activity rose in Europe in the first half of 2021. In 2020, SPACs IPOs accounted for 55% of total US IPOs and 46% of the total US IPO proceeds. SPACs have raised more than $300 billion in the USA since 2003. The SPACs were introduced in Europe in 2015, and since then, ninety SPACs have been listed in the UK, thirty-one in Italy and fourteen in other European markets, with an increasing trend in the last two years. SPACs are also diffused in South Korea, where they accounted for almost 30% of the total IPOs in the last decade and raised nearly $1.5 billion.

SPACs are relevant as they play a double role in the economic system: on one side, they are investment opportunities with very peculiar (and desirable) features for institutional investors and high net worth individuals; on the other hand, they are equity financing tools suitable for Small and Medium Enterprises (SMEs) and innovative firms. With their peculiar characteristics, SPACs provide investors with a new investment opportunity with an interesting risk-return profile. An additional investment tool, if well designed, changes the efficient frontier of investments improving the asset allocation for institutions and individuals. As an equity-financing tool, SPACs inject in the economic system the most stable type of funds. Moreover, SPACs are conveying increasing capital to ESG Companies (Jessop & Murugaboopathy, 2021). Thus, they can foster the growth of innovative, technologically advanced and sustainable companies. Besides, SPACs are also vehicles that can improve the transparency and accountability of firms and promote the spread of good governance practices by providing them with a path to go public alternative to the more traditional ways like an Initial Public Offering (IPO).

Promoters are usually well-educated individuals or well-established investment firms with strong capabilities and experience both in the sector of their interest and in the Investment Banking field, such as PE operators, experts of M&As and firms valuation. In addition, according to the different characteristics of the BC deal, they may be involved in the post-merged entity governance, either an executive or non-executive roles, bringing to the *target* company also capabilities and creating soft synergies besides injecting new funds.

However, their degree of innovativeness and the systemic role that there are reaching raise concerns among regulators. The main risk associated with SPACs is the opaqueness of disclosure related to the BC. This poses a severe threat to the ability of investors to discern between good and bad BC and, consequently, to the value-creating capability of SPACs. Loss-making companies can take advantage of this situation, projecting ahead amazing growth rates of revenues and profits to grab the BC's approval with null or loose supervision of their business plan credibility by market authorities (Aliaj, 2021). Another risk is instead linked to the opaqueness and complexity of the securities issued by SPACs at IPO, consisting mainly of units made up by shares and warrants, of their capital structure, usually composed by ordinary shares offered to the public and special shares bought by the *promoters*, and the hidden costs that arise from dilution, redemption rights and underwriting fees. This is also related to the incentive mechanisms embedded in the SPACs structure which link the remuneration for *promoters* and, in some cases, for underwriters to the closing of the BC (European Securities and Markets Authority, 2021). Additionally, the *target* seeking process is uncertain both in the target identification and evaluation phases, which can impact the profitability of the investment in SPAC securities. Furthermore, bad performance of firms that go public via a Reverse Merger (RM) with a SPAC may cause systemic troubles as they often enter the main stock market indexes to which the performances of funds with trillions of dollars of assets under management are linked. Finally, the fashion for this kind of investment that boomed in the last two years may cause a bubble that can burst with unpredictable consequences on the financial markets stability and economic growth. Different practitioners pointed out that the bandwagon effect may become dangerous (Ortenca, et al., 2021) which triggered the regulators' attention (Aliaj & Temple-West, 2021).

Therefore, the main motivation that led to this research is the belief that to create the foundation for a sustainable diffusion of SPACs, enhancing the benefits they bring to the whole economic system and mitigating their drawbacks and flows, it is primarily necessary to deeply understand the phenomenon, trying to find out the reasons behind the SPACs' establishment, the benefits they deliver and the mechanisms that underpin their functioning. Thus, this work aims at answering the following research questions:

RQ 1) How do SPACs perform?

RQ 2) Why are SPACs established?

RQ 3) How do SPACs create value?

The literature review related to SPACs reveals how these vehicles are poorly studied in countries other than the USA. In particular, it is missing an updated analysis of the market practices and SPACs' performances outside the USA. Moreover, no papers provide evidence about the rationale behind the SPACs' establishment and their functioning. Thus, to answer the research questions and fill the literature gaps, the thesis focuses on the Italian market. The motivation behind this choice relies on the relevance of the phenomenon in Italy, the similarity with the USA market and the influence that Italian SPACs are having on the development of the vehicle in other markets.

Chapter 4 provides a detailed description of the Italian SPACs and adopts an innovative and ad hoc methodology to assess the performance of their financial securities. It exploits the statistical and quantitative analysis to update the existing literature on SPACs' performance, showing that SPACs can be profitable investments for *promoters* and IPO investors, answering RQ 1. Chapter 5 and 6 instead applies the case study research methodology to the sample of Italian SPACs to answer research questions 2 and 3. It is the first time that this approach has been implemented on SPACs, and it is aimed at creating a deep knowledge of the phenomenon. In particular, chapter 5 discusses the method and presents the results in the form of case study reports, while chapter 6 exploits the cross cases analysis to develop a new theoretical framework about the reasons behind the SPACs' establishment and the mechanisms through which they create value, answering to RQ 2 and RQ 3. Finally, chapter 7 concludes by summarizing the answers to the research questions, discussing the theoretical and practical implications of the findings and highlighting limitations and further developments of the research.

Chapter 2: Overview on SPACs

2.1 High level definition of what is a SPAC

Special Purpose Acquisition Companies (hereinafter SPACs) are firms established to acquire stakes or merge with an operating company (hereinafter *target*). To reach their goal, SPACs raise money issuing securities through an Initial Public Offering (hereinafter IPO) and keep them until they find a suitable *target* to buy or to merge with. SPACs are thus defined also as *blank check companies* (BCC) or *cash-shells*. On one side, the investors at IPO sign a blank check in favour of SPAC founders (hereinafter *promoters*), giving them money that they will use to perform the acquisition of an operating company (or a merger with it): the so-called Business Combination (hereinafter BC). On the other side, the assets of a SPAC consist solely of cash until the BC, characterising it as a type of cash-shell company[1].

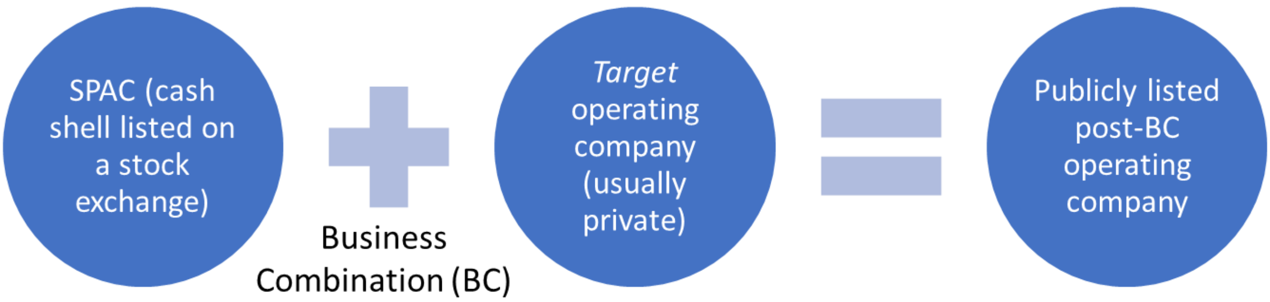


Figure 1 The SPAC, the target and the Business Combination. Personal elaboration.

A SPAC is founded by a team of individuals with different backgrounds and previous work experiences. Usually, either they are well-known personalities in the world of Private Equity (hereinafter PE), Venture Capital (hereinafter VC) or Investment Banking (such as Merger and Acquisition, hereinafter M&A, advisors and specialists of firms valuation and extraordinary deals) or experts of a specific industrial sector with previous experiences as Chief Executive Officers (hereinafter CEOs) or other top-level managerial positions in well-established firms. These two profiles may partially overlap. In some cases, it happened that SPAC *promoters* have been celebrity stars who exploited their popularity to raise money at the IPO and establish this kind of firm (Ramkumar, 2021). SPACs *promoters* can also be linked to, and expression of, firms operating in the financial industry, such as commercial banks, investment banks, financial boutiques, PE funds,

[1] The Securities and Exchange Commission in the US defined in 2005 as blank check company any firm with “no or nominal operations, and with no or nominal assets consisting solely of cash and cash equivalents”. Floros and Sapp (2011) identify three types of cash-shells: natural shells, derived from a sell-off of assets or a bankruptcy of an operating firm, development stage shells, derived from a failed business plan, and virgin shells, founded “with the sole intent of merging with unidentified single or multiple companies”, as SPACs are.

investment funds, financial advisory firms. In these cases, the SPACs are operating arms of a financial institution. SPACs *promoters*, who have the entrepreneurial idea of launching a new venture, can be financially supported by *sponsors*, individuals or firms that finance, at least partially, the initial investment required to establish a SPAC. *Promoters* and *sponsors* may coincide.

As said, to reach their goal, *promoters* have to raise money. SPACs raise money selling securities to the market through an IPO. They are subject to laws and regulations that vary according to the countries in which they operate and the market where they list the securities. In general, the investors in SPACs securities might be both institutional[2] The offering structure can be very complex, involving a package of different types of securities (hereinafter *unit*) such as shares and warrants, rights, options or convertible bonds. These securities are usually traded on a trading venue (OTC, unregulated or regulated market) and may be subject to some clauses[3]. Besides raising money from the market, *promoters* and *sponsors* make an initial investment. In fact, it is common practice for SPACs to segregate the assets between IPO proceeds (which may be deposited in an escrow account or invested into short-term virtually risk-free securities), used to finance the acquisition of or the merger with the *target*, and the initial investment of *promoters* and *sponsors,* which is usually employed to finance the costs they will incur in while seeking for and selecting the *target*. Another critical feature of SPACs is that the *promoters*, who operate as managers, do not receive any salary during the *target selection process*. They are only remunerated after the successful closing of the BC. This element clearly distinguishes SPAC *promoters* from PE funds managers, who gain on management and performance fees. The form of *promoters* and *sponsors* remuneration varies across cases[4]. In general, it is related to the financial gain derived from their initial investment, which can be reaped only if the BC is performed and can also be linked to the performance of the securities of the post-BC entity.

SPACs are special investment vehicles, not diversified. Their purpose is to close the BC (which is also called Relevant Operation), but they have a time constraint in doing so. According to the different rules across the globe, the time limit that *promoters* have to close the deal and perform the BC can

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[2] Sophisticated investors with previous experience in trading securities on the market and with strong financial knowledge and specific competencies. Institutional investors are assumed to be more capable of assessing the risks of investment and are less protected by the regulations.

[3] For instance, warrants could be exercisable only after the BC or assigned only at the BC.

[4] It can consist of shares and/or with special covenants embedded (such as restrictions to voting rights and transferability) that can be converted into ordinary shares immediately after the BC and/or when some performance goal is met.

vary between eighteen to thirty-six months. If *promoters* do not carry out their job in the allowed timespan, the SPAC is dissolved, and the money raised at the IPO are given back to the investors[5].

After the closing of the BC, the SPAC becomes an operating company, acquiring the *target's* business. While the technicalities of the deal can be different case by case, its substance is that after the BC, the SPAC ceases to exist as an investment vehicle and the resulting company (still mentioned as the post-BC entity[6]) has its securities listed on the stock market. This is why a BC with a SPAC is traditionally seen as an alternative for companies to go public without undertaking a traditional IPO process. The idea behind this is that, being a cash-shell without an operating story, the SPAC can follow a much easier procedure to go public with respect to the complex documentation and activities required to an operating company. So, the *target* can exploit this vehicle to become publicly listed and to raise money. The money of the SPAC can be used to increase the capital of the *target* (as if they were primary proceeds of an IPO) or to buy out existing holdings (similarly to the secondary proceeds of IPOs). Moreover, *promoters* and *sponsors* become shareholders of the post-BC entity and can assume executive or non-executive roles in the Board of Directors (hereinafter BoD).

2.2 From penny stocks to SPACs in the US

The model of the SPACs was born in the USA subsequently to the regulation of the so-called penny stocks. A *penny stock* is a stock offered for less than 5$[7]. The phenomenon of blank check companies offering on the market penny stocks through an IPO was widely spread in the USA even before the nineties. Blank check companies launch a public offering to raise funds to finance an acquisition of one or more operating companies whose identity is unknown at the time of the offering. Between 1987 and 1990, around 2700 penny stock offerings were made by blank check companies in the USA (Heyman, 2008). However, penny stocks were not regulated and were traded on illiquid venues. Brokerage companies have often used these instruments to defraud unsophisticated retail investors. Not protected by any specific regulation, such investors were attracted by the promise of great returns once the company selling the security would have performed the acquisition.

[5] In some cases, with also the accrued interests.
[6] Equivalently, with a small abuse of notation, during this work, it is also called post-merger entity. The discussion will not go deeper in analysing the different technicalities of the BC deal. However, it is worth mentioning that in the majority of cases it takes the form of a reverse merger (RM), that is the merger by incorporation of the *target* into the SPAC.
[7] This definition was subsequently changed by the SEC stating that, to avoid the definition of penny stock, a company must have net tangible assets over either (a) $2 million if the company has an operating history of more than three years or (b) $5 million if the company has an operating history of less than three years.

However, often behind the cash shell façade, the selling companies had no likelihood of success in the future while the brokerage firms selling their securities could gain both on fees and manipulating the price. This was very easy to do as the penny stock market was very illiquid and without regulatory supervision. Another way of defrauding the investors was to sell the stocks at an inflated price, making them believe that the blank check company would have acquired an up-and-coming business, while this was not true, and the investor would have found himself with worthless paper after the fall of the fiction. In the late eighties, the so-called *penny stock scandals* cost an estimated loss of $2 billion a year to many unsophisticated investors (Hinden, 1989)[8].

To protect investors from frauds and to regulate the market of black check companies and penny stocks, in 1990 the Securities and Exchange Commission[9] (hereinafter SEC) issued the Penny Stocks Reform Act implemented in 1992 by Rule 419 of the Securities Act of 1934. Rule 419 imposed many restrictions on the activities of blank check companies issuing penny stocks. Namely, the provisions required to penny stock issuers were:

1. To hold the bulk of the IPO proceeds in an *escrow account* where they must remain until the approval of the acquisition of the operating company or asset
2. To disclose the financial statements and pro forma financial information of the *target* and the issuer at the time that the *target* is identified
3. To amend the IPO registration statement[10] when the black check company executes the acquisition (the BC) and to send the prospectus contained in the amendment to the investors who can withdraw from the investment within a given time period
4. To give investors the right to redeem (*redemption right*) their investment (plus interests net of fees and expenses that occurred in the target seeking process) if they do not like the acquisition performed by the company
5. To conclude the BC within a time window lasting eighteen months from the IPO, otherwise, the company is forced to give back the money raised to investors
6. To use at least 80% of the funds raised at the IPO (and from subsequent warrants conversions) to perform the BC

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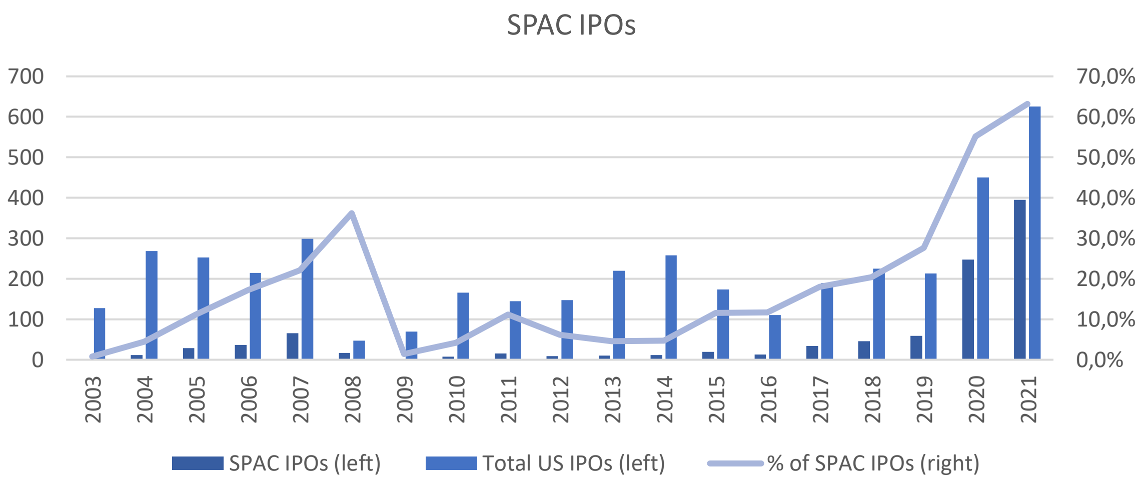
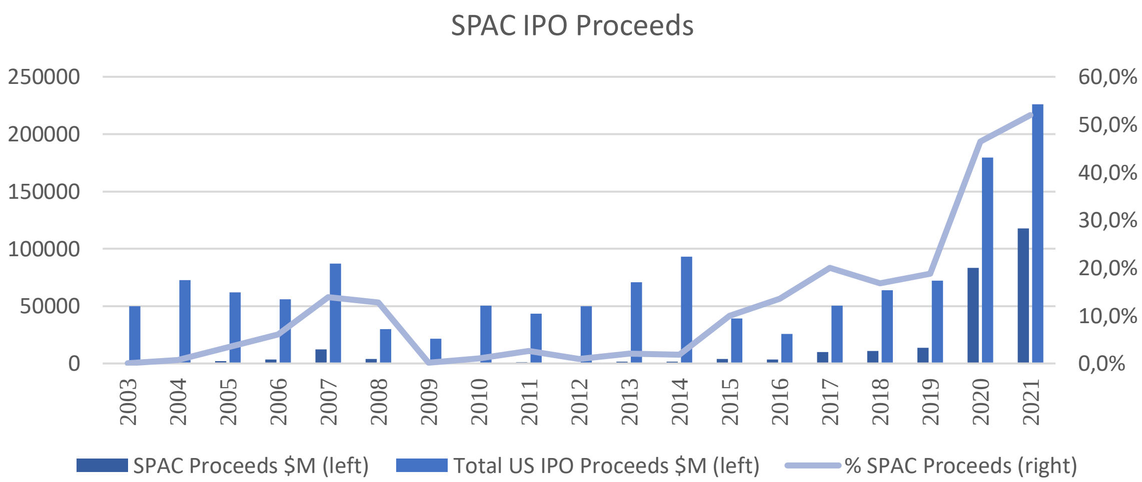
[8] The phenomenon of penny stock scandals is represented in the movie "The wolf of Wall Street" from the standpoint of a brokerage company selling penny stocks.
[9] The SEC is the control body in charge of recording, regulating and monitoring the brokerage firms and the stock exchanges in the USA
[10] That is the document with the relevant information related to the issuer and the issued securities required by the SEC to allow the public offering and to keep record of the securities sold.

These requirements effectively posed an end to the use of blank check companies as vehicles of fraud and were the basis for the birth of SPACs. In fact, in the early nineties, the American investment bank *Early Bird Capital* engineered a new vehicle, thought to avoid the definition of blank check company issuing penny stocks and, in this way, to avoid being restricted by the PSRA and the Rule 419, but, at the same time, that embedded all the investors' safeguards introduced by the SEC in order to differentiate it from the traditional, bad reputed, BCC. Besides the voluntary submission to the above listed SEC requirements, other key distinctive features of these new vehicles were the quality of the team of *promoters* and the higher capital base derived from the investment of *promoters* and *sponsors* and from the IPO proceeds[11]. Both these elements were meant to enhance the credibility of the firm business plan. The so contrived vehicle, called SPAC,



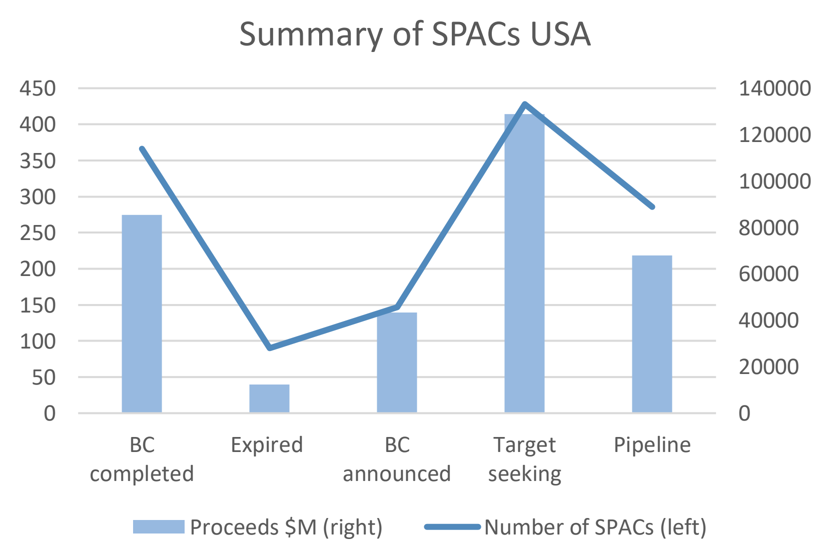


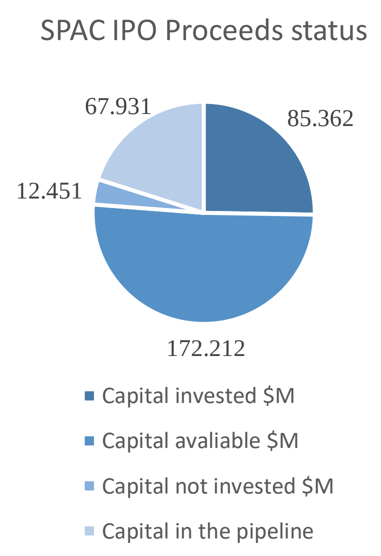
Graph 1 Time series of SPAC IPOs and SPAC IPO Proceeds in the USA against the total number of IPOs and the total IPO Proceeds. Source: https://www.spacanalytics.com/

[11] Higher than $5 million to avoid the definition of penny stock for a company with less than three years of story behind.

granted the survival of BCC even after the PSRA[12], but it was at the beginning of the new millennium, in the years 2003-2004 that the SPAC started to become a better-known and diffused tool. Since 2003, the number of SPAC IPOs in the US has amounted to 1031 (the 24.6% of the total number of IPOs in the same period), and SPACs collected more than $270 billion (around 21% of the total IPO proceeds). Graph 1 clearly shows that after a growth both of the number and the proceeds between 2003 and 2007, the GFC has been a moment of crisis also for SPACs, which however recovered in the following years and boomed in 2020 and 2021, reaching a peak of more than a half of total IPO proceeds and nearly a third of the total IPOs. This recent explosion is the explanation of the numbers shown in Graph 2 saying that of the total amount of proceeds collected by SPACs, around $172.2 billion (the 64% of the capital already collected) still have to be employed for a BC either because the SPAC that raised money is still seeking for a target or because it had already announced an acquisition but has not closed it yet. Moreover, nearly three hundred of SPACs are expected to raise about $67 billion in the following months. This is a big amount of capital that is waiting for being injected into the real economy, but it is subject to the uncertainty related to the ability of SPACs *promoters* to complete the BC.

Another milestone in the development of SPACs in the USA has been the admission of their securities to the main stock exchanges. In fact, since their birth, SPAC *promoters* have tried to enhance the liquidity of the investment as an alternative way out for IPO investors even before the BC. Until the 2008 SPAC securities were traded either Over The Counter (hereinafter OTC) or on





Graph 2 State-of-the-art of the SPACs market in the USA on July 31st, 2021. Personal elaboration.

[12] Between the 1993 and the 1994 thirteen SPACs were launched and twelve of them completed the BC

minor, non-regulated venues[13]. In 2008 the two main American stock exchanges, NASDAQ and NYSE, proposed to the SEC, which eventually accepted the proposal, to admit to the securities of SPACs to their exchange venues. In order to be listed on the NASDAQ, NYSE and NYSE AMEX[14], SPACs has to respect some listing rules summarized in Table 1.

Table 1 Listing requirements for SPAC in the USA Stock Markets. Source: D'Alvia, 2020.

Market	NYSE	NASDAQ	NYSE AMEX
Source	Rule 102.6 Listing Company Manual. Acquisition	Rule IM-5101-2	Rule 119 NYSE AMEX company guide
Escrow account or trust	At least 90% of the proceeds must be held in an escrow account	At least 90% of the proceeds must be held in an escrow account	At least 90% of the proceeds must be held in an escrow account
Time for BC	36 months otherwise an automatic winding up	36 months otherwise an automatic winding up	36 months otherwise an automatic winding up
Fund release	At least 80% of the proceeds held on trust at the time of the acquisition otherwise the funds are returned in full to investors	At least 80% of the proceeds held on trust at the time of the acquisition (excluding any deferred underwriters' fees and	At least 80% of the proceeds held on trust at the time of the acquisition otherwise the funds are returned in full to investors
Conversion right	Until the completion of a business combination (namely, 36 months) a shareholder voting against a business combination is entitled to exercise a conversion right if it does not hold less than 10% of the shares together with any affiliate of such shareholder or any person with whom such shareholder is acting as a 'group'. The conversion right is	Until the completion of a business combination (namely, 36 months) a shareholder voting against a business combination is entitled to exercise a conversion right if it does not hold less than 10% of the shares together with any affiliate of such shareholder or any person with whom such shareholder is acting as a 'group'. The conversion right is	Until the completion of a business combination (namely, 36 months) a shareholder voting against a business combination is entitled to exercise a conversion right if it does not hold less than 10% of the shares together with any affiliate of such shareholder or any person with whom such shareholder is acting as a 'group'. The conversion right is
Redemption right	It is the right to redeem shares but it is not specifically contemplated by the NYSE rules	Until the completion of a business combination the company shall provide all shareholders with the opportunity to redeem their shares for cash equal to their pro rata share of the aggregate	Until the completion of a business combination the company shall provide all shareholders with the opportunity to redeem their shares for cash equal to their pro rata share of the aggregate
Approval of the BC	n/a	Any business combination shall be approved by a majority	n/a

[13] Such as the AMEX, a stock market thought for small firms.

[14] In 2008 NYSE acquired the AMEX and allowed investors to buy AMEX stocks, of small enterprises, alongside companies on the main market NYSE

2.2.1 The structure of the unit and the *promoters* remuneration

The birth and development of SPACs in the USA defined the standard for all the other countries. SPAC promoters are not paid during the research of the target. However, their job is to find a suitable target to acquire (or merge with) to create value for the other investors. In doing so, they spend resources (their initial investment) and time (up to two years) and should be incentivised to do their job well, which means that they should be remunerated for their job. On the other hand, they must bring onboard investors who provide them with the money needed to pursue the BC. Chatterjee et al. (2016) argue that *"the SPAC can be viewed as a security design problem where risk-adverse outside investors will not participate [] unless the founder delivers a good firm with low risk"*. In this framework, the remuneration for the promoters through equity grant gives them the incentives to *"expend costly effort and obtain information about firm characteristics and choose a high-quality firm for acquisition"*. For this reason, it is critical for ensure a good quality of the target selection process and target valuation. Instead, the warrants assigned to the investor in the unit *"serve to dilute the founder's equity holdings and serve to provide incentives for the founder to select a firm that has lower risk"*. The literature reviewed (see chapter 3) and this work question the effects deriving from the unit structure and the *promoters* incentive (so-called *promote*) and discuss their variants and evolution over time. However, for the purpose of introducing the topic, it is enough to say that in the USA and in those countries where the SPACs were imported (directly or indirectly) and inspired by the American experience (see next paragraph), the traditional unit offering at IPO is made by one ordinary share and a certain number of warrants which give the option to the investor to buy additional shares at a certain price (the strike price) after the BC effectiveness. Both the ordinary shares and the warrants assigned with the shares are admitted to trading on a stock market and freely transferable[15]. The unit's price is traditionally $10, with an evolution that started from the $6 of the first SPACs to some cases in which the unit has been sold for $20 recently[16]. For what concerns the *promote* for *promoters* and *sponsors*, in the USA it usually consists of a portion of the Equity, worth around the 25% of the Equity issued at the IPO (20% of the total Equity capital of the SPAC), bought for a nominal price that is non-exchangeable (so, basically worthless) until the completion of the BC[17]. A variant of the Equity promote is the purchase, always at a nominal price, of warrants exercisable after the BC.

[15] In some cases, especially in the USA, for a certain period on the market it is traded the unit as a whole before the split of share and warrant.
[16] PHTS
[17] In some cases, even after the BC, due to lock up agreements.

2.2.2 The redemption right, the conversion right and the BC

Once the promoters have identified the target, they have to disclose its key information publicly and publish a prospectus containing the amendment to the securities registration statement compiled at the IPO. At this moment, the investors have the right to redeem their shares, receiving back pro quota the amount available in the escrow account[18]. Besides the redemption right, SPACs may grant the conversion right to the investors, that is, the right to convert the share into cash on a *pro-rata* basis (like the redemption right) but only in the case that the investor votes against the BC in the shareholders meeting called to approve it. The conversion right is mandated by all the stock exchange listing requirements, while the redemption right is not required by the NYSE (Exhibit 3)[19]. It is worth noting that the prospectus published at the BC is neither audited nor approved by any market authority or supervisory body. For this reason, the financial and economic projections of *targets* may be optimistic and inflated (Aliaj, 2021)[20] The redemption and conversion are meant to safeguard the investors from bad deals and frauds[21]. If the number of redemptions is too high it can undermine the effectiveness of the BC, subtracting resources to the deal. To face this issue, SPACs in the USA are used to involve institutional investors who commit to additional injection of liquidity simultaneously to the BC. These additional investments are the so-called Private Investment in Public Equity (hereinafter PIPE) and are managed as if they are Private Placement of newly issued securities. The PIPEs are aimed at investors who like the deal proposed by the SPAC *promoters* and can guarantee about the successful outcome of the deal itself. It is not rare that these institutional investors are involved in the definition of the agreement that leads to the BC in the *due diligence* and *valuation* phases. In the USA the role of PIPEs is crucial for the success of SPACs (Aliaj & Kazumov, 2021).

Once defined the deal, usually the BC takes the form of a Reverse Merger (RM) in which the *target* is incorporated into the SPAC, acquiring the status of listed company with the floating capital already

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[18] Let's assume that the initial investment was of $10 for each of 2 million unit issued to the public and the 85% of the IPO proceeds (that is $17 million) have been deposited into the escrow account and invested into short-term government bonds. At the date of the BC the number of shares outstanding (excluding the *promote*) is still 2 million and the money deposited in the escrow account accrued $1 million of interests. For each outstanding share the redemption amount is ($17 million + $1 million)/2 million, that is $9/share.

[19] Even in this case however the SPAC can put the redemption right in its bylaw.

[20] This is true especially for start-ups and growth firms, which constituted the majority of the *targets* in the last years.

[21] As discussed before, the SEC, through the Rule 419, imposed penny stocks to grant the redemption right to investors. However, SPACs are not subject to the Rule 419, and they established as common practice the redemption right within their bylaws (such as also the other provisions imposed by the Rule 419) to become appealing for investors. Subsequently, the stock markets codified this market practice within the listing requirements as shown in Exhibit 2.

built and derived from the SPAC IPO. According to the deal characteristics, the ownership of the post-merger entity can be divided in different ways between the shareholders of the pre-BC company (hereinafter *target shareholders* or *previous shareholders*), the institutional investors who performed the PIPEs, the SPAC *promoters* and *sponsors*, the market (that is the SPAC IPO investors). In the USA it is common practice that the SPACs acquire minority stakes into the *targets*. Still, *promoters* can be involved as executive or non-executive members of the post-merger entity.

2.3 SPACs worldwide

Despite being born in the USA and despite they are linked in the common imaginary to that environment, SPACs are diffused in many different countries across the globe. Figure 2 shows the global diffusion of these vehicles. Even if they are called always SPACs, their features change sharply according to the different context in which they have been established. This paragraph highlights the main elements that distinguish SPACs in other countries with respect to the American SPACs, focusing on the more relevant experiences.

*Figure 2 Number of SPACs for country of listing. Updated on July 31st, 2021. Personal elaboration. Data collected on a best effort basis from the stock exchanges websites. *For Korea the last data available refers to 2017.*

2.3.1 The English way

The first SPAC listed on a stock market in the United Kingdom is dated back to 2005. From that date 90 SPACs have been listed either on the Main Market or the Alternative Investment Market (hereinafter AIM UK). The UK Main Market is the regulated venue of London and the documents published by companies willing to list them are under the Financial Conduit Authority (hereinafter FCA) scrutiny, while the AIM UK is a non-regulated market. The SPACs listed in the UK differed from the American SPAC for one big reason: they had to publish a new prospectus that had to be approved by the FCA (on the Main Market) or admission document that must have been approved by the FCA only if it involved an offering to the public[22] (on the AIM UK). The regulatory framework in the UK did not foresee neither the need for shareholders' approval of the proposed BC nor the grant of a redemption right for investors or conversion right for dissenting shareholders. This because, once announced the BC, the securities of the SPACs were suspended from the trading waiting for the overmentioned supervision of the prospectus or admission document to be completed. This was a strong element of differentiation of UK SPACs: investors did not have the power to vote for or against the BC, could not ask back their money if they did not like the deal proposed and, most importantly, they might find themselves with an illiquid title in the hands during the suspension period which could also last several months. The auditing period, during which the documentation provided by the SPAC about the BC was analysed, could end with the admission to trading of the post-merger entity's securities or with the rejection of the deal and, eventually, the expiration of the SPAC or the beginning of a new *target seeking process*. This routine, which lasted for years, proved to be a strong weakness for the appeal of the UK markets for SPAC investors. Thus, in the last months, the FCA undertook a review of the regulation that led to a harmonization with the practices developed in the USA. In particular, the reform enacted on August 10th, 2021, states that if a SPAC wants to avoid the suspension period it has to include the following investors safeguards (FInancial Conduct Authority, 2021):

1. A 'redemption' option allowing investors to exit a SPAC prior to any acquisition being completed
2. Ensuring money raised from public shareholders is ring-fenced
3. Requiring shareholder approval for any proposed acquisition
4. A time limit on a SPAC's operating period if no acquisition is completed

[22] In case of an institutional placement the admission document to the AIM UK is not under FCA scrutiny

These provisions will make the UK SPACs more uniform to the ones in the USA and Europe (discussed later).

Analysing the past experience, SPACs in the UK proved to be very heterogeneous. They collected around £8 billion but with an IPO size that ranged between few very big offerings (£1.4 billion the biggest) to many small SPACs offering less than £5 million at the IPO. These small SPACs raised few money at the IPO but then concluded deals nearly twenty times bigger on average. This because they collected money either with seasoned public offerings or through private placements after the IPO once the agreement with the target was set. While at the beginning of their story they tended to be listed on the AIM UK, in the latest years the most appealing venue proved to be the Main Market, mainly because the AIM listing requirements imposed the vote of the shareholders for the BC while the Main Market did not.

For what concern the IPO, another difference with respect to the American SPAC is that in the UK they tend to offer only ordinary shares and not composite units[23]. Also, the remuneration for *promoters* is different and involves convertible bonds, options and performance-linked securities instead of the simpler *promote* diffused in the USA.

2.3.2 Korean SPACs

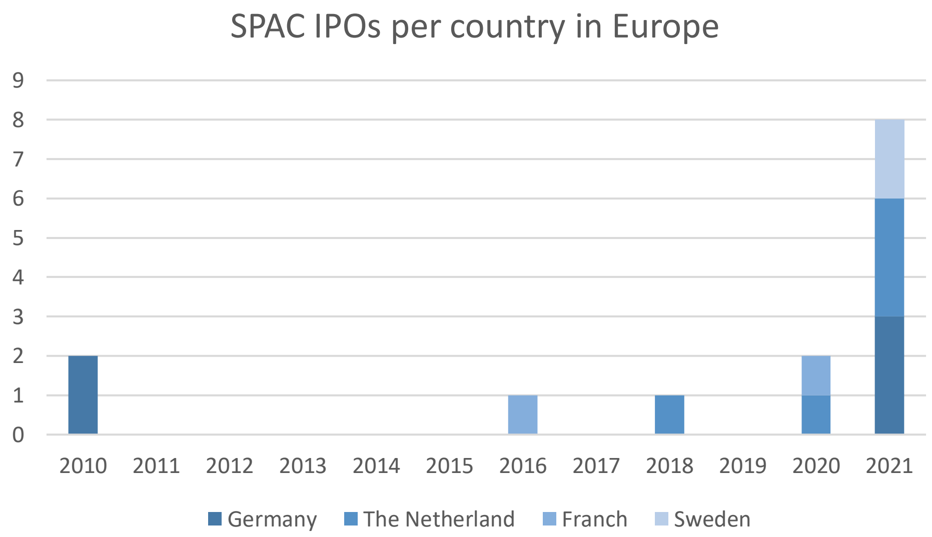
Another country in which the SPAC is a popular vehicle to go public is the South Korea. Kim et al. (2020) published a paper in which they studied the experience of SPACs in that country to date. Between 2010 and 2017 in South Korea 127 SPACs has been established, which accounted for about the 30% of the total number of IPO on the KOSDAQ and raised nearly $1.5 billion. Korean SPACs have some features that make them not comparable to the American one. The first difference regards the *promoters*. According to the Korean legislation, at least one *promoter* must be a dealer authorized to operate on the stock market. For this reason, the vast majority of Korean SPACs is established by securities firms (following the definition that is given in the paragraph 5.1, they are *institutional* SPACs), while in the USA (but also in the UK and in Europe) SPACs can be, and mostly are, founded by individuals. The second main difference is that, while in the USA SPACs offer units made of shares and warrants and *promoters* mostly hold warrants of the post-BC entity, in South Kores SPACs are not allowed to issue warrants by law. So, they only offer common (or ordinary) stocks at the IPO, while the *promoters* also buy common stocks but at a discounted price in a private

[23] There have been cases of SPACs offerings made by shares and warrants. These SPACs were incorporated in the British Virgin Island and also inserted into their bylaws the conversion right for dissenting shareholders.

placement before the IPO. Moreover, they adopt the solution of buying convertible bonds. Thanks to the less sophisticated securities structure, Korean SPACs seem to be more friendly for retail, unsophisticated investors with respect to the American ones.

2.3.3 Italy and Europe

The fourth country in the world for number of SPACs listed is Italy. In Italy SPACs landed relatively late, in 2011. In the same years, the late 2000s and early 2010s, other European countries, such as Germany, the Netherland and France, were dealing with the rise of SPACs. However, after the first experiences, the phenomenon ceased to exist there and survived only in Italy. Only after the 2018, new SPACs have been listed across the Europe. The SPACs in Europe have been "imported" from the USA and followed the same logic trying to replicate the same features. However, Ignatyeva et al. (2013) analysed the "first wave" of European SPACs (including the SPACs listed in the UK) finding that, at the time, the European markets adopted looser regulations than the American ones and this favoured the diffusion of SPACs on this side of the Atlantic. They also found that European SPAC were on average bigger than their counterparties in the USA and tended to target companies around the world and not only in their home market. The Graph 3 shows the temporal distribution of SPACs IPOs in other market than the English and the Italian ones. As said, the Italian market of SPACs is the most developed in the continental Europe. However, for the purpose of the research the Italian SPAC, jointly with the Italian context, are analysed in deep in the chapter 4, after the literature review, the definition of the research questions and the description of the research design.



Graph 3 Timeline of SPAC IPOs in Europe excluding Italy and UK..

Chapter 3: Literature review and definition of the research questions

The first paragraph of this chapter describes the method followed to review systematically the academic literature related to SPACs and identifies three streams of literature which are then analysed in detail in the following three paragraphs. The fifth paragraph reports the literature gaps identified during the review and outlines the research questions this work will try to answer. The last paragraph describes the research strategy that will be implemented in the following chapters and justifies the choice of the geographical scope of the research.

3.1 The scientific literature on SPACs

The analysis of the scientific literature related to SPACs followed a systematic approach. The first step has been to perform a query on Scopus looking for journal articles written in English with "Special (or specified) purpose acquisition company (or companies)", "SPAC", "SPACs" or "Cash shell (or blank-check) company (or companies)" in the title, abstract or keywords. From the first list obtained, some articles referring to energy, social science, environment and decision-making areas has been excluded. Then, complementary research on Google Scholar have been carried out to double-check the findings of Scopus and to integrate any missing document. Finally, significant related articles have been included in the definitive list which counts for a total of thirty-one relevant papers. This research was meant to collect on a best effort basis the bulk of the scientific knowledge on SPACs. The following analysis aims at providing a picture of the state-of-the-art of the research on the topic.

The selected pieces of literature cover the timespan between 2007 and 2020 and can be classified into three main streams, which partially overlap. The first stream is composed of papers that analyse the characteristics of SPACs, creating a phenomenology of SPACs. The second instead collects the empirical studies which start from a sample of SPACs and try to link their characteristics to their financial and operating performances. The third one deals with the discussion on the benefits that SPACs bring to IPO underwriters, *target* companies, *promoters* and investors.

3.2 Phenomenology of SPACs

The first stream of literature encompasses all those papers that try to define what SPACs are and describe their characteristics. Such papers are classified according to three further dimensions: the geographical coverage, the time horizon and the perspective adopted. If a paper analyses SPACs in a single country it is classified as local, otherwise it is defined as cross-countries. In some cases, they give a snapshot of SPACs in a given period, adopting a static view, while in other cases they adopt a dynamic view describing the evolution in time of SPACs. Finally, the authors can take the juridic perspective or can start from the description of market practices in their analysis. In Table 2, the papers belonging to this stream are classified according to these three dimensions.

Table 2 Phenomenology of SPACs, classification of relevant papers according to geographical coverage, time horizon and main perspective.

Phenomenology of SPACs	
Geographical coverage / Time horizon	
Local snapshot	1. Hale – 2007 – SPAC: A financing tool with something for everyone
	2. Nilsson - 2018 - Incentive Structure of Special Purpose Acquisition Companies
	3. Kim, Ko - 2020 - Going public through mergers with Special Purpose Acquisition Companies
	4. Riva, Provasi – 2019 – Evidence of the Italian Special Purpose Acquisition Companies
Local evolution	1. Heyman – 2007 – From blank check to SPAC: the regulator's response to the market, and the market's response to the regulation
	2. Murray - 2017 - Innovation, imitation and regulation in finance the evolution of Special Purpose Acquisition Corporations
Cross-countries snapshot	1. Ignatyeva, Rauch, Wahrenburg – 2013 – Analyzing European SPACs
	2. Schumacher - 2020 - A new development in private equity: the rise and progression of Special Purpose Acquisition Companies in Europe and Asia
Cross-countries evolution	1. D'Alvia – 2014 – SPAC: a comparative study under US, Asia and Italian corporate framework. Soft law vs. Hard law
	2. D'Alvia - 2020 - The international financial regulation of SPACs between legal standardised regulation and standardisation of market practices
Main perspective	
Juridic	1. D'Alvia – 2014 – SPAC: a comparative study under US, Asia and Italian corporate framework. Soft law vs. Hard law
	2. D'Alvia - 2020 - The international financial regulation of SPACs between legal standardised regulation and standardisation of market practices
	3. Riva, Provasi – 2019 – Evidence of the Italian Special Purpose Acquisition Companies
Market practices	1. Hale – 2007 – SPAC: A financing tool with something for everyone
	2. Ignatyeva, Rauch, Wahrenburg – 2013 – Analyzing European SPACs
	3. Murray - 2017 - Innovation, imitation and regulation in finance the evolution of Special Purpose Acquisition Corporations
	4. Nilsson - 2018 - Incentive Structure of Special Purpose Acquisition Companies
	5. Schumacher - 2020 - A new development in private equity: the rise and progression of Special Purpose Acquisition Companies in Europe and Asia
	6. Kim, Ko et al. - 2020 - Going public through mergers with Special Purpose Acquisition Companies
Balanced	1. Heyman – 2007 – From blank check to SPAC: the regulator's response to the market, and the market's response to the regulation

The geographical coverages of these works reflect the USA-centric view of SPACs. The majority of the local analyses are focused on the USA market and, even in all the other studies, the American experience is taken as the reference point to which other countries' SPACs are compared. Hale (2007) reviews the traditional structure employed by SPACs in their IPOs in the USA, while Heyman (2007) highlights how the common market practices and the regulatory framework were strictly intertwined at the dawn of the phenomenon of SPACs in the USA. "Analysing European SPACs" (Ignatyeva, et al., 2013)(Ignatyeva et al., 2013), is the first and unique case of phenomenology of European SPACs that adopts a market practices perspective. In the paper, the authors describe the main features of the nineteen SPACs listed on the European stock exchanges between 2005 and 2011, focusing on their institutional characteristics, governance structures, stock behaviour and *target* companies. They found some structural differences between the USA and the European SPACs that were mainly driven by looser regulation in the European markets. In particular, European SPACs were on average bigger than the American ones, tended to make more multiple transactions instead of a single acquisition and showed more flexibility, targeting companies based all around the world and not only in the domestic market. Moreover, European SPACs were heterogeneous in terms of both their characteristics and performances. D'Alvia (2014) published an article where for the first time different legal frameworks across the world are compared with a focus on Asia and Italy, at the time developing markets for SPACs. His research continued till the publication of another paper (D'Alvia, 2020) where he provides a comprehensive overview of the last twenty years of regulatory developments. In this work, he points out how the regulation of the blank check companies made by the SEC through Rule 419 led to the birth of USA SPAC which emerged with some common features (the cash in trust, the redemption right, the liquidation process…) that became the standard taken as a reference for the definition of listing requirements in other countries. According to Alvia, SPACs are "without law", in the sense that there is not a by-law definition of these vehicles (except for Malaysia), but not "outside the law", in the sense that they are disciplined by the general corporate law framework specific for each legal system, subject to listing requirements (that often are the codification of existing market practices) and follow self-regulation defined in their bylaws.

Murray (2017) adopted a market practices perspective in the USA and classifies all the SPACs since their birth into clusters using the cluster analysis. His work is the first that adopt a systematic approach to examine the evolution of the structure of SPACs.

Okutan Nilsson (2018) is the latest author to provide a portray of the state-of-the-art of USA SPACs market practices, while Kim et al. (2020), made a research on Korean SPACs which have some unique features[24] that make them not comparable with the USA ones. Interestingly, they identified a

[24] No unit offering, adoption of convertible bonds, created only by securities firms

literature gap in the fact that no papers were published before discussing the Korean SPACs and tried to fill this gap.

Riva and Provasi (2019) published the paper "Evidence of the Italian Special Purpose Acquisition Companies". They provide evidence about the experience of Italian SPACs between 2011 and 2018, describing their lifecycle.

3.2.1 Considerations on phenomenology of SPACs

Summarizing, the bulk of the literature that describes what a SPAC is and its features, are concentrated on the USA market. However, there are studies that depict the phenomenon in other countries. What emerges from the analysis is that SPACs are very various around the world. In particular, the works of Alvia and Murray, from different perspectives and in different contexts, disclose how flexible and heterogenous are SPACs. They are corporate forms open to innovations, very reactive to the market forces and heavily influenced by the regulators' activities, thus, it is very difficult to give them a top-down and unique definition. Also, an updated description of the market practices in Italy and Europe is missing.

3.3 Empirical studies

The second stream of literature includes all those papers that analyse the performances of SPACs securities and post-BC entities and adopt statistical analysis to identify and test the linkages between SPACs characteristics and their performances. The investigations in these papers focus mainly on two elements: the determinants of the of SPAC performances and the determinants of SPAC mergers.

3.3.1 SPAC performances and their determinants

Computing the returns

The earliest stream of empirical research on SPACs focused on the performances of the securities issued by SPACs. It was born in parallel with the first attempts to define what SPACs were in the years 2007-2008, at the end of the first USA SPACs wave.

The first authors who analysed SPACs performances have been Jog and Sun (2007), Boyer and Baigent (2008), Lewellen (2009), Jenkinson and Sousa (2011).

Jog and Sun (2007), in "Blanck Check IPOs: A home run for management" computed the returns for the investors and for the *promoters* of Blank Check companies that carried out the IPO in the USA between 2003-2006 and completed the BC. While for public investors they recorded an annualized abnormal loss of 3%, for *promoters* the annualized buy-and-hold return turned to be as high as 1900% naturally bringing to the conclusion that *"investors essentially wrote a blank check to management".*

Lewellen (2009), in his paper "SPACs as an Asset Class" assigned to the SPACs lifecycle four mutual exclusive categories:

- No *target* (NT) when the SPAC has not announced yet the intention to acquire a certain *target* company to complete the BC
- *Target* Found (TF) when the SPAC has announced but not completed yet the proposed BC
- Acquisition Completed (AC) when the BC has come into force
- Acquisition Withdrawn (AW), when the SPAC has withdrawn from a previously announced BC

Then, he computed the return for SPACs investors after the TF announcement, finding a positive yield of around 2%, and after the completion of the acquisition, finding a negative yield of around -2% for a sample of a hundred and fifty-eight SPACs listed on the USA markets between the 2003 and the 2008. Moreover, he included in the analysis the computation of Cumulative Abnormal Returns (CARs) around the so-called *reclassification dates*, that are the dates when a SPACs changes its status from one aforementioned category to another.

Jenkinson and Sousa (2011), in "Why SPAC Investors Should Listen to the Market", found very negative returns on average for investors after the BC. However they split their sample of 43 SPACs that made the BC between 2003 and 2008 in the USA into good and bad SPACs. They assumed that the market reaction at the announcement of the *target* has signalling relevance of the value of the proposed BC. In light of this, and given the structure of the SPACs, *bad SPACs* are those *"where investors approved a deal when the price at the decision [] was below the trust value per share"*, while for *good SPACs* at the day of the approval the price was above the trust value per share. For the former, the market judge the proposed deal as value destroying but the investors approved it. The results of their work show how for *bad SPACs* the post-BC performance (evaluated with the raw return and CAPM models over the time-horizons of four, thirteen and twenty-six weeks) is on average strongly negative and highly significant, while for *good SPACs*, it is still slightly negative on average but not significant.

Lakicevic and Vulanovic (2013), built upon the previous literature to compute the abnormal return for SPACs securities around some relevant dates, that were the BC announcement and the BC date, and for Buy-and-hold investors for a sample of a hundred and sixty-one SPACs listed in the USA between 2003 and 2009. The paper "A story on SPACs" shows how the return for *promoter* who engage in a successful BC is astonishing while Buy-and-hold investors who buy the SPACs securities at the IPO suffer for a long-term underperformance of their portfolio with respect to the market.

Kolb and Tykvova (2016) complement their analysis of the characteristics of companies that go public through a reverse merger with a SPAC highlighting how they tend to severely underperform the market, industry and firms of similar size as well as IPO firms. Their analysis focuses on the stock performance of a hundred and twenty-seven SPACs that successfully closed the BC in the USA between 2004 and 2015 and finds results consistent with the previous literature. Their conclusion is that *"frogs do not turn into princes"*, that means that the small, levered and low profitable companies that exploit the SPACs to go public (see next paragraph about the determinants of SPAC mergers) show bad performance after the BC as expected. It seems that the BC do not bring any value to the *target* companies, but it is just a trick that *"lemon"* companies exploit to avoid the burdens associated with a traditional IPO.

Linking returns and SPACs characteristics

The first-ever paper that tried to link the characteristics of a SPAC to its securities' performance is "SPACs as alternative investments: an examination of performance and factors that drive prices" by Boyer and Baigent (2008). Their sample is made by SPACs listed in the USA between 2003 and 2006. At that time the structure of the offerings was still very heterogeneous among SPACs, in fact, the authors of this paper included in the regression models, employed to estimate the share and warrant prices, variables such as the unit price, the amount of cash in trust, the time allowed to find a *target* and the time allowed to complete the BCs. These factors became standardized in the following years, making the analysis obsolete. However, it introduced for the first time the idea that the decisions on the structure of the IPO influence the SPACs performances.

Floros and Sapp (2011), in "Shell games: On the value of shell companies", analysed the performance of SPACs computing the CAR around the four relevant dates (following Jenkinson et al., 2011) and the buy-and-hold return in the eighteen-months window after one month after the BC. They found a positive CAR at the *target* announcement event but a strongly negative and significant CAR around the BC date and an even more negative average buy-and-hold return in the following months. On the other hand, around the date of the announcement of a withdrawn BC, the CAR was positive. Interestingly, the authors tried to explain cross-sectional differences in the performance with the involvement of *promoters* in the post-BC entity. However, they did not find significant differences in the performances of companies where the SPAC *promoters* took the control over the post-BC entity with respect to the others and concluded that SPAC managers do not add value to the merger by their continued presence in the post-BC firm.

Howe and O'Brien (2012) published the paper "SPAC Performance, ownership and corporate governance" in which they test whether the SPACs board independence, managerial ownership and institutional ownership influence the stock returns around the announcement date and in the long-run dividing the sample of SPACs listed in the USA between 2003 and 2008 into two sub-sample according to the level "high" or "low" for each of the three variables and performing a difference in mean t-test on the stock return. Firstly, they found a positive and significant market reaction around the announcement date but a strong negative performance of the stock in the long-term inferring that while SPACs *promoters* are capable of identifying good acquisitions, they are not good at managing an operating performance after the BC. Then, they found evidence that the board independence is positively related to the long-term performance of a SPAC. The relevance of this work is that it found for the first-time that ownership and governance variables affect SPAC performances. It has the intuition that in some cases, when the managerial ownership[25] is high, managers may have the incentive to approve value-destroying BCs, while in some other cases institutional investors may have the incentive to adopt an opportunistic behaviour, arbitraging the trust fund and causing value-enhancing BCs to fail. However, the most important flaw of this work is that it does not consider the structure of the post-BC entity while assessing its performance. Moreover, both the managerial and institutional ownerships have contradictory effects and testing for the null hypothesis that they do not impact the stock performance may hidden the double-sided effect.

In "Analyzing European SPACs", (Ignatyeva, et al., 2013) the authors adopted a different approach to the European SPACs performance assessment. They included in the analysis both the operating performance, modelled by the ROA, and the stock performance, modelled by the return in twelve months after the BC. Then they divided the sample of nineteen European SPACs into "above average" and "below average" for both the performance dimensions. Finally, they performed a

[25] Defined as the percentage of the equity capital of the SPAC held by the SPAC managers.

difference in mean t-test for fifteen variables related to the ownership, the governance, the *promoters* involvement after the merger, the volumes of the IPO and the deal. The added value of this paper is the identification of a link between financial and operating performance: the *target* operating performance, the dilution embedded in the SPAC structure and insider trading effects seem to negatively contribute to the stock performance. Another point of interest is the inclusion of the ownership and governance characteristics of the post-BC entity as drivers of both the stock and the operating performances. The main limitation is the small sample size that causes the results not to be significant, suggesting that a qualitative approach to the problem would have been better.

The work “Perverse incentives of special purpose acquisition companies , the poor man’s private equity funds” by Dimitrova (2017) has been of paramount importance as a critique to the SPACs. For the first time Dimitrova recognises characteristics of Private Equity funds in the structure of SPACs and moves her attention to the incentive-based compensation of *promoters* and managers, the time limits imposed to perform the investment and the constraint on the amount that can be invested by them. She analysed the abnormal returns of USA SPACs’ securities around the announcement date and over a four-years period after the IPO. Dimitrova found a severe underperformance both of the SPACs securities returns and financial performances in the long term if compared to the return of the market or of different benchmarks (industry-adjusted, matched firm-adjusted, IPO firm-adjusted) and explained cross-sectional variation of the performances with a complex set of variables.

The identified explanatory variables can be clustered into four categories:

- Deal characteristics
- Post-BC entity ownership
- Post-BC entity governance
- Post-BC entity accounting measures

Due to their high theoretical relevance and influence on the following research, some conclusions of the paper are worth to be reported:

- An acquisition performed close to the time limit is associated to worse performances
- The presence of deferred fees to be paid to the IPO underwriter after the acquisition is a predictor of bad performances as well as the fact that the underwriter is also an advisor for the acquisition

These two results may indicate that both the *promoters* and the underwriters may have adverse incentives to undertake a BC even if it is value destroying, at the expense of the public investors who will suffer for bad stock performances after the BC. From the *promoters* standpoint this is due to the fact that they lose all their at-risk investment at IPO if they do not conclude the BC, while they can get amazing returns simply completing it. From the underwriters standpoint, they have interest to be paid in full their fees and push for the BC if a portion of them is deferred. This effect is worse if they are advisors for the merger too.

- If the chairman of the post-BC company is a *promoter* the long-term stock performance tends to improve

This result is very significant as it assigns a role to the *promoters* involvement in determining the post-BC entity performance, questioning the assumption of Kolb and Tykvova (2016) that the BC do not add any value to the *target*. The role of *promoters* is a characteristic of SPACs that make them different from a traditional IPO. SPACs are not only sources of funds but also potential sources of capabilities for the *target* companies and not only generators of capital gains but also potential employment solutions and entrepreneurial ventures for the *Promoters*. The originality of this paper is the inclusion of the structure of incentives and the interrelations between *promoters* and *target* companies as determinant of a SPAC performance. The main limitation of this paper is the questionable statistical significance of a regression model with at least eighteen explanatory variables and less than seventy datapoints, that justifies the adoption of alternative methods, for instance a case studies analysis, to draft the same conclusions.

Another aggressive critique to the SPACs design as it came from the standardization of market practices in the USA comes from Klausner et al. (2020). In “A sober look at SPACs” the authors analyse the returns for *promoters*, for IPO investors and for redeeming investors for SPACs successfully merged between 2019 and 2020 in the USA providing results coherent with what Lakicevic and Vulanovic (2013) and Dimitrova (2017) found studying a sample of ten years early: while *promoters* gain a lot from almost every BC, IPO investors suffer for severe underperformance of their investments on average. Moreover, redeeming investors usually get a non-negative return which derives from the possibility to keep the fraction of warrants bought at the IPO (that grants an upside in case of successful post-BC ventures) while can redeem the share at a price very similar to the initial investment made (that grants the protection against possible losses). Klausner et al. (2020) introduce explicitly in their analysis the impact of dilution on the securities performance. The dilution arises from the redemption of shares, the deferred underwriters fees (a common practice in the USA), the conversion of special shares in ordinary shares by the *promoters* and the conversion of warrants into ordinary shares. The cost of dilution is fully born by the non-redeeming investors. Thus, on one side a value creating merger is not enough to grant positive returns to investors, on the other side *promoters* and underwriters have incentives to pursue even value destroying deals. Moreover, Klausner et al. (2020) add the incentive that investors have to redeem as a worsening condition with respect to the situation explained by Dimitrova (2017). Finally, Klausner et al. (2020) show how on average SPACs with *"high-quality" promoters* tend to suffer for less dilution and perform better than the ones with *"low-quality" promoters*. This is a signal on how the most relevant asset of SPACs to attract Investors at the IPO is the team of the promoters and that the quality of the *promoter* impacts on the quality of the post-BC company.

3.2.2 Determinants of SPAC mergers

The literature on the determinants of SPAC mergers takes two different standpoints. The first is the standpoint of the *target* company, the second is the standpoint of the SPAC.

Target standpoint

Taking the point of view of the *target* company, researchers show interest in analysing and compare the characteristics of the firms that go public via reverse merger with a SPAC to the characteristics of companies that undertake a traditional IPO process.

Kolb and Tykvova explored in their work (Kolb & Tykvova, 2016) the differences between companies that went public through IPO and those that went public through a reverse merger with a SPAC in the USA between 2003 and 2013. They took a sample of IPO companies and SPACs that successfully merged and analysed, adopting the logistic regression the impact of the following variables on the likelihood of going public through a SPAC merger.

- Market specific variables, such as market volatility and cost of debt
- Deal specific variables, such as the cash out for *previous shareholders* of the *target* and the time to resolution of the listing
- Firm specific variables such as financial performance indicators after the listing and the presence of venture capital and private equity in the capital of the company before the listing

They conclude on one side that SPACs mergers are a viable alternative for smaller, riskier and less profitable companies that cannot face the market risk embedded in an IPO and that have not the capabilities necessary to successfully complete the long and difficult IPO process, on the other side that SPACs merger are more attractive in contexts of high market volatility if compared to IPOs. The latter statement is questioned by Blomkvist & Vulanovic, 2020. They performed for the first time a time series analysis meant to relate market volatility and SPACs activities. They found that in context of higher volatility both the shares and the volumes of SPAC IPOs decreases if compared to traditional IPOs and argue that this is due to the relative higher opacity and riskiness of these deals with respect to IPOs. The former statement instead does not consider that SPAC mergers are not perfect substitutes of IPOs for the *target* companies and does not include strategic considerations that they can make in choosing these vehicles as sources of fund and capabilities instead of undertaking the traditional IPO process to become publicly listed (see the discussion on Dimitrova, 2017). Despite this main limitation of their studies, the originality of Kolb and Tykvovà is the idea that SPACs mergers suite better certain firms with respect to others (modelled through the firm specific characteristics), that the shareholders' objectives influence the decision of how to go public and that there are exogenous factors that may cause the SPAC mergers to be more attractive.

SPAC standpoint

Taking the point of view of SPACs instead, authors tried to identify the factors which influence the likelihood of the BC with respect to the expiration of the SPAC.

In "Institutional changes of SPACs", Lakicevic et al. (2014), built a logistic regression model that links a numerous set of variables to the likelihood of BC. This paper illustrates how SPACs in the USA evolved during time, modifying their structure in terms of size, amount of funds in the escrow account, initial *promoters* investment and percentage of deferred underwriters fees in order to improve the probability of concluding the BC. A noteworthy result is that having a stated focus in the prospectus and finding a *target* as soon as possible after the IPO seem to payoff improving the chances of concluding the BC.

Cumming et al. (2014), in their paper "The fast-track IPO – success factors for taking firms public with SPACs" aim at identifying the factors that influence the probability of the approval of the BC in the shareholders' meeting. Some relevant conclusions are that the presence of large block holders in the ownership of the SPAC seems to cause the probability of approval to decrease. The same holds true for the percentage of cash in the escrow account. Both the results are explained by the possibility of opportunistic behaviours and arbitrage opportunities on the trust value. Large block holders can blackmail the *promoters* in order to grant the approval and the support of the BC. A high percentage of cash in trust may make the redemption more appealing for the investors.

The latest paper that adopts this perspective has been published by Vulanovic (2017). Differently from the studies previously seen, in "SPACs: post-BC survival" he analyses the probability of survival after the BC at the observation date of companies that successfully merged with a SPAC. The author states that institutional characteristics of SPACs determine the likelihood of their post-BC success. It separates four categories of variables: SPACs structure at IPO, stakeholders' involvement (founders' and underwriters' characteristics and commitment), merger characteristics (financial and governance) and post-BC characteristics (return and dividends) and run a logistic and a multinomial logistic regression analysis. He found a higher failure rate of companies that go public though reverse merger with SPACs with respect to IPO companies, a very negative buy-and-hold performance for their securities after the merger and a relation between certain variables and the likelihood of survival. In particular, the paper suggests that a higher involvement of *promoters* and underwriters in the deal influence positively the survival likelihood, such as the one-year post-BC stock return and the dividends distribution. Vulanovic provides an interesting view on how not only the SPAC structure but also the dynamics of the merger and post-BC influence the success of a BC.

These papers highlighted some key dynamics that must be considered while designing the SPAC vehicle. In the following years, especially in Italy, the arbitrage opportunities on the trust funds caused some SPACs not to complete the acquisition.

3.2.3 Considerations on empirical studies

Summarizing, empirical papers show that firms that go public via SPAC merger tend to be of a smaller, with a lower profitability and a higher leverage than those that perform the traditional IPO process, that their operational and financial performances are worse than comparable firms, that adverse incentives to *promoters*, underwriters and redeeming investors, such as the dilution embedded in the SPAC structure, negatively affect their financial performances but that the *promoters'* involvement in the post-BC entity, the definition of a sated focus for the acquisition in the prospectus and the speed in the identification of the *target* are factors that positively impact the return from the investment.

While the research on SPACs performances on USA SPACs covers the entire timespan from 2003 to 2020, the last analysis on the European market is dated 2013. The only updated study on a different market than the USA is the already mentioned "Going public through mergers with special purpose acquisition companies" published by Kim et al. (2020) in which the authors perform a comprehensive analysis of Korean SPACs between 2010 and 2017. Firstly, they run a logistic regression to identify the elements impacting the choice of a firm to go public via SPAC or via IPO. Interestingly, the two samples do not show significant differences in terms of leverage and profitability, but the evidence shows that in Korea smaller firms, backed by venture capital and with large controlling shareholders prefer the SPAC merger. Moreover, in Korea, firms born by the BC with a SPAC do not show underperformance of the stock return in the long run, differently from the evidence from the US. As previously warned, Korean and UK SPACs show radical differences with respect to the USA ones, thus this heterogeneity in the results is in some way expected. Nonetheless, to understand the phenomenon of SPACs globally it is necessary to account for cross-countries differences and an update in the analysis of European SPACs is required.

3.4 Benefits of SPACs

3.4.1 Benefits of going public

One of the most distinctive and recognized features of the BC with a SPAC is that, after it, the *target* company becomes listed. For this reason, it is worth to recap the benefits that in general arise from going public. Elaborating on Pagano et al. (1998) and on Brau (2010), these benefits can be clustered into four main categories.

- Financial benefits. Listed companies are perceived as less risky than the private peers by the investors, thanks to the higher transparency required to them by the listing rules. Moreover, the shares of listed firms are more liquid than the shares of non-listed ones, that means that investors may decide to liquidate their investment in any moment with low transaction costs. This can lead to a lower cost of the equity capital for listed firms if compared to non-listed ones. Also, listed companies have a stronger contractual power toward banks, and this can lower the cost of debt. Finally, they may easier access to other financing options, such as seasoned public offerings or at-the-market offerings[26]. Thus, for them is easier to raise new capital exploiting the market.
- Operating benefits. Going public is a marketing lever that companies can exploit to improve the visibility on key markets. Moreover, the intermediaries involved in the IPO can create a certification effect improving the reputation of the firm. Derived from this, going public can increase the bargaining power of the firm toward customers and suppliers.

[26] That are follow-on offering of stocks utilized by publicly traded companies to raise capital over time after the IPO.

- Organizational benefits. The listing requirements usually involve provisions related to the disclosure of financial and operating information that require the setting up of a management control system. This allows companies to better control and monitor the flow of information internal to the firm, with gains of efficiency and effectiveness derived from the establishment of a suitable performance measurement system. Moreover, listed companies can attract good quality human capital. They can be more appealing to top managers because of the incentives that being listed can provide them (such as the status and the stock option plans). Finally, being listed can facilitate the transactions in the market for corporate control (M&As). In fact, listed companies can easily engage in M&As paying with *"paper"* instead of cash. That means that listed companies can acquire other firms giving to the shareholders the shares of the company instead of paying with cash. Having the shares listed on a stock exchange provides the certainty of the valuation (the price is visible, and, under the Efficient Market Hypothesis, it corresponds to the company's value) and the liquidity necessary to perform this type of deal.
- Tax benefits. Public companies usually pay more taxes than private ones because their valuation is driven also by the profits they make and distribute to the market. Thus, introducing incentive schemes for them can be a good deal for the governments.

3.4.2 Benefits of Reverse Mergers: SPACs versus IPOs

The discussion on SPACs has been related to that on Reverse Mergers (RM) and Cash Shell Companies since the beginning. In fact, as previously explained, a SPAC is a kind of Cash Shell Companies, with no operations and with assets consisting solely of cash and cash equivalent until the consumption of the BC with a *target* company after which it changes its status into an operating company. The BC can take different forms, such as a relevant acquisition of stakes or a take-over, but usually it is a Reverse Merger, with the *target* company that merges into the SPAC which survives as a public firm but takes the name, the assets and the operation of the *target*.

Floros and Sapp (2011), in their paper "Shell games: On the value of shell companies" report on the diffusion of shell companies in the USA between 2003 and 2006. They identify five major benefits that a company can reap going public through a RM with a Cash Shell instead of embarking on an IPO process:

- Avoid the SEC review process, saving time in the process

- Less legal preparation is needed and this cause to save direct costs. Moreover, often IPOs carry under-pricing, which is an indirect cost
- No need to time the market. The IPOs are exposed to the market risk while RM are private negotiations which provide more certainty on the valuation and on the outcome of the process
- *Target* managers do not have to spend time on roadshows and can stay focus on the company's operations
- *Target* company's shareholders generally own the large majority of the resulting public company, keeping a strong control.

The authors also remark a relevant difference between traditional Cash Shells and SPACs. The former simply provide companies with an alternative way to go public, the latter instead *"also provides substantial cash infusion and guidance to the private firm through a knowledgeable management team"*. However, as discussed above, they did not find a positive significant impact of *promoters* involvement in the post-BC entity on its performances. This analysis provided the common field over which the literature on SPACs played for the following years. Jenkinson et al., 2011 affirmed that the uncertainty over pricing and outcome of the process of going public can be reduced thanks to RM, as well as the costs in terms of IPO discount. Moreover, a RM can be an attractive exit route for PE funds and VC which have stakes in the *target*.

3.4.3 Multistakeholder perspective

In the 2007-2008, the discussion was about how SPACs could, thanks to their innovative financial structure and their new provisions set by the bylaws, overcome the problems related to the blank check companies arisen in the '90, problems that the SEC faced mandating severe duties to cash shell companies willing to raise money selling securities to investors (Heyman, 2007). The new structure of SPACs, based upon a limited time horizon to conclude the BC, the lock-in of a high percentage of money raised during the IPO in an escrow account, the redemption right granted to investors who disagree with the proposal of BC made by the *Promoters*, the fulfilment of listing requirements and financial disclosure, seemed to provide the market with enough guarantees to make the investment in blank check companies appealing again, after the crisis of trust in these vehicles following many scams in the '90 (Hale, 2007). Since the beginning, the discussion about why SPACs should be on the market, in other words, the discussion about the benefits of SPACs took the following four standpoints: the Underwriters'; the *promoters*; the *target* company; the investors (Heyman, 2007).

- Underwriters' benefits are related to the opportunity to gain from fees and to enter a new market niche. Small investment banks and financial boutiques entered first the SPACs market building a solid reputation in these deals that allowed them to face the competition of bigger players that entered this market later on.
- The investors benefits deal with the possibility to obtain financial gains investing at IPO in the unit offered by a SPAC. Moreover, the redemption right and the liquidation in case of missed BC provide them a floor to potential losses from not successful, or not appreciated, ventures. Overall, the typical SPAC structure *"provides investors with very low risk, liquid investment as well as an option to participate in any future acquisition"* (Jenkinson et al., 2011).
- For *target* companies the traditional point of view is that even smaller firms, without the capabilities necessary to undertake a traditional IPO can access, through a reverse merger with a SPAC, the ECM becoming public.
- The *promoters* can gain from a successful BC due to the promote they take at the IPO and eventually due to additional investments made in the SPAC's securities.

3.5 Literature gaps and research questions

The analysis of the literature brought to the identification of some relevant gaps.

1. Missing updated performance assessment and market practices description outside the USA market
    a. In the first place, the bulk of the research on SPACs is focused on the USA market. This is a natural consequence of the history of these vehicles, born and developed in that country. However, SPACs are spread worldwide and, in order to build a complete knowledge of the phenomenon, it is also relevant to analyse the experiences in other countries. In particular, an updated analysis of the performance of SPACs is available only for the USA. The latest analysis of European SPACs performance refers to the years 2005-2011 and of Korean SPACs performance refers to the years 2010-2017
2. Missing strategic considerations at the base of the SPACs' establishment and deals
    a. Secondly, the empirical papers study the reverse merger with a SPAC mainly as an alternative to the traditional IPO process to go public for the *target* companies. They forget and exclude from their analysis any strategic consideration both from the *promoters'* and the *target* companies' perspectives. On one hand, SPACs are not treated as strategic option for the *target* companies but simply as second-hand

solution to raise funds for smaller and less profitable firms. On the other hand, the assumption at the base of these papers is that the only goal of the *promoters* is the financial gain, without considering any different strategic objective. Overall considered, the empirical papers rely on a weak theoretical framework and, basing on this weak theory, often infer causal relationships between some features of the SPACs and their performances.

3. Missing empirical evidence of the mechanisms underlying the functioning of the SPACs
    a. The last, and foremost, gap is that is missing a deep analysis of which are the mechanisms through which the SPACs operate on the market. The literature on SPACs adopts categories of analysis borrowed mainly from the theory of IPOs, PE, Reverse Mergers and Cash Shell companies. There are no studies that go into the details of how the SPACs work and carry out their activities. The existing literature does not provide any empirical evidence of how the SPACs bring benefits to the various stakeholders involved and to the economic system as a whole.

In light of this discussion and in order to fill the highlighted literature gaps, this research will try to answer the following research questions:

RQ 1: How do SPACs perform?

RQ 2: Why are SPACs established?

RQ 3: How do SPACs create value?

3.6 The research design

3.6.1 Performance assessment and case studies research

The research design foresees two different blocks. The first block, developed in chapter 4, deals with the first research question employing quantitative analysis tools to assess the performance of the SPACs' securities. The aim of this section is to update the existing literature on SPACs' performance (second literature stream, paragraph 3.3.1) with a focus outside the USA and an innovative methodology. The second block, developed in chapters 5 and 6, addresses research questions 2 and 3 through a multiple case studies research. The aim of this section is to analyse in deep the rationale behind the SPACs' establishment and the mechanisms underlying their functioning, adopting an exploratory approach aimed at providing empirical evidence useful to create a comprehensive theory on SPACs.

The research focuses on the sample of traditional SPACs listed on an Italian stock exchange. The classification of traditional SPACs excludes from the sample those vehicles that do not issue traded equity instruments at the IPO but convertible bonds or other securities[27]. The definition of the geographical scope followed two logical steps.

3.6.2 Single-country versus cross-country analysis

The first step that led to the definition of the research scope refers to the choice between cross-countries or single-country point of view. While the first solution would have been better from a legal standpoint and for an archival analysis, the second is more coherent with the managerial focus of this research and the multiple case-studies approach implemented in the second block. The overview on SPACs provided in chapter 2 highlights the heterogeneity of the regulatory environments across the globe and the different economic contexts where SPACs were born and developed. From this fact it derives the complexity of carrying out a cross-countries analysis that would have required to consider the diversity of legal frameworks and economic environments while describing each case. Focusing on a single country instead permits to describe the legal framework before the conduction of the analysis and to project the findings against a uniform background with the ultimate benefit of identifying in a clearer way useful and insightful managerial patterns and conclusions, coherently with the purpose of the research. Notably, the same methodology can be applied to different countries and its findings do not lose of generality as they are, for the very nature of the problem analysed, intimately context-related and context-driven. Moreover, replicating the same research setting on other countries would allow identifying how local legal and economic variables impact the findings.

3.6.3 The choice of Italy

The second step deals with the identification of a specific country, in this case Italy. The criteria followed to land to this solution are the similarity with the USA experience, the relevance of the phenomenon and the influence on the latest developments of SPACs. As discussed previously, SPACs were born in the USA, the USA is still the dominant market by far and the bulk of SPACs-related literature covers it. The criterion of similarity with the USA SPACs is meant to facilitate the adaptation of both the research results and methodology to the USA market. This enhances the

[27] IPO Challenger, IPO Challenger 1 and IPO Challenger 2. These vehicles were born to mitigate some issues of SPACs, such as the rigidity of the securities structure and the disclosure requirements imposed by the stock exchanges and the market authorities but are not comparable with traditional SPACs not being subject to the same rules and having different functioning mechanisms.

external reliability of the research. However, the sample of USA SPACs is very big. A case-studies approach to the USA SPACs would have required to define a criterion for the cases selection that can induce biases in the research conclusions. The USA market is excluded also because the literature still provides updated analysis of the performance of the SPACs active there (see the first literature gap). So, screening the other countries, UK and Korea were excluded as their SPACs are the most different from the USA ones, despite the relevance of the phenomenon in these countries. Among the remaining potential samples, Canadian, Malaysian, German, French and Dutch SPAC markets are too small and concentrated to be considered as good fit. In particular, Canadian SPACs are focused mainly on the cannabis industry and target mainly USA companies that, after the BC, become listed on USA stock exchanges, while Malaysian SPACs are only five and are concentrated in the Oil & Gas industry. Moreover, the experience of Malaysian SPACs seems to be concluded. The Italian market of SPACs instead, is the second in terms of number and volume (excluding UK and Korea for the aforementioned reasons) after the USA. The first SPAC incorporated in Italy, Made in Italy 1, was inspired by the USA experience and brought the features of USA SPACs in Italy. Furthermore, the Italian sample is small enough to allow for a case studies approach without the need of a previous selection of cases to be contacted. The sample is also variegated in terms of timespan (quite balanced distribution of SPACs across years), *promoter*s characteristics, *target* industries, size, type and outcomes (successful and not successful). It is also remarkable that, recently, Italian *promoter*s launched SPAC ventures in the USA and around the Europe. This is a signal of how they are influential and integrated in the global network of SPACs. Last but not least, the UK financial markets regulatory body (FCA) is undertaking a review of the regulation meant to uniform the English legislation to the American and European ones, which proved to be more favourable for the flourishing of SPACs.

Chapter 4: The SPAC in Italy, market analysis and performance assessment

This chapter aims at filling the first literature gap and at answering the first research question analysing the Italian SPACs, describing their characteristics and assessing their performance. The empirical research focuses on the market practices and considers the whole universe of SPACs listed on the Italian stock markets. The first paragraph provides the legal background in which Italian SPACs are inserted. The second paragraph describes the SPAC lifecycle in Italy and the evolution of the market practices, focusing on the initial investment of the *promoters*, the structure of the IPO and the characteristics of the *target* companies. The third paragraph adopts quantitative techniques to assess the performance of the Italian SPACs' securities. This section updates the existing literature on the topic expanding beyond the USA the analysis to provide new evidence of how the SPACs can be profitable investments for both for the *promoters* and the other investors.

4.1 The legal context

4.1.1 The SPACs in the Italian legislative framework

In Italy, SPACs have been imported from the USA in the early 2010s and had to be adapted to the complex local legal context. SPACs have no place in the Italian legal system as a new type of company, but adopt a corporate model already legally regulated. The primary objective of SPACs is to raise capital on the market and to channel it into a main investment, namely the BC. The legal form of reference for the Italian SPACs, which allows them to effectively achieve this objective is the S.p.A. (Società per Azioni or Limited Companies). The discipline of Limited Companies in Italy is dictated by Legislative Decree 6/2003 (with subsequent amendments), which distinguishes, among them, the

- Public Limited Companies, regulated by the Civil Code and by CONSOB[28] Regulation no. 11971/1999
- Companies with shares listed on regulated markets (or listed S.p.A.), regulated by Legislative Decree no. 58/1998 (or Consolidated Law on Finance)

The Italian SPACs fall into the second type of company, as the equity instruments of their capital held by investors other than the promoters are listed on the stock market. Referring to paragraph 2.2, it should be noted that the listing of shares of the SPACs provides the investor with the liquidity

[28] National Commission for the companies and the Exchanges, it is the Italian stock markets authority

that otherwise he would not have, that is, the possibility to exit the investment by selling his shares on the market theoretically at any time. The paragraph 4.1.2 will examine stock markets where SPACs are listed in Italy and the related listing requirements. In the rest of this paragraph instead are described the main "critical" functional elements characterizing the SPACs and the solutions adopted to ensure their formal compatibility with the civil discipline. The discussion follows that carried out by Tasca G. in chapter III of the book “The SPAC between Law, Finance and Enterprise" (2020) in the identification of critical issues but provides a more practical look at the solutions implemented by the promoters compared to the purely legal view of the author.

Unavailability of the capital until the conclusion of the Business Combination

Funds raised by a SPAC at the IPO stage shall be tied to use. They must be employed either to complete the BC or to liquidate the company in the event of a BC failure. Article 2380-bis of the Civil Code specifies that *"the management of the enterprise is the sole responsibility of the directors, who carry out the operations necessary for the implementation of the corporate object"*. This presupposes that the managing body of the company (the Bod) shall always have the availability of the company’s resources to carry out its duty to pursue the corporate object. However, Tasca interprets the legislation by stating that, in a SPAC, *"the directors [] are called to achieve the corporate purpose [] through a mere processing-intellectual activity, consisting in the construction of the assumptions of an acquisition, aimed for this to the achievement of the only purpose that the SPAC has given itself: the completion of Business Combination"*. According to this view, the constraint posed to the use the IPO proceeds is therefore compatible with the law, in so far as the resources are used exclusively to carry out the investment in the *target*, *"in strict application of the bylaw"*. Accordingly, it is necessary that the Articles of Association include a clause providing for the exclusive use of the capital collected with the IPO for the definition of the BC[29]. Once that the feasibility of the unavailability of resources until the BC has been defined from a legal point of view, however, the practical implementation of the concept remains to be discussed. Operationally, the so-called *"segregation of assets"* is achieved by creating an escrow account and a capital structure composed of two different types of shares, one dedicated to investors (hereinafter “ordinary shares”, exchangeable on the market as a result of the IPO) and one dedicated to promoters (hereinafter “special shares”, unlisted and non-transferable). This structure on the one hand allows, in theory, to ensure the conservation of the capital raised at the IPO[30] up to the Business

[29] In addition to liquidation in the case of BC failure and payment of receding investors (discussed below)
[30] Or a share of it, which in practice varied between 98% and 100%.

Combination (or liquidation) whereas, on the other hand, it allows promoters making an initial investment to provide the SPAC with the necessary resources during the phases of selection of the *target* and of completion of the BC. Such investment which will then be remunerated as a result of the BC when the special shares are converted into tranches and subject to certain events[31] into shares to be freely traded on the market[32]. It is recalled here, although it is not directly related to the point under discussion, that together with the ordinary shares, the SPACs also assign to investors a certain number of warrants free of charge and that, in certain cases, also promoters are assigned warrants along with special shares.

Duration of the SPAC

The SPAC does not carry out a real business activity but has the sole purpose of achieving an acquisition of an operating company through an extraordinary financial transaction that involves the change of the corporate object of the SPAC itself. The duration constraint of this type of company is designed to reconcile the different needs of *promoters* and investors. On one side, the *promoters* need time to carry out a thorough and quality search of the *target* and to complete the agreement leading to the BC. On the other side, the investors have the necessity of *"programming and stabilization of the capital invested in the vehicle".* As will be seen in the next paragraph, the Stock Exchange regulations define the maximum time limit that the SPACs have to complete the acquisition or merger with an operating company. However, it is the practice of the Italian SPACs that the duration constraint is defined in the bylaws, that is a practice allowed by the Civil Code. Generally, the time limit coincides with twenty-four months to close the binding agreement (hereinafter "master agreement") with the *target* plus another six months to complete the BC[33]. If the BC is not completed in accordance with the terms of the Articles of Association, the SPAC will be wound up and the investors liquidated.

Approval of the Business Combination by the shareholders' meeting

SPAC investors have the control over the completion of the investment proposed by the *promoters*. The control can be exercised in two ways. The first provides that there should be an approval by the shareholders' meeting of the agreement leading to the BC, the second provides that investors may withdraw from the agreement by requesting back the invested capital, thus depleting the resources needed to conclude the BC and nullifying it. In Italy, the *promoters* of SPAC, once the *target* company

[31] In practice, the exceeding of certain price thresholds by the shares of the post-BC entity.
[32] Generally, after a certain period of lock-up.
[33] In some cases, the limits are eighteen and twenty-four months respectively.

has been identified, convene the extraordinary meeting of shareholders in which the holders of ordinary shares vote to approve or reject the BC[34]. Since SPAC uses risk capital, the Italian Civil Code requires a *quorum* of at least half of the share capital to hold the extraordinary shareholders' meeting valid and imposes a deliberative *quorum* of at least two thirds of the share capital present in the shareholders' meeting. However, the validity of the merger (or acquisition) decision that establishes the BC in the Italian SPACs depends on the withdrawal exercise by the shareholders.

Redemption right for dissenting shareholders

The right to withdraw from the investment made to the IPO (hereinafter "redemption right") is the greatest guarantee that the investors of the SPACs have to defend themselves from scams and low-quality BCs. Imposed by SEC Rule 419 in the USA, in Italy the introduction of the redemption right has been complex. Under Italian law, there is no provision for the possibility that the directors of a company may apply for authorisation to use the capital of a company for a certain use and that, if the use did not please the shareholders, they can withdraw from the investment by converting their shares into money[35]. However, the Civil Code provides for certain cases that include the right for the member to withdraw their shares. The exercise of the redemption right for the SPACs' shareholders is legitimized in Article 2437, paragraph 1 which reads: *"Shareholders who do not take part in the deliberations concerning [] the change in the object of the company, when it allows a significant change in the activity of the company, shall be entitled to withdraw, in respect of all or part of their shares"*. The resolution which approves the BC (referred to above) therefore includes the amendment of the corporate object of the SPAC, which from an investment vehicle becomes, as a result of the validity of the resolution, a company with an operating activity. Thanks to this ruse, investors who voted against the resolution or did not participate in its vote can redeem their shares. Pursuant to Article 2437-bis of the Italian Civil Code *"the redemption right is exercised [] within fifteen days of registration in the register of companies that legitimises it"*. As mentioned above, the exercise of the redemption right by a substantial share of shareholders may result in the loss of the resources needed to complete the BC, even if the BC has been approved by the extraordinary shareholders' meeting. In order to protect against this eventuality, it is common practice for the Italian SPACs to make the effectiveness of the CB's approval subject to a maximum threshold of

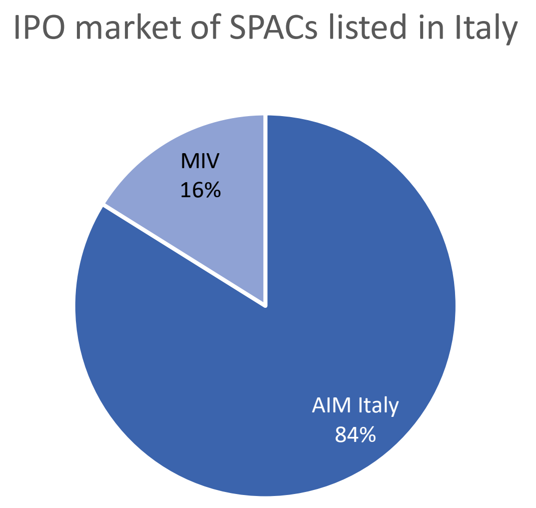
[34] This is an important point: the *promoters,* holders of special shares, cannot vote for the CB unless they also purchase ordinary shares that give voting rights.

[35] It would be as if an industrial company that wanted to buy a machine or a plant were to propose the investment to shareholders that, if they did not agree with the investment, could redeem the risk capital that they had injected into the company.

redemptions by means of a statutory clause. The threshold is generally defined either as a percentage of the ordinary shares issued or as a percentage of the money in the escrow account[36] and is 30% or 33%. Whether or not this threshold is reached also considers that the shares redeemed at first are then normally offered in option to non-dissenting shareholders, who can thus "reabsorb" a part of the money that would otherwise be returned. The value of the redemption is normally determined as the *pro-quota* value of the funds in the escrow account. Unlike in the USA, the interest earned on the escrow account in Italy is used for SPAC's current expenditure.

4.1.2 The reference markets: AIM Italy and MIV

Even if, as discussed above, SPACs have no place in the Italian legal system, they are regulated by Borsa Italiana[37], the management company of the main Italian Stock Exchanges. SPACs' securities can be admitted to trading on two markets: the Market for the Investment Vehicles (hereinafter "MIV") and the Alternative Investment Market (hereinafter "AIM Italy").



Graph 4 Share of SPACs listed in Italy for IPO market. It also includes SPACs not incorporated in Italy, thus not subject to the Italian Civil Code (the only case is Italy 1 Investment, listed in 2011 on the MIV). Personal elaboration.

MIV

The MIV is a regulated market managed by Borsa Italiana and dedicated to the Investment Vehicles. In 2010 an emendament to the "Regulation of Markets organized and managed by Borsa Italiana S.p.A.", approved by the CONSOB with the resolution n. 17302, introduced a new Professional Segment dedicated to Special Investment Vehicles (hereinafter "SIV") and accessible only to

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[36] The two metrics are only perfectly overlapping if 100% of the collection made to the IPO is deposited in the escrow account.

[37] Belonging to the Euronext group.

professional investors. The definition os SIV includes the SPACs[38]. The Regulation provides that *"may be admitted to listing"* on the Professional Segment of the MIV Market companies whose Articles of Association *"provide for the predominant investment in a company or asset on the basis of their investment strategy [] a duration of the company not exceeding 36 months to make one or more significant investments [] that is, representing in total more than 50% of the company's assets".* To be admitted to the MIV, SPACs are required to prepare a prospectus drawn up *"in accordance with the schedules provided for by the EU regulations governing the matter"* and submitted to CONSOB for approval and are required to appoint a Sponsor. The Sponsor is an authorized intermediary which helps the issuer during the listing procedure, guarantees about the reliability of its Business Plan and facilitates the contacts between the listed company and the analysists and investors. The minimum capitalization required is €40 million and the company's management must have maturated at least three years of experience in the strategic investments management. Given that the MIV is a market only for Investment Vehicles, once completed the BC, the SPAC cannot be listed on the MIV anymore. This exposes the post-BC entity to the risk of suspension from the negotiation of the securities waiting for the admission to another market (AIM or MTA). Moreover, given that the MIV is a regulated market, the admission procedure may take a long time and requires the disclosure of complex documents.

AIM Italy

The AIM Italy was born in the 2012 and it was conceived to promote the listing of the SMEs. The two main pillars of the AIM Italy were the non regulated admission procedure and the exclusion of *retail* investors from the negotiation. Nowadays, the *retail* investors are admitted to the secondary market, but cannot access the primary market. In its introduction, the AIM Italy is described as *"a multilateral trading system, primarily dedicated to SMEs and to companies with high growth potential"* and that *"given the risks connected to the investment, the access [to the market] is recommended to subjects with high financial knowledge and experience"*. It is the market for the SMEs, characterised by simplified procedures and less strict listing requirements than the regulated market (MTA and MIV). The AIM Italy is classifiable as a non-regulated exchange venue, that means that its rules are not dictated by superior authorities such as the EU regulations and national laws. Still, it does not mean that in the market there are no rules, but these are set by the market

[38] The investment policy does not include the diversification and the social object foresees the investment in one company or asset.

management company which is in turn supervised and authorised to operate by the market authorities. The rules are set in the AIM Italy Regulation, enacted by Borsa Italiana.

The AIM Italy Regulation defines the SPACs as issuers *"established for the purpose of acquiring a specific business"* to which the "Implementing Provisions for Investment Companies" apply. In application of the "Issuers Regulation" for AIM Italy, the admission of SPACs to the market is subject to a minimum amount of €10 million to be collected before the date of admission and to the definition of an investment policy whose change is subject to approval by shareholders. In addition, the Regulation provides that *promoters* of the SPACs must be *"persons (natural or legal) with proven experience and/or have held top positions in the field of*

- *transactions on the primary capital market*
- *private equity transactions*
- *management of medium-sized holdings*
- *investment banking".*

Finally, the investment policy must be implemented within 36 months of market admission that is the time limit for the execution of the relevant transaction (art. 8, par. 6). However, Article 9 leaves to Borsa Italiana a wide discretion in the admission of SPAC to the market (that means that the conditions referred to in Article 8 are necessary but not sufficient). To conclude, Articles 14 and 15 define the obligations that the SPACs must fulfil when completing the business combination, making its success conditional on approval by the shareholders' meeting and specify the information, related to the post-BC entity, to be disclosed to the market.

The listing on AIM is less complex and the requests are less stringent than the listing on MIV. The AIM Regulation provides that, for the purposes of admission to trading, the issuer must prepare an admission document the content of which is not subject to the supervision of the CONSOB. In order to be admitted to the listing on AIM, the issuer must appoint a Nominated Advisor (hereinafter "Nomad") which may be an Investment Bank or a Securities Firm (SIM). The Nomad is a key figure in the AIM Italy. Not only it has to support the issuer during the filing of the documents required for the admission to listing, but also it is the main element that guarantees that the issuer respects the listing requirements. In a non-regulated market, the Nomad plays the role of a supervisor over the issuer, of the guarantee for the investors and is held accountable to Borsa Italiana for the behaviour of the issuer.

Table 3 Listing requirements for SPACs in the Italian stock exchanges. Source: borsaitaliana.it, dirittobancario.it. Personal elaboration.

Market	MIV	AIM Italy
Source	Regulation of Markets organized and managed by Borsa Italiana	AIM Italy Regulation
Minimum amount raised at IPO	€40 million	€10 million
Minimum floating capital	35%	n/a
Appointment of intermediaries	Sponsor	Nomad
Documents required for admission	Prospectus filled out in accordance to EU regulations and approved by the market authority	Admission document not reviewed by the market authority
Escrow account or trust	n/a	n/a
Time for BC	36 months	36 months
Definition of BC	Significant investment which employs at least the 50% of the company's assets	Reverse takeover, that is one or more acquisitions within a period of 12 months that for the issuer AIM Italia: (i) are higher than 100% in any of the relevant indices; or (ii) result in a substantial change in the issuer's business, the board of directors or a change in control; or (iii) in the case of an investment company, deviate significantly from the investment policy (as described in the admission document or approved by the shareholders)
Redemption right	n/a	n/a
Approval of the BC	n/a	Any change of the investment policy must be approved by the shareholders

4.2 Empirical analysis of the Italian SPACs

After having set the economic context and the legal framework where the Italian SPACs are placed, this paragraph provides a qualitative and quantitative description of the phenomenon analysing the market practices and the specific features of SPACs. The sample analysed is made by all the SPACs listed on the Italian stock exchanges, regardless their country of incorporation, with the warning that SPACs not incorporated in Italy are not subject to the Civil Code, thus the discussion made in the paragraph 4.1.1 does not apply to them.

4.2.1 The market practices

Italian SPACs lifecycle

Adapting Lewellen (2009) to the Italian context, the lifecycle of a SPAC can be described with six mutual exclusive categories and four relevant dates that consist of the transition dates between these categories.

- No Target (NT)
- BC Under Approval (BCUA)
- BC Approved (BCA)
- Unhindered BC (UBC)
- BC Completed (BCC)
- BC Withdrawn (BCW)

The life of the SPAC begins with its establishment from the *promoters*, but the SPAC is operational from the IPO. It is at the IPO when it raises the money needed for the BC and the operating expenses finalized to the BC. Between the IPO and the BC announcement, the SPAC is in the NT status. The first capital event in the life of the SPAC after the IPO is the *target* announcement (or BC announcement), when, with a joint press release the SPAC and the *target* announce to the market the signing of a binding agreement between them to complete the BC (hereinafter "master agreement"). After the BC announcement the status of the is the BCUA until the call for the Extraordinary General Shareholders' Meeting when the owners of the ordinary shares have to vote in favour of or against the BC. If the meeting approves the BC but the redemption rate can overcome the bylaw threshold, the status of the SPAC becomes BCA and it should wait for the end of the window available for the exercise of the redemption rights and, in case, also the end of the tender offering of redeemed shares to check whether the redemption rate threshold is overcome or not. If not, then the BC is authorized, and the status of the SPAC becomes UBC. If after the shareholders'

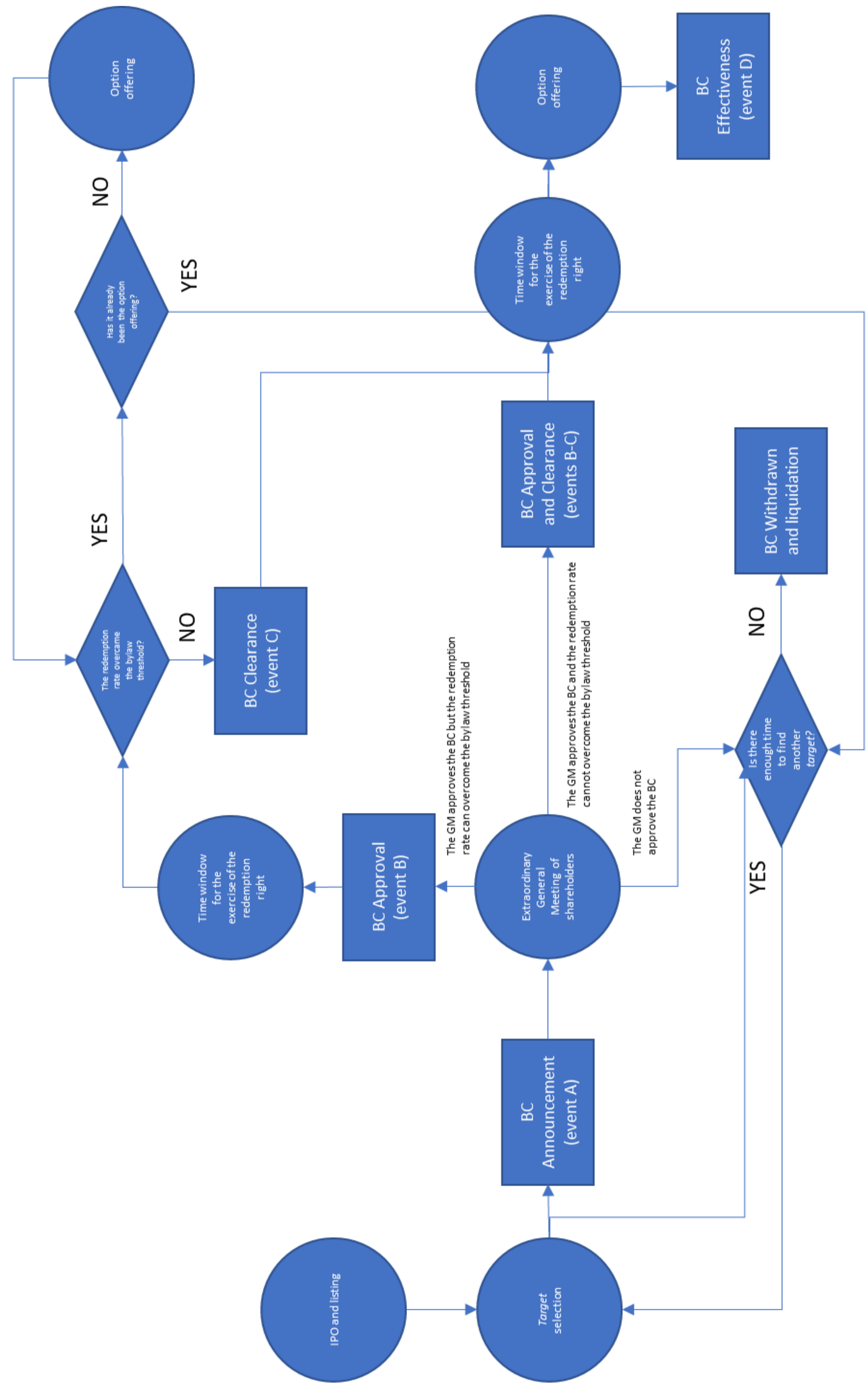


Figure 3 Lifecycle of Italian SPACs. Personal elaboration.

meeting the redemption rate cannot overcome the bylaw threshold, then the BC is approved and authorized at the same time (BC approval and BC clearance) and the SPAC moves to the UBC status without passing through the BCA one. After the BC clearance, a technical time passes before the BC effectiveness. After the BC effectiveness, the SPAC ceases to exist, and it starts the life of the post-BC entity. However, it may happen that either the *promoters* do not find a suitable *target* in time, or the BC is not authorized by the shareholders. In these cases, the BC can be withdrawn, and the SPAC liquidated. Figure 3 shows in detail the typical lifecycle for an Italian SPAC.

Overview on Italian SPACs

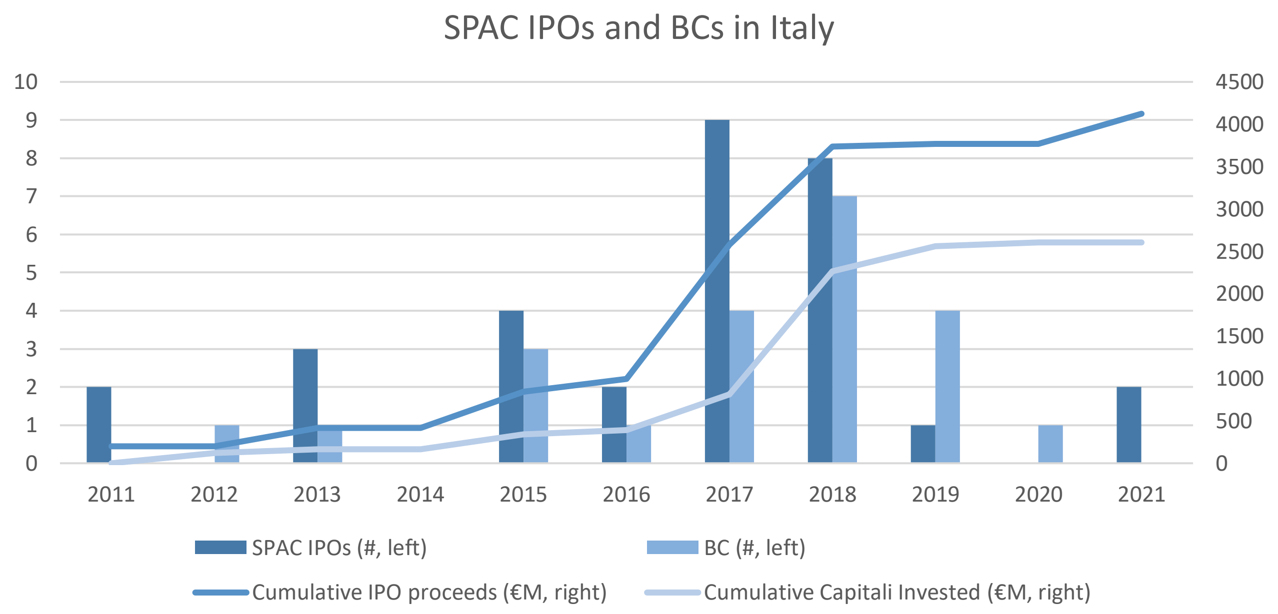
The first SPAC listed in Italy has been Italy 1 Investment in 2011. It has been the only SPAC listed in Italy but not incorporated in Italy. In fact, its country of incorporation has been Luxembourg. After

Table 4 Overview on Italian SPACs. Personal elaboration.

SPAC Name	IPO Date	IPO proceeds (€M)	IPO market	Status	BC Date	Capital invested (€M)	Merged Entity
Italy1 Investment SA	27/01/2011	150	MIV	BC delivered	16/05/2012	120	IVS Group
Made in Italy 1 SpA	27/06/2011	50	AIM Italy	BC delivered	01/02/2013	42	Se.sa
Industrial Stars of Italy Spa	22/07/2013	50	AIM Italy	BC delivered	09/07/2015	50	LU-VE
Space SpA	18/12/2013	130	MIV	BC delivered	01/06/2015	100	F.I.L.A.
GreenItaly1 SpA	27/12/2013	35	AIM Italy	BC delivered	23/12/2015	26	Zephyro
Space2 SpA	31/07/2015	300	MIV	BC delivered	10/04/2017	154	AVIO
Space3 SpA	31/07/2015	n/a	MIV	BC delivered	04/12/2017	146	Aquafil
Capital For Progress 1 SpA	04/08/2015	51	AIM Italy	BC delivered	29/12/2016	51	GPI
Glenalta Food SpA	10/11/2015	80	AIM Italy	BC delivered	13/02/2017	74	Orsero Spa
Industrial Stars of Italy 2 SpA	27/05/2016	50,5	AIM Italy	BC delivered	20/07/2017	50	SIT Spa
Innova Italy 1 SpA	19/10/2016	100	AIM Italy	BC delivered	01/10/2018	100	Fine Foods
Crescita SpA	15/03/2017	130	AIM Italy	BC delivered	04/06/2018	118	Cellularline
Glenalta SpA	19/07/2017	98	AIM Italy	BC delivered	30/07/2018	89	CFT Group
SprintItaly SpA	21/07/2017	150	AIM Italy	BC delivered	20/05/2019	97	SICIT Group Spa
EPS1 Equita PEP SPAC SpA	01/08/2017	150	AIM Italy	BC delivered	14/05/2018	77	ICF Group
Capital For Progress 2 SpA	04/08/2017	65	AIM Italy	Liquidated	n/a	0	n/a
Spactiv SpA	27/09/2017	90	AIM Italy	Liquidated	n/a	0	n/a
Industrial Stars of Italy 3 SpA	19/10/2017	150	AIM Italy	BC delivered	08/11/2019	54	Salcef Group
IDeaMI SpA	11/12/2017	250	AIM Italy	Liquidated	n/a	0	n/a
Space4 SpA	21/12/2017	500	MIV	BC delivered	06/08/2018	468,7	Guala Closures Spa
ALP.I SpA	01/02/2018	100	AIM Italy	BC delivered	18/04/2019	69	Antares Vision
SPAXS SpA	01/02/2018	600	AIM Italy	BC delivered	12/11/2018	562	Illimity Bank
VEI 1 SpA	27/02/2018	100	AIM Italy	Liquidated	n/a	0	n/a
Life Care Capital SpA	07/03/2018	140	AIM Italy	Liquidated	n/a	0	n/a
Gabelli Value for Italy SpA	20/04/2018	110	AIM Italy	Liquidated	n/a	0	n/a
Archimede SpA	21/05/2018	47	AIM Italy	BC delivered	31/12/2018	38	NetInsurance
THESPAC SpA	02/08/2018	60	AIM Italy	BC delivered	05/10/2020	44	Franchi Umberto Marmi
Gear 1 SpA	26/02/2019	30	AIM Italy	BC delivered	13/03/2019	30	Comer Industries
EPS2 Equita PEP SPAC SpA	10/05/2018	n/a	AIM Italy	Liquidated	n/a	0	n/a
REVO	26/05/2021	220	AIM Italy	Ongoing	n/a	n/a	n/a
Industrial Stars of Italy 4 SpA	08/07/2021	138	AIM Italy	Ongoing	n/a	n/a	n/a

it, other thirty SPACs, including those born from split-up of other SPACs, have been listed either on the AIM Italy or on the MIV up to the end of August 2021.

Twenty-two SPACs achieved to complete the BC and became operating companies, seven expired without delivering the BC and were liquidated and two are still active on the market operating as SPACs. The thirty-one SPACs in the sample collected a total amount of €4.12 billion at the IPO, that means an average of €140 million each. However, there is a big variability of the IPO size, from the €30 million collected by Gear1 in 2019 to the €600 million collected by SPAXS in 2018, that is the biggest Italian SPAC to date. The amount of money raised at the IPO must be functional to the project of the *promoters* and this explains this huge variability.

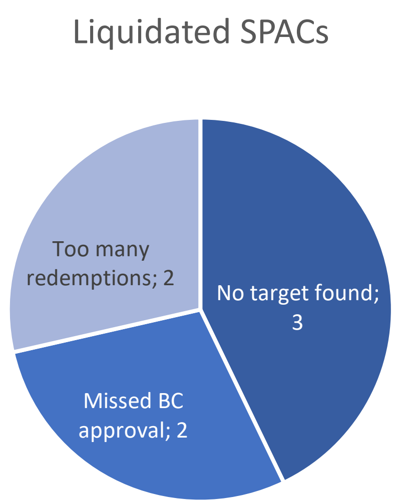


Graph 5 Temporal distribution of SPAC IPOs and BCs with the cumulative IPO proceeds and Capital Invested by the SPACs. Personal elaboration.

Of the more than €4 billion collected, around €2.61 billion have been effectively deployed to perform the BCs and invested in the *target* companies. It means that on average a SPAC brought about €90 million to the BC deal. The difference between the IPO proceeds and the Capital Invested arises from four circumstances. The first is the exercise of the redemption right by investors at the BC. It reduced the amount of money available to the SPAC to perform the BC so that, even the SPACs that delivered the BC in many cases did not employ the full amount of capital raised at the IPO. The second is the impact of liquidated SPACs. Those SPACs collected a total amount of €755 million which have been paid back to investors. The third is the fact that two SPACs are still operating to conclude a BC and still have to deploy a total of €358 million. If we look only at the SPAC that delivered the BC, excluding liquidated and ongoing SPACs, the share of Capital Invested increases to 87% (from the overall value of 63%). Another technical reason behind the difference of average Capital Invested and average IPO proceeds is the presence in the sample of the SPACs born from a split-up. Space 3 was born from the split-up of Space 2, which employed almost a half of the €300 million IPO proceeds for the BC and assigned the remaining part to Space 3. Space 3 concluded the BC without any redemption. Also, EPS2 was born from a similar situation involving EPS, but, differently from Space 3, EPS2 went into liquidation because did not find a *target* in time. Finally, some SPACs gave back to investors, in the form of extraordinary reserves distribution, a portion of the investment even if they delivered the BC. This is the case of Space, Greenitaly 1 and Industrial Stars of Italy 3. It is worth to remark that the Capital Invested into the *target* could be either used to increase the Capital of the post-BC entity (similarly to the "primary proceeds" of a traditional IPO) or to buyout the shares of the *previous shareholders* (similarly to the "secondary proceeds").

Looking at the temporal distribution of SPAC IPOs and BCs, after some years in which the number of SPAC IPOs was around two to four per years, in 2017 and 2018 the phenomenon boomed, with nine and eight SPAC IPOs per year respectively. In parallel with this increase in popularity of the SPAC however, also increased the number of failures to deliver the BC. All the seven liquidated SPACs performed their IPOs in the years 2017 and 2018.

SPACs went in liquidation for different reasons. In some cases, they did not achieve to find a suitable *target* to close the BC within the time limits imposed by the bylaw and the listing rules. In some other cases they announced the signing of the *master agreement* with a firm, but the BC was not approved by the SPAC shareholders in the extraordinary shareholders' meeting. In still other cases,



Graph 6 Causes of SPACs liquidation in Italy. Personal elaboration.

even if the BC had been approved by the shareholders' meeting, the SPAC recorded a redemption rate higher than the bylaw threshold that undermined the effectiveness of the BC.

The promoters' initial investment

As already mentioned, the *promoters* of the SPACs make an initial at-risk investment that has a double-folded implication. On one hand it is meant to provide the SPAC with the financial resources needed to pay the current expenditure related to IPO and listing procedures (such as the underwriting fees) and to the *target* selection, valuation and composition of the BC deal (such as legal advisory and financial advisory fees, but also the remuneration to independent members of the BoD and to auditors). On the other hand, it allows for the remuneration of the *promoters'* job after the BC, aligning the interests of *promoters* and investors. In Italy, the initial investment took three different forms.

Italy 1 Investment, not incorporated in Italy, followed the mainstream USA paradigm. The *promoters* acquired the 25% of the shares offered at the IPO (that means the 20% of the total share capital) for a symbolic amount of €0.0093 per share. These shares were not tradable on the market until after the BC[39]. Jointly they acquired 5 million warrants at the price of €1 each. The warrants were in-the-money and exercisable after the BC. The case of Italy 1 Investment has been a unicum in the Italian market.

In all the other cases the *promoters* acquired a certain number of special shares for a price of €10 each. These special shares were not transferable and not listed on the market but could be converted, with a certain conversion ratio, into ordinary shares after the BC. In general, one tranche of special shares was converted immediately after the BC, while the other tranches were converted if the share of the post-BC entity would have hit certain price thresholds, variable from €11 to €15, within a certain time limit, variable from twenty-four to sixty months, after the BC. The conversion ratio indicates how many ordinary shares derives from the conversion of one special share. In the Italian SPACs it varied from seven-to-one to four and a half-to-one. At the end of the time limit, the special shares not yet converted would be converted into one ordinary share each. SPAXS and REVO have been the only SPAC that adopted a differentiated conversion ratio. For SPAXS it has been six-to-one for the first tranche (converted seven days after the BC) and eight-to-one for the second (to

[39] One third until six months after the BC, the remaining two thirds were unlocked if the share price of the post-BC entity would have increased up to €11 and €12 per share.

be converted if the price of ordinary shares will be higher than 15€[40] for at least twenty-two consecutive trading days after BC, within forty-eight months after BC). Moreover, REVO is the first SPAC in which no special share will be automatically converted at the BC, but in which the conversion of all the tranches is subject to share price barriers (€12.5 and €14 respectively). The second form of initial investment over mentioned involves only special shares as securities in the hands of the *promoters.*

Table 5 Promoters' initial investment. Personal elaboration.

SPAC Name	Promoters Investment	Classes of Special Shares	Special Shares Conversion Ratio	Price trigger	Conversion of Special Shares Time Limit (Months)	Special Warrants exercise	Special Warrants Strike Price
Italy1 Investment SA (1)	Ordinary shares + Warrants	3	1	11€-12€	60	Cashless	9,3€
Made in Italy 1 SpA	Special Shares	3	7	11€-12€	24		
Industrial Stars of Italy Spa	Special Shares	3	7	11€-12€	28		
Space SpA	Special Shares + Warrants	4	5	11€-13€	36	Fixed Rate	13€
GreenItaly1 SpA	Special Shares	3	7	12€-13,5€	36		
Space2 SpA	Special Shares + Warrants	4	4,5	11€-13€	60	Fixed Rate	13€
Capital For Progress 1 SpA	Special Shares	3	7	11€-12€	28		
Glenalta Food SpA	Special Shares	3	6	11€-12€	36		
Industrial Stars of Italy 2 SpA	Special Shares	3	7	11€-12€	28		
Innova Italy 1 SpA	Special Shares	4	6	11€-13€	36		
Crescita SpA	Special Shares	4	6	11€-13€	36		
Glenalta SpA	Special Shares	3	6	11€-12€	48		
SprintItaly SpA	Special Shares	4	6	11€-13€	36		
EPS1 Equita PEP SPAC SpA	Special Shares	4	6	11€-13€	36		
Capital For Progress 2 SpA	Special Shares	3	6	11€-12€	28		
Spactiv SpA	Special Shares	4	6	11€-13,3€	36/48		
Industrial Stars of Italy 3 SpA	Special Shares	3	7	11€-12€	28		
IDeaMI SpA	Special Shares	4	n/a	n/a	n/a		
Space4 SpA	Special Shares + Warrants	4	4.5	11€-13€	60	Fixed Rate	13€
ALP.I SpA	Special Shares	4	6	11€-13€	36		
SPAXS SpA	Special Shares	2	6 (1st tranche); 8 (2nd)	15€	48		
VEI 1 SpA	Special Shares	5	6	11€-14€	48		
Life Care Capital SpA	Special Shares	5	6	11€-14€	36		
Gabelli Value for Italy SpA	Special Shares	4	6	11€-13€	36		
Archimede SpA	Special Shares	4	7	11,5€-15€	48		
THESPAC SpA	Special Shares	4	6	11€-13€	36		
Gear 1 SpA	Special Shares	3	7	11,5€-12,5€	48		
REVO (2)	Special Shares	2	6 (1st tranche); 7 (2nd)	12,5€-14€	60		
Industrial Stars of Italy 4 SpA (3)	Special Warrants + Shares	1	1	n/a	n/a	Quasi-cashless	Variable

(1) For Italy 1 Investment the both the shares and the warrants are ordinary

(2) REVO included also the presence of a Cornerstone investors which bought a different category of special shares

(3) ISI4 shows an innovative structure in which the remuneration of the *promoters* is linked only to special warrants, which are convertible only if the share price hit certain barriers after the BC. The investment in special shares is symbolic and does not involve the classic conversion mechanism

[40] €13.6 after technical adjustments.

However, there have been cases (and this is the third form), where the *promoters* were also assigned, jointly with the investment in special shares, with special warrants for free. The SPACs Space 1, Space 2[41] and Space 4 and adopted this paradigm. The special warrants assigned at the IPO to *promoters* were out-of-the-money with a strike price of €13[42].

Besides this, in four SPACs (Crescita, Sprintitaly, IDeaMI and VEI 1) the *promoters* also bought ordinary shares at the IPO, with the aim of giving a signal to the market about the quality of the investment.

The public offering: the warrants and the rights

While the *promoters* investment is useful to run the SPAC before the BC, the capital necessary for the BC is collected through an IPO. The offering made by one ordinary share and a fraction of warrants has been introduced in Italy following the American standard practice. However, in Italy, talking of "unit" is not perfectly correct[43] as, differently from the USA, the unit do not have a specific ISIN code and is not traded on the market after the IPO. In Italy the securities issued by the SPACs at the IPO are only shares and warrants, with the latter being assigned freely, in a given proportion, to investors who buy the shares at the IPO or to investors who hold a share at the BC date. Despite this minor difference, the rationale behind the offering followed the USA one and the other mechanisms are the same. The assignment of the warrant is an incentive for investors to provide the *promoters* with the money in advance with respect to the BC. In all the Italian SPACs the shares at the IPO were sold for €10 each. What changed, besides the size of the offering as seen before, were quantity of warrants assigned, their assignment triggers, their conversion triggers and their conversion mechanism. All the features of the warrants are defined in the warrants regulation, that is an appendix of the SPAC bylaw.

Starting from the conversion mechanism, Italian SPACs widely adopted the co-called quasi-cashless warrants. According to the functioning of quasi-cashless warrants, the holder of the option can convert it into a fraction of the underlying (in this case, the ordinary share), which is variable according to the following formula:

$$\frac{\min\{Monthly\ Average\ share\ price; Acceleration\ price\} - strike\ price}{\min\{Monthly\ Average\ share\ price; Acceleration\ price\} - conversion\ price}$$

[41] And Space 3 which was born from the split-up of Space 2.
[42] As will be seen later, at the IPO one share is offered for €10.
[43] Even if this work adopts this terminology for the sake of simplicity

Where the conversion price is the price, set in the warrants regulation, that the warrant holder has to pay to obtain one share from the conversion. In all the Italian SPACs that adopt this mechanism, the conversion price is set to €0.10. The acceleration price instead is the share price threshold set by the SPAC over which the warrants must be necessarily exercised. Setting an acceleration price allows defining a threshold for the dilution that the conversion of warrants may cause to *previous shareholders*. In fact, according to the formula, the higher the share price[44], the higher the fraction of shares that a warrant can guarantee. Once the share has hit the acceleration price, the investors are called to convert their warrants at the maximum conversion ratio possible within one or two months, otherwise the warrants will expire worthlessly. The warrants can be exercised after the BC in predetermined exercise windows and have a time limit (usually five years) after which, if not exercised, they expire. Also, the strike price is set in the warrants regulations and varied between €9.30 to €10.50. The cashless conversion mechanism follows the same rules of the quasi-cashless, but with a conversion price equal to zero. The logic behind the cashless and quasi-cashless warrants is that the investors can obtain the wealth incorporated into the option (which is given by the difference between the price of the underlying and the strike price, if positive), with a limited or null cash outflow while the *previous shareholders* are more protected from dilution as the newly issued shares are in a moderate number. Despite these benefits of the quasi-cashless exercise, some SPACs employed the fixed rate traditional conversion mechanism. It foresees that the holder of the warrant has to pay the strike price to obtain one additional newly issued share.

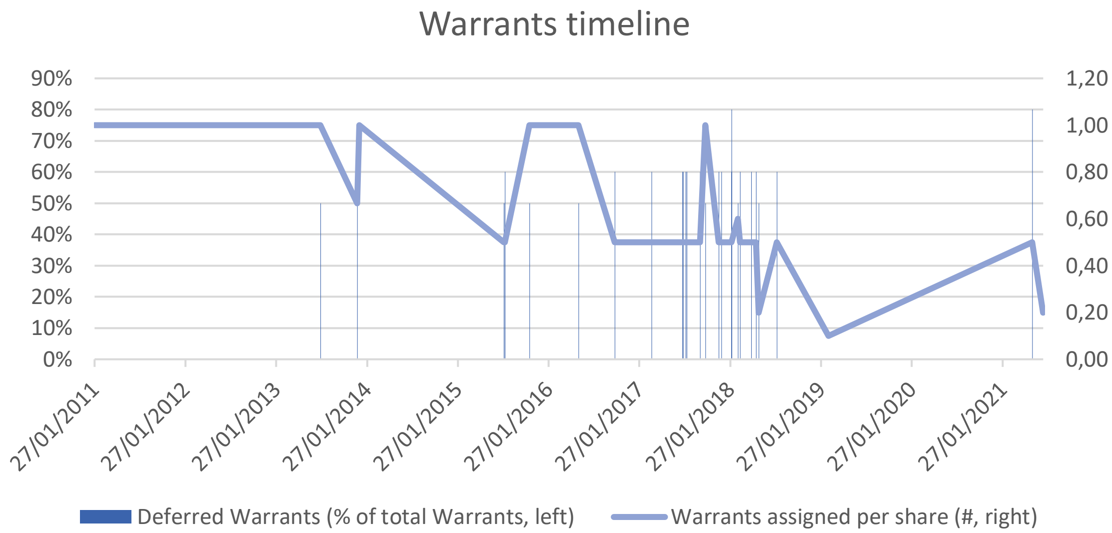
Two SPACs in the sample, SPAXS and REVO, assigned to investors rights instead of warrants. The rights allowed their holders to subscribe for free an additional newly issued share every five rights. In both cases, one tenth of right has been assigned at the IPO, while other four tenths were assigned at the BC, so that every non redeeming investor could get an additional share every ten owned.

[44] Instead of the daily share price, the monthly average is employed for technical reasons. Usually, the SPAC communicate at the beginning of the month which is the conversion ratio, based on the average of the share price in the previous month, at which the warrant holders can convert their option into shares for that specific month.

Table 6 Italian SPACs IPO structure. Personal elaboration.

SPAC Name	IPO Date	Warrants/Rights	Ordinary Warrants/Rights exercise	Ordinary Warrants/Rights Strike Price
Italy1 Investment SA	27/01/2011	Warrants	Cashless	€ 9,30
Made in Italy 1 SpA	27/06/2011	Warrants	Quasi-Cashless	€ 9,50
Industrial Stars of Italy Spa	22/07/2013	Warrants	Quasi-Cashless	€ 9,30
Space SpA	18/12/2013	Warrants	Cashless	€ 9,50
GreenItaly1 SpA	27/12/2013	Warrants	Quasi-Cashless	€ 9,50
Space2 SpA	31/07/2015	Warrants	Quasi-Cashless	€ 9,50
Space3 SpA	31/07/2015	Warrants	Quasi-Cashless	€ 9,50
Capital For Progress 1 SpA	04/08/2015	Warrants	Quasi-Cashless	€ 9,50
Glenalta Food SpA	10/11/2015	Warrants	Quasi-Cashless	€ 9,50
Industrial Stars of Italy 2 SpA	27/05/2016	Warrants	Quasi-Cashless	€ 9,30
Innova Italy 1 SpA	19/10/2016	Warrants	Quasi-Cashless	€ 9,50
Crescita SpA	15/03/2017	Warrants	Quasi-Cashless	€ 9,50
Glenalta SpA	19/07/2017	Warrants	Quasi-Cashless	€ 9,50
SprintItaly SpA	21/07/2017	Warrants	Quasi-Cashless	€ 9,50
EPS1 Equita PEP SPAC SpA	01/08/2017	Warrants	Quasi-Cashless	€ 9,50
Capital For Progress 2 SpA	04/08/2017	Warrants	Fixed Rate	€ 9,50
Spactiv SpA	27/09/2017	Warrants	Quasi-Cashless	€ 9,50
Industrial Stars of Italy 3 SpA	19/10/2017	Warrants	Quasi-Cashless	€ 9,30
IDeaMI SpA	11/12/2017	Warrants	Quasi-Cashless	€ 10,50
Space4 SpA	21/12/2017	Warrants	Quasi-Cashless	€ 10,00
ALP.I SpA	01/02/2018	Warrants	Quasi-Cashless	€ 9,50
SPAXS SpA	01/02/2018	Rights	Cashless	€ 0,00
VEI 1 SpA	27/02/2018	Warrants	Quasi-Cashless	n/a
Life Care Capital SpA	07/03/2018	Warrants	Quasi-Cashless	€ 10,50
Gabelli Value for Italy SpA	20/04/2018	Warrants	Quasi-Cashless	€ 9,50
Archimede SpA	21/05/2018	Warrants	Fixed Rate	€ 10,00
THESPAC SpA	02/08/2018	Warrants	Quasi-Cashless	€ 10,50
Gear 1 SpA	26/02/2019	Warrants	Fixed Rate	€ 10,00
EPS2 Equita PEP SPAC SpA	10/05/2018	Warrants	Quasi-Cashless	€ 9,50
REVO	26/05/2021	Rights	Cashless	€ 0,00
Industrial Stars of Italy 4 SpA	08/07/2021	Warrants	Quasi-Cashless	variable from €9,147 to €9,263

For what concern the number of warrants assigned for each share, the analysis of the Italian SPACs shows that it varied from one to one tenth, with a clear decreasing trend during the time. Also, the Italian SPACs often adopted the deferred warrant assignment, that means they assigned the warrants not only at the IPO but also at the BC to those who held the SPAC share at the BC date, to protect against opportunistic behaviours and to provide a further incentive to stick with the investment even after the BC, without redeeming the shares. The majority of SPACs assigned two warrants every ten shares bought at the IPO and additional three warrants every ten shares held at the BC date.



Graph 7 Timeline of number of warrants assigned and fraction of warrants deferred to the BC. Personal elaboration..

Characteristics and operating performance of the target companies

This step of the analysis focuses on the description of the *target* companies, of the process that led to the BC and of the operating performance of the *targets* and the post-BC entities.

All the SPACs listed in Italy targeted Italian companies. Moreover, all the post-BC entities that are still listed on a Stock Exchange[45] are listed in Italy. This shows that on one side there is a very tight link between the SPACs and the real economy in Italy, as all the capital invested by SPACs went to Italian firms, and on the other side that SPACs helped the development of the Italian Stock Markets, traditionally less developed and liquid than other more important venues around the world.

Graph 8 Target firms' industrial macro-sectors. Personal elaboration.

[45] Three post-BC entities (Zephyro, CFT Group and Guala Closures) have been delisted after the acquisition by industrial players.

Analysing the *targets'* industrial sectors for SPACs that completed the BC, Graph 8 shows that the majority of Italian SPACs focused on the manufacturing sector (thirteen), but that *target* companies also belonged to sectors like the wholesale and retail trade, the constructions, the ICT and the financial ones.

Table 7 Targets' main activities. Personal elaboration.

SPAC Name	Target firm	Target industrial macro-sector	Target industrial sector	Target main activity
Italy1 Investment SA	IVS Group	Wholesale and retail trade	Retail trade	Authomatic distribution of food and beverage
Made in Italy 1 SpA	Se.sa	Wholesale and retail trade	Wholesale trade	Wholesale trade of ICT products
Industrial Stars of Italy Spa	LU-VE	Manifacturing	Machinery and equipment	Manufacturing and distribution of non-domestic refrigeration and ventilation equipment
Space SpA	F.I.L.A.	Manifacturing	Manufacturing - other	Manufacturing of stationery items
GreenItaly1 SpA	Zephyro	Constructions	Specialized constructions	Installation of plumbing, heating and air conditioning systems (including maintenance and repair) in buildings or other construction works
Space2 SpA	AVIO	Manifacturing	Means of transport	Manufacturing of aircraft, spacecraft and related devices
Space3 SpA	Aquafil	Manifacturing	Chimical	Manufacturing of synthetic and artificial fibers
Capital For Progress 1 SpA	GPI	Information and communication	Software, IT consultancy	Production of software not related to the edition
Glenalta Food SpA	GF Group	Wholesale and retail trade	Wholesale trade	Import and distribution of fruits and vegetables
Industrial Stars of Italy 2 SpA	SIT Spa	Manifacturing	Machinery and equipment	Manufacturing of drawing instruments, electricity, gas, water and other liquid meters, precision analytical balances
Innova Italy 1 SpA	Fine Food & Pharmaceuticals	Manifacturing	Food	Production of homogenized preparations and dietetic foods
Crescita SpA	Cellularline	Wholesale and retail trade	Wholesale trade	Wholesale trade of telephones and telephone supplies
Glenalta SpA	CFT Group	Manifacturing	Machinery and equipment	Manufacturing of machinery for the food, beverage and tobacco industry
SprintItaly SpA	SICIT Group Spa	Manifacturing	Chimical	Manufacturing of organic based chemicals
EPS1 Equita PEP SPAC SpA	Industrie Chimiche Forestali	Manifacturing	Textile	Manufacturing of paints, varnishes and enamels, printing inks and synthetic adhesives (mastics)
Industrial Stars of Italy 3 SpA	Salcef Group	Constructions	Civil engineering	Construction of railway and underground lines
Space4 SpA	Guala Closures Spa	Manifacturing	Manufacturing of metal products	Manufacturing of light metal packaging
ALP.I SpA	Antares Vision	Manifacturing	Installation of industrial machinery and equipment	Installation of instruments and apparatus for measuring, checking, testing, navigation and the like
SPAXS SpA	Banca Interprovinciale	Financial and insurance	Financial	Monetary intermediation of monetary institutions other than central banks
Archimede SpA	NetInsurance	Financial and insurance	Insurance	Insurance
THESPAC SpA	Franchi Umberto Marmi	Manifacturing	Manufacturing of non-metallic mineral products	Sawing and processing of stones and marble
Gear 1 SpA	Comer Industries	Manifacturing	Machinery and equipment	Manufacturing of transmission components

A deeper exploration of the *targets* operating in the manufacturing macro-sector reveals a wide range of different activities that the *targets* were carrying out before the BC, form the manufacturing of aircraft to the production of dietetic food, form the manufacturing of machinery and equipment (four *targets* operated in this specific sector) to the sawing and processing of stones and marble. In general, Italian SPACs targeted a wide variety of different firms operating in different sectors and industries of the economy.

The sector of the *target* is strictly related to the investment strategy of the SPAC. Only seven Italian SPACs clearly stated in their investment strategy in which sector they would have invested the IPO proceeds (sectorial SPACs). Of these, five completed the BC, one withdrawn the BC and one is still operating as a SPAC.

- Green Italy 1 has been the first and unique Italian SPAC focused on the green economy. It completed the BC with Zephyro (previously Prima Vera) which has been than acquired by Edison and delisted.
- Glenalta Food aimed at finding the *target* in the Food & Beverage sector. It merged with GF Group that than changed its name in Orsero Group.
- Life Care Capital has been the first Italian SPAC with a special focus on the start-ups in the Health & Life care sector. It found a *target* (Biogenera) but did not get the approval of the BC at the extraordinary shareholders' meeting.
- SPAXS has been the first Italian SPAC that raised money to acquire a business in the banking industry to launch an innovative start-up. It acquired Banca Interprovinciale and founded Illimity Bank.
- Archimede focused on acquiring an insurance company to revamp its business with a clear focus on Insurtech solutions. It has been the first SPAC to disclose the potential *target* (Net Insurance) already at the IPO[46].
- Gear1 performed the first Italian accelerated BC, signing the *master agreement* with Comer Industries before the IPO and not giving, for this reason, the right to redeem the shares at the BC to investors. Comer Industries operates in the industrial and agricultural mechanical industry.
- REVO is a SPAC targeting the insurance industry still active on the market. The BC with Elba Assicurazioni has been approved by the shareholders at the beginning of August 2021.

All the other SPACs did not indicate in their investment strategy disclosure the desirable sector of the *target*. However, in many cases they excluded the financial industry as possible *target's* industry.

The BC took three different forms: the merger by incorporation of the *target* into the SPAC, the merger by incorporation of the SPAC into the *target* and the acquisition of the *target's* capital by the SPAC. The three solutions have different technical features. When the *target* is incorporated by

[46] It has been also the unique Italian SPAC targeting an already listed company.

the SPAC (68% of the cases) the surviving company, that is the SPAC, has already the shares listed on the market. Thus, it is sufficient to change the name of the company and of the securities and the *target* becomes directly listed. If instead it is the *target* that incorporates the SPAC (27% of the cases), usually the *target* issue new capital functional to the emission of new shares in favour of the SPAC shareholders and has to request Borsa Italiana for the admission of the securities on the stock market. In practice, this solution allows the *target* to easily build the floating capital but is more complex than the first solution. Finally, in one case (EPS1), the SPAC acquired the whole equity capital of the *target*, acting as a holding company. On average, for the SPACs in the sample, it took seventeen months from the IPO to complete the BC, with a minimum of one month (Gear1) and a maximum of twenty-seven months (TheSPAC).

Table 8 Financial indicators for target companies before and after the BC. The index t=0 indicates first financial year closed after the BC, during which the BC happened. Data are reported considering only the 14 companies for which the financial statements are available for the whole time-horizon analysed. Personal elaboration.

	Average per year					Change (-1/+2)	CAGR (-1/+2)	Growth (-2/-1)
t	-2	-1	0	1	2			
Revenues (€M)	€ 292,61	€ 312,67	€ 308,08	€ 391,34	€ 404,07	€ 91,40	8,9%	6,9%
Net Profit (€M)	€ 6,56	€ 9,67	€ 7,02	€ 15,51	€ 7,95	-€ 1,72	-	-
EBITDA (€M)	€ 33,95	€ 35,03	€ 37,08	€ 43,21	€ 41,07	€ 6,04	5,4%	3,2%
Total assets (€M)	€ 328,05	€ 345,38	€ 451,98	€ 493,16	€ 517,55	€ 172,17	14,4%	5,3%
D/E	1,81	1,84	0,93	0,78	0,83	-1,01	-	-
ROA	7,0%	6,8%	5,1%	5,7%	4,0%	-273 bps	-	-
EBITDA Margin	13,6%	12,7%	15,2%	14,5%	13,2%	+44 bps	-	-
ROE	10,5%	12,4%	4,6%	10,6%	5,5%	-689bps	-	-

After having analysed the characteristics of the *targets* in term of industry and country, it is interesting to provide an overview of their operating and financial performance. In particular, it is interesting to focus on their operating performance before the BC and on their change after the BC. To conduct this analysis, the following indicators are computed for each firm[47]: revenues, net profit, total assets, leverage (D/E), Return on Assets (ROA), EBITDA, EBITDA margin, Return on Equity (ROE). The data are derived from the AIDA database and from the financial statements published by the companies on their websites.

[47] From the sample are excluded the two financial companies Net Insurance and Banca Interprovinciale, because of the well-known difference between the financial statements of industrial and financial firms.

Table 945 Summary statistics of the financial indicators for target companies before the BC. The values are taken from the last financial year before the BC and consider the whole sample of companies that performed the BC. Personal elaboration.

	Revenues (€M)	Net profit (€M)	EBITDA (€M)	Total assets (€M)
Average	€ 276,14	€ 11,86	€ 34,27	€ 297,12
Median	€ 229,59	€ 10,21	€ 28,36	€ 241,91
Minimum	€ 55,14	€ 1,43	€ 8,95	€ 78,07
Maximum	€ 805,11	€ 30,60	€ 103,23	€ 819,84
	D/E	**ROA**	**EBITDA margin**	**ROE**
Average	1,49	9,8%	15,9%	16,4%
Median	0,77	8,2%	14,5%	17,9%
Minimum	0,00	1,6%	4,1%	1,0%
Maximum	6,47	31,0%	39,0%	37,5%

At the BC, the *targets* show an average revenue of €276 million, with a median of €230 million, a minimum of €55 million (SICIT group) and a maximum of €805 million (Se.sa.). Excluding the companies for which there are no financial data available two years after the BC, the average turnover before the BC is €312 million and it increased up to €404 million two years after the BC, with a delta of +€92 million and a CAGR of 8.9%, compared to the average growth of 6.8% the year before the BC. Looking at the total assets, the *targets* record a mean of €297 million with a median of €242 million. The smallest firm that merged with a SPAC had €82 million (SICIT group) of total assets while the biggest €819 million (Guala Closures). Restricting the analysis to firms comparable over the two years after the BC, they recorded an increase of the average total assets of €172 million with a CAGR of 14.4% compared to the growth of 5.3% recorded the year before the BC. According to the definition of the European Commission[48], all the *targets* belong to the category of large enterprises. The latest SBA Fact Sheet (European Commission, 2019) published by the European Commission in 2019 counts 3.380 large firms in Italy, which are the 0.1% of the total number of firms but employ the 22% of the workforce and generate the 43.6% of the total value added. Moreover, it seems that the BC provides the *target* with a boost for the growth of the revenues and of the assets.

The average net profit before the BC is €11.9 million (€10.2 million of median) with an average ROE of 16% (median 17.9%). The EBITDA is on average €34.2 million (median €28.4 million) with an average EBITDA margin of 15.9% (median 14.8%). Even if these ratios are not theoretically

[48] European Commission Recommendation 2006/361/CE, May the 6th 2013, Art. 2, defines as SMEs the companies *"which employ less than 250 people, which annual turnover does not overcome €50 million, or which total assets do not overcome €43 million"*

comparable between companies operating in different industries and with different financial structures[49], these numbers show that on average the firms selected by the SPACs were profitable and with good operating performance. Taking the comparable sample, the EBITDA increased by €6 million until the second year after the BC with a CAGR of 3.2%, while the EBITDA margin stayed quite stable in the time horizon considered.

Finally, it is interesting to notice the strong drop of the average leverage that, from the value of 1.84 before the BC (1.49 for the whole sample) plummeted to 0.83 two years after the event. This derives from the strong recapitalization that the merger with the SPAC brings to the *target* and can also explain the drop of the average ROE (from 12.4%, 16.4% for the whole sample, to 5.5%) and of the ROA (from 6.8%, 9.8% for the whole sample, to 4%).

4.3 How do SPACs perform? Performance assessment of Italian SPACs

Following the literature analysed in the paragraph 3.3.1, this paragraph studies the financial returns for SPAC investors in two different ways. Firstly, computing the market reaction at the relevant dates of the SPAC lifecycle and in the short-term period after the BC. Secondly, assessing the return from the investment that SPACs granted to IPO investors and to *promoters* in the medium-to-long term period. The performance assessment is carried out on the sample of Italian SPACs which delivered the BC.

4.3.1 Market reaction and short-term stock returns

The first step of the analysis focuses on how the market reacts to the following events:

- BC announcement (event A)
- BC approval (event B)
- BC clearance (event C)
- BC effectiveness (event D)

In some cases, as previously discussed, event B and event C can coincide. The method adopted consists of the event study, which implies the computation of Cumulative Abnormal Returns (hereinafter "CARs") of stocks[50] around the event dates. To implement the methodology, the time series of the daily SPAC's share price and of a benchmark index are required. For only sixteen out of

[49] To assess whether the ROE of a firm is "good", the cost of the equity capital (k_e) should be known. But k_e is not observable and depends on the business and the financial structure of the firm.
[50] It is an acceptable proxy of the return of the unit

the twenty-two SPACs that completed the BC the information required were completely available[51]. Thus, the analysis involves only these SPACs. The benchmark index selected is the FTSE Italy Small Cap, that is the more coherent with the size of the SPACs and complete[52]. From the time series of prices, it is derived the time series of daily returns of the share $r_{i,t}$, where the appendix “i” indicates the SPAC considered and the appendix “t” the day, and of the market $r_{m,t}$. The daily return is computed as the difference between the natural logarithm of the prices in two subsequent days[53].

$$r_{k,t} = ln(p_{k,t}) - ln(p_{k,t-1})$$

Then, for each SPAC, the following market model is estimated over the *“estimation window”*.

$$\widehat{r_{i,t}} = \hat{\alpha} + r_{m,t} * \hat{\beta}$$

During the estimation window, the daily return of the share should not be influenced by the events under study, for this reason, for each SPAC, a unique *“estimation window”* is identified and lasts from two days after the IPO[54] to six days before the first event date, that is the BC Announcement (called event A)[55]. With this solution, the estimation window has a different length for each SPAC. The justification for this choice is that, selecting a unique length for the estimation window would have meant losing precious information, unnecessarily reducing the precision of the estimates and of the results[56],[57].

The *“observation windows”* are instead the time horizon over which the market models obtained as above described, are used to estimate the daily Abnormal Returns $AR_{i,t}$, which are then cumulated for the whole length of the window (from t_0 to T) to obtain the Cumulative Abnormal Return $CAR_{i,t}$.

$$AR_{i,t} = r_{i,t} - \widehat{r_{i,t}}$$

$$CAR_{i,T} = \sum_{t=t_0}^{t=T} AR_t$$

---

[51] The time series of the daily share prices and of the index value were taken from the Refinitiv Eikon database.

[52] To check for the robustness of the results however, the CARs have been computed also using the FTSE AIM Italy and FTSE Italy Mid Cap as benchmark indexes.

[53] This is coherent with the bulk of the econometric literature on the topic and has computational advantages with respect to the computation of returns as deltaP/P.

[54] To avoid the turbulence of the price immediately after the IPO.

[55] Assuming that the BC announcement does not have any impact on the share price before that moment.

[56] The longer the estimation window, otbe, the more precise the estimates derived with the market model and the more significative the results of the statistical analysis.

[57] A more simplistic approach would have considered all the returns as abnormal. In fact, the value of the share of a SPAC before the BC should reflect the amount of cash in trust, net of the interests which are, in the Italian experience, used by the Sponsors for current expenses. For this reason, it is reasonable to assume that the daily expected return is zero. The computation of CARs with this assumption do not substantially differ from the presented ones.

Following the literature on the topic, and after some empirical trials, for each event the results are reported for two *"observation windows"*: the first begins two days before the events and finishes two days after it (defined as [-2; +2]); the second instead, covers the previous and the subsequent five days from the event (defined as [-5; +5]). Analysing the BC, it is also interesting to investigate the performance of the shares following the event. Thus, the CAR for the thirty days after the BC is also computed (the window [+1; +30]). In order to obtain significant results, then the average CARs for the N SPACs in the sample for each event are computed and they are compared with the upper and lower bound of the confidence interval[58].

$$Avg(CAR_T) = \sum_{i=1}^{i=N} CAR_{i,T}$$

Table 10 reports the average CARs for the four events and the two *"observation windows"* and the *t-test*. A *t-test* higher than 1.96 in modulus indicates a statistic significance of the CAR.

Table 10 Cumulative Abnormal Returns for SPACs stocks around relevant dates adopting a market model. The estimation window is from the day after the IPO to the sixth day before the event A. Personal elaboration.

BC announcement (A)			
Observation window	Average CAR	t-test	n sample
[-5;+5]	0,9%	1,20	15
[-2;+2]	0,8%	1,74	15

BC approval (B)			
Observation window	Average CAR	t-test	n sample
[-5;+5]	0,5%	0,69	15
[-2;+2]	0,4%	0,90	15

BC clearance (C)			
Observation window	Average CAR	t-test	n sample
[-5;+5]	-0,8%	-1,10	15
[-2;+2]	0,3%	0,69	15

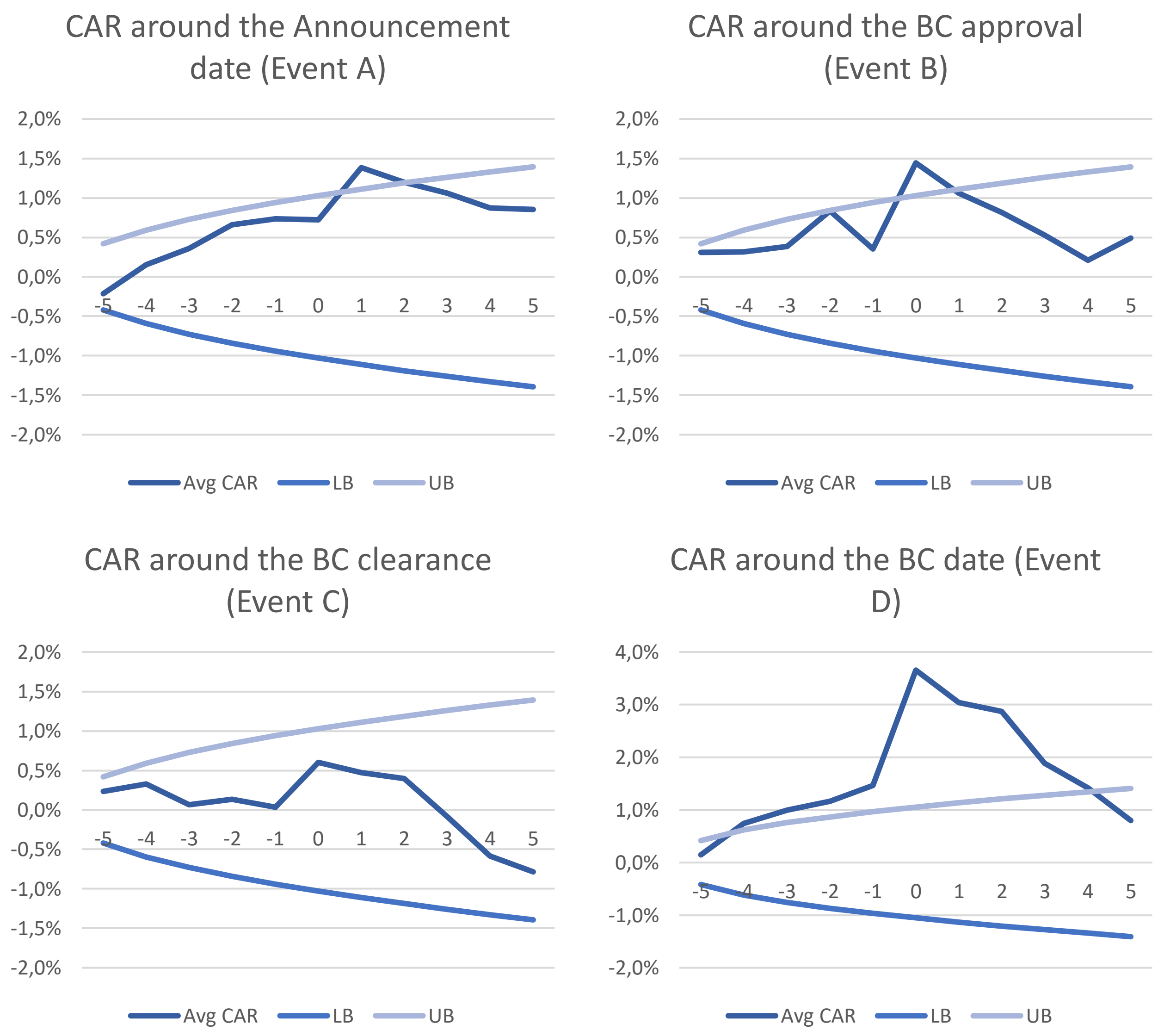
BC date (D)			
Observation window	Average CAR	t-test	n sample
[-5;+5]	0,8%	1,11	16
[-2;+2]	1,9%	3,94	16
[+1;+30]	-5,6%	-4,73	16

[58] The confidence interval is obtained computing the variance of the CAR_T (which includes both the estimation error of α and β and model error), assuming the normal distribution for the stochastic variables involved in the analysis.

The analysis of Table 10 shows that the only statistically significant results regard the BC date. In particular, in the five days at the turn of the BC effectiveness date, the estimation of the CAR is positive and near to 2%. This result is hardly explainable rationally, and in contrast with previous literature findings (Floros & Sapp, 2011). In fact, the BC effectiveness date is just a technicality, and the market should have had discounted the information at the BC Approval and, even more, at the BC Clearance, after which there is the certainty that the BC will be completed. However, the CAR around those events (event B and event C) is not statistically significant. To further develop this topic, the annualized yield of the shares between the BC Clearance and the BC effectiveness is computed. In this time window, the average annualized yield is 29%. The results indicate that after the definitive authorization of the BC, investors who appreciate it, buy the shares on the market and this result can be explained also by the fact that buying in this time window they can take advantage of the additional warrants assigned at the BC date, in the cases in which they are provided. Another explanation of the strong market reaction at the BC date can be the fact that, even after the definitive authorization, the market perceives the BC as an uncertain event. Also, the technical discontinuity of the security (before the BC belonging to an investment vehicle and after to an industrial company) may enlarge the potential pool of investors to the ones who cannot or do not want to invest in an investment vehicle but appreciate the *target* company selected by the SPAC or the new company born by the BC. This finding shows that companies that go public with a SPAC are subject to a phenomenon similar to the IPO pop for traditional IPOs.

For what concerns the *target* announcement, the CAR in the window [-2; +2] is positive even if with a very low significance. It seems that on average the market appreciates the fact that the promoters have found a target and have closed a master agreement with it, completing the task for which they raised money at the IPO. This is coherent with previous literature findings related to the American SPACs (Floros & Sapp, 2011) (Lewellen, 2009).

The unexpected results for the event B and C deserve a further analysis. Graph 9 shows the plot of the average CARs over the *"observation windows"*. A breach of the confidence interval from the average CAR indicates that it is statistically significant, or significantly different from zero: if this happens, there is empirical evidence that the event studied influences the value of the share. The graphs allow understanding not only if, but also when the events modify the value of the share[59].

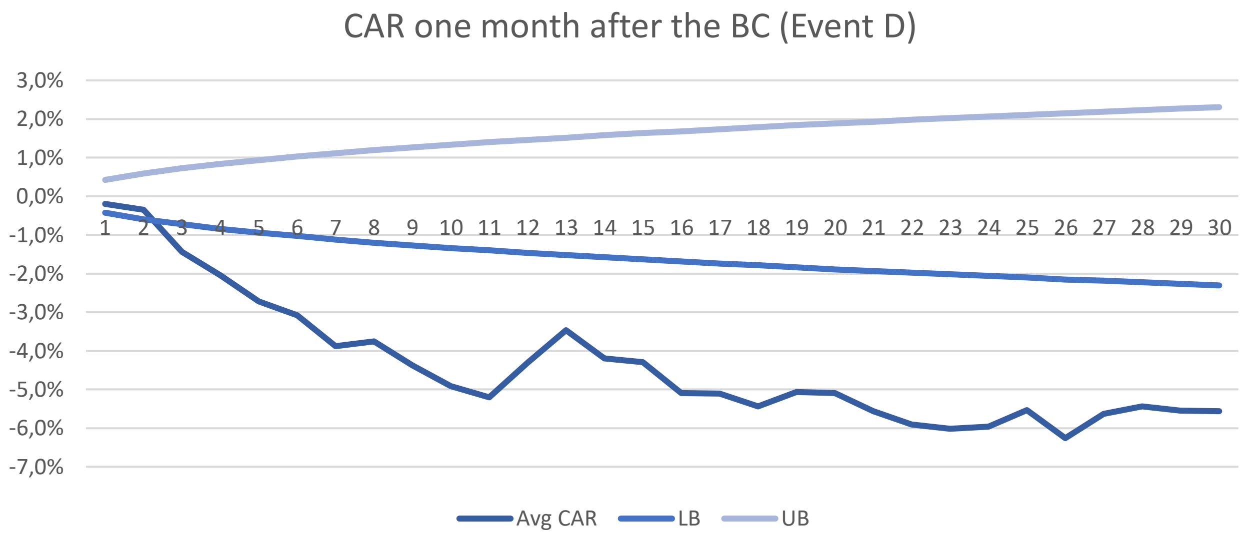


Graph 9 Average CARs around the relevant dates. Time series. Personal elaboration.

The analysis of the graphs confirms the findings related to the events A and B, highlighting even more the jump in the share price that happens at the BC effectiveness date. Moreover, the graph related to the BC approval shows that at the day of the event the CAR is positive and significantly

[59] A CAR significantly different from zero before the event may indicate insider trading or a leakages of price sensitive information

different from zero, while the graph of the CAR around the BC Clearance confirms that the event C seems not to modify the value of the share. One explanation can be that after the BC Approval, the result of the redemption window and of the option offering are still discounted by the market, while



Graph 10 Average CAR one month after the BC effectiveness date. Personal elaboration.

the vote in the shareholders' meeting is perceived as more critical by the investors.

Another interesting result regards the CAR in the month after the BC. Table 10 shows that it is negative (on average -5.56%) and very significant. Also, Graph 10 highlights that the bulk of the drop in the share value happens in the first ten days after the event. This is partly explainable by the fact that in the week after the BC usually the first tranche of *promoters'* special shares is converted, and this provokes the dilution of the other shareholders. But the magnitude of the price drop may indicate that the BC destroys value instead of creating it. Previous research (Lewellen, 2009) (Floros & Sapp, 2011) (Jenkinson & Sousa, 2011) (Lakicevic & Vulanovic, 2013) found similar results for American SPACs. However, the analysis of the share price only and in a so short period of time does not provides a complete picture of the performance of complex investment vehicles as the SPACs are. For this reason, to answer the first research question there is the need to compute the return gained investing in a SPAC for different stakeholders and for a longer time horizon.

4.3.2 Long term performance: an investment analysis

Method

The appraisal of the long-term performance of the SPACs' securities follows the logic of the investment analysis and considers three different investors' profiles: the *promoters*, the non-redeeming investors (that are the investors who buy the shares with the warrants at the IPO and keep them even after the BC, getting also the deferred warrants in the cases they are assigned) and the redeeming investors (who buy the shares with the warrants at the IPO but then redeem their shares at the BC while keeping the warrants assigned at the IPO). Moreover, the investment appraisal takes into account the cash flows related to the warrants exercise and considers the dividends paid by the post-BC entity in the time horizon of the analysis. Coherently, the metric adopted is the Annual Internal Rate of Return (hereinafter "IRR") of the investment over two different time horizons: one begins with the IPO and ends twelve months after the BC date (12M), the other starts at the IPO and finishes twenty-four months after the BC (24m). The IRR formula is the following.

$$-I_0 + \sum_{t=\emptyset}^{T} \frac{CF_t}{(1+IRR)^t} + \frac{TV}{(1+IRR)^T} = \emptyset$$

Where t=0 is the IPO date and T is either 12M or 24M after the BC date.

The IRR is also compared with the return of the market in the same period, obtaining the Abnormal IRR (hereinafter "AIRR"). The benchmark adopted is the FTSE Italy Small Cap[60]. The biggest complexity faced in the computation of the IRR dealt with the conversion of the warrants. In fact, not every investor converts the warrants at the same moment with the same conversion ratio[61]. To solve this issue, for the investors different from *promoters* it has been considered an *"average portfolio"* which considers the percentage of warrants converted and the average warrants conversion rate.

$$\begin{aligned} Average\ portfolio_t &\\ &= 1\ ordinary\ share + shares\ from\ warrants\ conversion_t \\ &+ warrants\ in\ portfolio_t \end{aligned}$$

$$\begin{aligned} Shares\ from\ conversion_t &\\ &= \#\frac{warrants}{share} * \%cumulative\ warrants\ converted_t \\ &* average\ warrants\ conversion\ rate_t \end{aligned}$$

$$Warrants\ in\ portfolio_t = \#\frac{warrants}{share} + (1 - \%cumulative\ warrants\ converted_t)$$

[60] Given the nature of the analysis, it would have been better to use an index of the return for PE funds. However, there is no such index with a geographical coverage coherent with the analysis (Italian or European level). The benchmark is selected considering that most of the post-BC entities are classified by Borsa Italiana as Small Caps.
[61] See paragraph 4.2.1

Note that the number of warrants per share may differ between non-redeeming and redeeming investors as the latter do not receive the warrants assigned at the BC and that, after the BC, the portfolio of redeeming investors does not include the ordinary share.

Ad said, the warrants conversion into shares imply two cash flows for the investors. The first is the payment of the conversion price, and it arises when the warrants are converted; the second is the payment of the dividends for the converted shares. To simplify the computation, the two cash flows are assumed to be temporally aligned, so that the formula adopted to compute the cash flows derived from the warrants is the following.

$$Warrants\ CF_t = dividends\ from\ converted\ warrants_t - cost\ of\ warrants\ conversion_t$$

$$Dividends\ from\ converted\ warrants_t = shares\ from\ conversion_t * dividend\ per\ share\ _t$$

$$\begin{aligned} Cost\ of\ warrants\ conversion_t & \\ &= (shares\ from\ conversion_t - shares\ from\ conversion_{t-1}) \\ &* conversion\ price \end{aligned}$$

The initial investment I_0 is the purchase price of one share at the IPO (that is always €10), while the CF_t in the IRR formula includes the warrants CF_t and the dividend per $share_t$. Also in this case, redeeming investors record a positive cash flow equal to the redemption price at the BC date but do not get the dividend on the ordinary share after the BC.

For what concerns the terminal value of the portfolio it is given by[62]:

$$\begin{aligned} TV\ portfolio = {} & market\ value\ of\ shares\ in\ portfolio_T \\ & + market\ value\ of\ warrants\ in\ portfolio_T - cost\ of\ warrants\ conversion_T \end{aligned}$$

The computation of the IRR for the *promoters* follows the same logic and formulas but it is performed at the aggregate level[63] and considers as shares in the portfolio the ordinary shares derived from the conversion of the special shares and of the special warrants.

[62] For some SPACs the market price of the warrants was not available. In these cases, the payoff of the warrant (if positive) has been taken as a proxy of its value.
[63] The initial investment is the overall *promoters'* investment

Results

From the IPO to twelve months after the BC, the *promoters* of the SPACs gain on average more than 90% of IRR with an astonishing maximum of about 800% in the case of Gear1. The median IRR for the *promoters*, which is less sensitive to outliers, is still 56%. Only in three out of twenty cases the *promoters* did not get a positive return, but the losses in these cases were quite small, with a minimum of near -7%. But in no cases the AIRR has been negative for *promoters* over this time horizon. Looking at the 24M horizon, still the *promoters* got on average the 56% of IRR with a median of the return near to 50%. Only in one case, that is Glenalta, out of nineteen the *promoters* lost wealth (-16%). Again, the *promoters* of Gear1 recorded a staggering IRR of 294%. It is clear that for *promoters*, setting up a SPAC and delivering the BC is a very profitable business, which can grant returns which are difficult to find otherwise in a relatively short time horizon. Still, the risk of not delivering the BC is substantial. In these cases, the *promoters* could hardly receive back the half of their investment, in addition to having worked without being paid for nearly two years.

Table 11 IRR and AIRR for promoters. Personal elaboration.

	IRR promoters 12M	AIRR promoters 12M	IRR promoters 24M	AIRR promoters 24M
Average	92,0%	94,1%	56,0%	55,1%
Median	56,3%	57,0%	48,5%	46,4%
Minimum	-6,9%	3,2%	-16,4%	-8,4%
Maximum	797,5%	820,9%	294,6%	284,3%
n sample	20	20	19	19

For non-redeeming investors the return from the investment is more mixed. In the 24M time period, eight out of nineteen SPACs saw a negative IRR for non-redeeming investors, with a minimum of -38% (Glenalta) and a maximum of 31% (Space). However, on average the IRR for non-redeeming investors has been positive in both the time horizon and both in absolute terms (+1.3% in the 12M and +2.4% in the 24M) and relative terms (AIRR of +3.6% in the 12M and of +1.5% in the 24M). This is a truly remarkable result as it shows that for the SPACs listed in Italy that completed the business combination, the return for the IPO investors has been on average positive and that it also outpaced the market yield. It seems that the results found for the American SPACs, where the SPACs tend to underperform the market and the industry benchmarks, do not apply to the Italian case.

Table 12 IRR and AIRR for non-redeeming investors. The last two columns do not include the dividends in the performance assessment. Personal elaboration.

	IRR non-redeeming investors 12M	AIRR non-redeeming investors 12M	IRR non-redeeming investors 24M	AIRR non-redeeming investors 24M	IRR non-redeeming investors @29/07/2021	MoM non-redeeming investors @29/07/2021
Average	1,3%	3,5%	2,3%	1,5%	6,4%	2,19
Median	3,1%	3,6%	-0,6%	1,3%	5,2%	1,28
Minimum	-42,0%	-31,9%	-39,0%	-31,0%	-17,5%	0,46
Maximum	24,1%	33,4%	30,8%	22,9%	42,6%	19,14
n sample	20	20	19	19	20	20

To provide further evidence of this finding, the last two columns of table 12 show the summary statistics of the IRR and of the Multiplier of Money invested[64] (hereinafter MoM) for public investors who bought the securities of the SPACs at the IPO and kept them until the end of July 2021, without considering the dividends. The average IRR is even more positive (+6.4%) and the MoM is higher than two on average. It must be remarked that the average MoM is strongly influenced by the outlier corresponding to Made in Italy 1 (19.14x), but that it shows a median higher than one by twenty-eight basis points.

Interestingly, for redeeming investors, the average IRR is even better than for non-redeeming ones. Also, while for the latter the minimum return has been very negative, the formers are protected against bad performance of the post-BC entity (minimum IRR of -0.6% and -0.7% for 12M and 24M respectively). This poses a serious problem to SPAC *promoters* as it gives to public investors a strong incentive to redeem their shares, hindering the mechanism that led to the BC. However, from the point of view of the IPO investor, this is positive as he knows that, if he dislikes the BC, he can exit the investment and still gain money if the post-BC entity creates value.

Table 13 IRR and AIRR for redeeming investors. Personal elaboration.

	IRR redeeming investors 12M	AIRR redeeming investors 12M	IRR redeeming investors 24M	AIRR redeeming investors 24M
Average	3,6%	4,6%	3,5%	3,1%
Median	2,3%	2,9%	2,5%	3,0%
Minimum	-0,6%	-7,0%	-0,7%	-9,9%
Maximum	15,1%	18,9%	15,6%	21,1%
n sample	19	19	18	18

[64] Defined as the value of the investment at the end of July 2021 over the initial investment.

4.3.3 Good SPACs and bad SPACs: listening to the voice of the market

The SPACs have a specific feature that no other investment vehicles (such as, for instance, PE funds) have, the possibility for the investors to vote for or against the BC. The shareholders, between the BC announcement and the call for the extraordinary shareholders' meeting, can acquire information about the deal that the *promoters* propose. Theoretically, if there were perfect information and rationality, they shall vote in favour of the deals that create value and against those that destroy value. The empirical evidence however shows that many post-BC entity destroy value and cause losses for the SPAC investors. Jenkinson and Sousa published a paper titled *"Why SPAC investors should listen to the market"*[65] (2011) in which they argue that the behaviour of the share price of the SPAC between the BC announcement and approval have a signalling value about the SPAC's quality. In their analysis, they divided a sample of forty-three SPACs which completed the BC in the USA between 2003 and 2008 into two clusters of *good SPACs* and *bad SPACs*. *Bad SPACs* are characterized by the fact that, at the BC approval date the share price on the market is lower than the *pro-quota* value of the funds in the escrow account, actualized at the risk-free rate. Adopting the Efficient Market Hypothesis (hereinafter, EMH), which poses that the market prices of the assets reflect all the information and correspond to their intrinsic value, in the case of *bad SPACs*, investors have approved value destroying deals, given that they have the possibility to redeem their shares voting against the BC and earning a yield higher than the risk-free. Thus, in light of this discussion, the approval of the BC in *bad SPACs* has no rational explanation. On the other hand, SPACs are defined as *good SPACs* whether the share price at the BC approval date is higher than the actualized *pro-quota* value of the funds in the escrow account. Jenkinson and Sousa affirm that in these case investors have approved a value creating deal. This paragraph divides the sample of Italian SPACs which delivered the BC into *good SPACs* and *bad SPACs* and analyse the short- and long-term performances of the two clusters.

The first step required by the methodology is the identification of the Terminal Value for each SPAC (TV_i), that is the amount of money that the investors would receive back exercising the redemption right for one share. It is computed as the percentage of the IPO proceeds put into the escrow account times the offering price (€10)[66]. This value must be actualized at the risk-free rate. On

[65] See chapter 3 for the complete literature review.

[66] For all the Italian SPACs, interest earned on the escrow account have been used to cover current expenses run by the management to find the target and are not added to the value of the escrow account to compute the pro-quota value.

average, in the sample of Italian SPACs the period between the BC approval and the BC effectiveness (which corresponds to the liquidation of redeeming investors) is about ninety days. So, the risk-free rate considered for the computation shall have the same duration. Every year, the Bank of Italy publishes a report called Rendistato where it indicates the average yield of the Italian treasury bonds

Rendimento medio dei BOT												
	Gen	Feb	Mar	Apr	Mag	Giu	Lug	Ago	Set	Ott	Nov	Dic
Indice RendiBot	0,116	0,095	0,059	0,001	0,002	0,027	-0,017	-0,043	-0,020	-0,039	-0,104	-0,091

Figure 4 Rendibot for the year 2015. Source: Rendistato 2015 by Bank of Italy.

with different durations month by month. Within the Rendistato, the Rendibot shows the average yield of the treasury bonds with the shorter duration (from six to twelve months). For the purpose of this research, the Rendibot of the month in which the BC approval happened is the annual risk-free rate employed for the actualization of the TV_i. To clarify this concept, let's assume that for the SPAC X the BC approval happened at the May, 7^{th} of the 2015. Then, the annual risk-free rate is assumed to be 0.2%, and the correspondent risk-free rate over a three months' time horizon, used to actualize the TV of SPAC X is 0.05%[67]

Then, the actualized value of the TV must be compared with the share price at the day before the BC approval (event B, day B-1) in order to define a SPAC as *good* or *bad*, as table 14 shows. Only for

Table 14 Classification of good and bad SPACs. Personal elaboration.

SPAC Name	Share price @B-1	Actualized TV	Good/bad
Made in Italy 1 SpA	€ 10,00	€ 9,98	good
Space SpA	€ 10,43	€ 9,90	good
GreenItaly1 SpA	€ 8,89	€ 9,90	bad
Space3 SpA	€ 11,40	€ 9,86	good
Capital For Progress 1 SpA	€ 11,30	€ 10,01	good
Glenalta Food SpA	€ 8,84	€ 10,01	bad
Industrial Stars of Italy 2 SpA	€ 12,40	€ 10,01	good
Innova Italy 1 SpA	€ 9,70	€ 10,00	bad
Crescita SpA	€ 9,47	€ 10,01	bad
Glenalta SpA	€ 9,46	€ 10,01	bad
SprintItaly SpA	€ 9,94	€ 10,00	bad
Space4 SpA	€ 9,73	€ 9,86	bad
SPAXS SpA	€ 9,28	€ 10,01	bad
ALP.I SpA	€ 10,20	€ 10,00	good
THESPAC SpA	€ 9,42	€ 10,01	bad

[67] That is equal to (1+rf_annual) ^ (3 Months / 12 Months) – 1.

fifteen out of twenty-two SPACs that performed the BC there are all the information necessary for the analysis. Of these fifteen, six are classified as *good* while nine are classified as *bad*.

Comparing the performance of *good* and *bad SPACs* emerges that for *bad SPACs* the CAR of the shares in the month after the BC is negative and strongly significant, while for good SPACs it is still negative but not significantly different from zero.

Also, in the long-term, looking at the IRR at 12M and 24M after the BC, the difference in the performance between the two clusters still hold true.

Table 15 Short term abnormal return for good and bad SPACs. Personal elaboration.

BC date (D)			
Observation window	Average CAR	t-test	n sample
[+1;+30] good SPACs	-3,6%	-1,58	6
[+1;+30] bad SPACs	-10,9%	-8,77	9

Table 16 Long term IRR for good and bad SPACs. Personal elaboration.

	Promoters		Non-redeeming investors	
	Average IRR 12M	Average IRR 24M	Average IRR 12M	Average IRR 24M
Good SPACs	86,3%	54,7%	10,5%	7,0%
Bad SPACs	24,2%	25,3%	-9,4%	-6,7%

At this point, three different investment strategies can be compared. The first consists of not redeeming in any cases, the second consists of redeeming only the shares of *bad SPACs* while keeping the shares of the *good* ones and the third consists of redeeming in any cases. The average IRR that investors could have got following the three strategies show that the second strategy dominates the first and the third. This is a clear indicator that the share price on the market have a signalling value about the quality of the SPAC and that an investor who “listen to the market” and redeems the shares of *bad SPACs* can earn an extra return with respect to someone who does not “listen to the market” and keep or redeem the shares in any cases.

Table 17 IRR and AIRR for investment strategies accounting for the difference between good and bad SPACs. Personal elaboration.

	Average IRR 12M	Average AIRR 12M	Average IRR 24M	Average AIRR 24M
First strategy: no redemptions	-0,8%	1,4%	-0,9%	-0,6%
Second strategy: redeption only on *bad SPACs*	5,5%	7,8%	4,0%	4,3%
Third strategy: all redemptions	3,9%	6,2%	3,2%	3,0%
Control strategy: redemption only on good SPACs	*-2,5%*	*-0,2%*	*-1,3%*	*-1,1%*

Chapter 5: Case study methodology and reports

This section of the research aims at answering the second and the third research questions, filling the literature gaps related to the lack of strategic considerations behind the SPAC establishment and the absence of empirical analyses of the SPACs' functioning. The methodology adopted is the multiple case studies research. The first part of this chapter justifies the choice of this methodology and explains it in detail. The second part of this chapter reports the case studies analysed. Finally, the next chapter presents and discusses the findings of the research.

5.1 Methodology

5.1.1 Case study research

Doing a case study is one of the possible approaches to the empirical research, together with other forms of social science research such as experiments, surveys, archival analysis, histories and economic or statistical modelling. According to Yin (2014), a case study is a particular form of research inquiry which *"investigates a contemporary phenomenon in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident"*. Moreover, it allows to deal with complex phenomena, such as SPACs, including in their analysis contextual evidence (Mason, 2002) and highlighting complex relationships and decision drivers which are material to understand their development. The first steam of literature identified in the chapter 3 (phenomenology of SPACs) and the overview on SPACs provided in chapter 2 show how the SPACs birth and developments are strictly intertwined with, and hardly distinguishable from, the contextual factors, namely the regulatory framework, the market environment and cultural elements, both at individual (entrepreneurship of specific individuals or firms) and systemic level (innovativeness and legacy of previous experience). SPACs are a contemporary in the sense that the relevant persons involved in the phenomenon are still alive and the direct observation of the event being studied is possible. SPACs do not belong to a "dead" past for which the historical analysis would have been better. Also, the implementation of this methodology does not require the *control of behavioural events*. There is no need for the researcher to manipulate the behaviour of the subjects involved in the study, like instead an experiment requires. Clearly, the behaviours of the people involved in the SPACs establishment are not under the control of the researcher. Yin states that *"a case study inquiry copes with the technically distinctive situation in which there will be many more variables of interests than data points"*. As already pointed out in chapter 3 when discussing the literature on determinants of SPACs mergers and performance, many empirical statistical-based works show a weakness in the relative sample size with respect to the number of variables included in the analysis. This is because of the low number of SPACs that can constitute a homogeneous sample to be analysed through statistical methods, even in the USA. On one side, the low significance of statistical results is a serious threat to the internal validity of the studies as it may lead to the identification of spurious relationships among variables, while on the other side, the constraint on the number of variables may lead to lack of relevant factors which can explain the dependent variables. To avoid this forked dilemma, the qualitative analysis provides an alternative way to draft consistent and valid propositions on the research topic.

Also, case study research is suitable for “how” and “why” research questions. The focus of this study is to answer the questions

RQ 2) why are SPACs established?

RQ 3) how do SPACs create value?

The kind of research questions drove the choice of the method. Finally, the aim of this research is to add on the existing theories and studies on SPACs providing new insights coming from the real world and grounded in the real context with an exploratory approach. The case study approach to research is suitable for theory building in new topic areas starting from empirical evidence and can be used to generate *“novel, testable and empirically valid”* propositions that extend the current research (Eisenhardt, 1989).

In conclusion the choice of the case study approach is justified in light both of the characteristic of the problem analysed and of the nature of the research, summarized in table 18.

Table 18 Rationales behind the choice of the case study methodology. Personal elaboration.

Nature of the phenomenon	Nature of the research
Complex contemporary phenomenon	Exploratory approach aimed at theory building
Strong relation with the context	“How” and “Why” research questions
No control over the behaviours of agents involved in the phenomenon	Search for empirical evidence to validate the findings
More variables than datapoints	

5.1.2 The purpose of the study

Once defined the research questions, the next step of the case study methodology, as outlined in Yin (2014), is the identification of the research propositions or purpose. In confirmatory research the propositions are the hypotheses to be tested analysing the empirical evidence. Given the exploratory nature of this research, no hypotheses have been formulated. However, *"every exploration should still have some purpose"*. The purpose of this study is double-folded. On one side it aims at understanding whether there are some "reasons why" beyond the mere financial gain (that is the reason taken for granted by the academic literature on the topic) that push the *promoters* to establish a SPAC. This purpose is related to the first research question addressed in this section. The other purpose, wider and more articulated than the first, is to grasp which are the mechanisms and dynamics behind the functioning of the SPACs and, in particular if there exist some process and activities that are at the basis of the value generating ability of SPACs. This second purpose deals with the last research question and the exploration would be judged successfully if it generates the basis of a new interpretative model of the SPACs.

5.1.3 The unit of analysis

After the definition of the research questions and of the purpose, the subsequent important step in the methodology involves the definition and the bounding of the case to be studied, that means the identification of the unit of analysis. Given the questions and the purposes, the best fit is to adopt as unit of analysis the SPAC, that is a firm founded by the so-called *promoters* and registered in the commercial register of the country in which it is established and that has specific features that make it recognizable as a SPAC. However, the SPAC is a complex, multi-stakeholders, entity and its functioning depends on how the *promoters* establish the relationships with the key stakeholders, in particular the *target* company and the investors. Moreover, the activity of the SPACs and the effect does not cease with the conclusion of the existence of the SPAC itself, that is the conclusion of the BC (or the liquidation). For these reasons, the unit of analysis also encompasses the *target* company as it is before the BC, the period of time before the SPAC establishment that leads to the foundation of the venture, and the post-BC entity in its operations and performance.

5.1.4 Multiple case studies and analytic generalization of findings

In order to enhance the external validity of the research, the adoption of multiple case studies is preferred to the single case study (Yin). Herriott and Firestone (1983) state that the evidence from multiple cases is more compelling and the findings of a multiple case studies research are more robust than those of a single case research. Moreover, the purpose of the study requires more cases. In fact, the aim is to find results that can be generalized to the SPAC market as a whole, and it can be reached looking at different experiences. The research is not aimed at discovering or analysing a particular case of SPAC. There are no previous works that can help in identifying an *extreme* or a *revelatory* case, nor a *common* or *critical* case. Exploring a virgin field, the best approach consists of trying to investigate as much situations as possible and to try to discover interesting results through the analytic generalization of the findings. The chapter 6, in which the cross cases analysis is carried out, follow this logic of analytic generalization. It is opposed to the statistical generalization of findings, which is applied to infer the characteristics of a population given the empirical data collected from a sample belonging to the population. The analytic generalization instead is meant to build theoretical propositions from the empirical evidence or to compare a previously built theory with the results of an empirical research. Yin (Durepos, et al., 2010) states that *"the case study, like the experiment, does not represent a "sample," and in doing a case study, your goal will be to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization)"*. This is the logic adopted by this research and it is in this perspective that the discussion in the chapter 6 shall be read[68].

5.1.5 The research protocol: the Summary Sheet and the interviews' blueprint

The research protocol plays a crucial role in the development of the case study research. It consists of a "*standardized agenda for the researcher's line of inquiry"* (Yin, 2014) and guides *"the researcher in carrying out the data collection from a single case".* It allows to improve the reliability of the case study research. The reliability of a research is defined as the possibility to repeat the same procedures with the same results. The definition of a good research protocol improves the quality and reliability of the findings, characteristics that are important for the scientific validity of any research. The research protocol is even more important in multiple case studies as it allows the researcher to replicate the same procedure for different cases, improving the consistency of the research and facilitating the analysis of the evidence. This paragraph shows two elements of the protocol followed in this research.

[68] For instance, an statement like "in one in seven cases, the *promoters* had objectives other than the financial gain" does not imply that a conclusion of the research is that "on average in one-seventh of the SPACs the *promoters* behave like this", but it is just a way to provide a empirical evidence of the theory according to which "SPACs are established for objectives other than the financial gain", that is a result obtained through the analytic generalization of findings.

The Summary Sheet

The first is the Summary Sheet, which is the outcome of the data collection procedure. In the Summary Sheet are summarized the relevant qualitative and quantitative information collected on the case during the research. Also, the Summary Sheet provides the reader of the reports with a guidance useful to better understand the subsequent description of the case. The information presented in the Summary Sheets cover five different topics: the *promoters*, the investment policy, the IPO, the *target*, the BC and the post-BC. The rest of this paragraph describes in detail each of these topics.

The brief description of the *promoters* allows for a first categorization of the SPACs. The *promoters* can be individuals operating as free-lance or expression of a company. In the first case they are defined as *individuals*, in the second case they are considered *institutional*. The definition of *institutional* derives from the fact that historically (and, in particular, also in the analysed cases) firms establishing a SPAC also play the role of institutional investors in the financial markets. An *Institutional SPAC* is a venture established by such types of firms. If not otherwise stated instead, the *promoters* are *individuals*. Another separation line between SPACs is dictated by whether at least one of the *promoters* have had, when establishing the new SPAC, already at least a previous experience as SPAC *promoter*. If this is true, he is defined as *serial promoter* and, by induction, the SPAC is also called *serial*. Once defined these attributes, the track record of each promoter is briefly described within the case study and reported in the summary sheet. For *individuals* the focus is on the education received, the areas of expertise and the core skills. For *institutional promoters* the focus is instead on their core business and core competencies. For the purpose of keeping the confidentiality of the sources and the anonymity of the description, the promoters are named as *Promoter1, Promoter2,* etcetera. *Institutional promoters* are instead named after an ad-hoc acronym. The definitions given into the summary sheet are the key for the whole case study. The information reported in the sections dedicated to the *promoters* description are derived from the prospectus of the SPAC securities, where they disclose their CV and integrated, when possible, with the findings arisen from the interviews.

The investment policy is the second key separation line between SPACs. The summary sheet reports the desirable characteristics of the *target* company as disclosed on the SPAC website and prospectus in terms of size, sector and other elements defined from time to time and idiosyncratic to the specific SPAC. A substantial difference between SPAC arises from the definition of a *generic* or a *sectorial* investment policy. In the first case, the *promoters* do not disclose at the IPO the sector in which the *target* will operate. In the second case

The IPO market is the exchange venues on which the SPAC securities issued at the IPO were admitted to trading. The IPO proceeds, defined as the amount of money collected from investors during the IPO and derived from the SPAC press release published at the end of the IPO process, are clustered in classes with a size of €50 million. For instance, for a SPAC that raised €50 million the variable IPO proceeds takes the value of <= €50 million, while a SPAC collecting €150 million is classified into the class of > €100 million. For what concerns the structure of the unit and the *promoters* incentive, the information is taken from the IPO prospectus and the SPAC bylaw at the moment of the IPO. The *promoters* incentive indicates the number of tranches and the conditions for their conversion. Moreover, it indicates the conversion ration as high (if > 6 ordinary shares per special share), medium and low (if < 5). The unit structure refers to the type of security offered at the IPO (right or warrant), the assignment triggers and the type of conversion mechanism.

The description of the *target* company includes information related to its status before the BC with the SPAC. In particular, the sector in which it operated, the ownership and governance structures and some highlights on the business performance reported in the section of the summary sheet named "*target* key figures". For what concerns the pre-BC ownership structure of the *target*, the summary sheet distinguishes between family-owned firms, in which one or more families jointly keep the control of the company, firms controlled by PE funds and subsidiaries of industrial companies. For what concerns the governance, instead, the distinction is made between managerial and non-managerial firms. In particular, the definition of *family business* corresponds to the case in which the firm is controlled by one or more families (usually the founding families) that also express the top management (namely, the CEO). The information related to the ownership and governance are taken from the presentation of the BC to the investors and from the pre-BC financial statements. The variable "*target* key figures" reports different information case by case. Some examples are the EBITDA margin, the NFP, the turnover, the Cash Flow, the countries of operations, the percentage of turnover realized abroad. These highlights are meant to provide the reader with additional data helpful to understand and interpret the case.

The time to announcement indicates the months intervened between the IPO and the announcement to the market of the signing of the binding master agreement with the *target*. The time to BC instead reports the months between the IPO and the BC effectiveness date. If not otherwise stated the reference time limit for completing the BC is twenty-four months (see the discussion about Italian SPACs). The BC structure provides a summary of the practical implementation of the BC. It informs not only about the kind of extraordinary deal carried out to conclude the BC (that is an acquisition and/or a merger) but also about the main related corporate events that the BC deal required in order to be concluded (written in the so-called *"Accordo Quadro"* or *"Master Agreement"*) and the consequences of the deal on the nature of the two parties involved. For what concern the corporate events preparatory to the BC, the reference is to, for instance, the dismission of assets, demergers, spin-offs and deals with related parties that the *target* had to undertake before the BC. For what concern the consequences of the deal on the parties involved the reference is to, for instance, the change of the denomination of the *target* (that, if not stated, did not happen) the split-up of the SPAC and other binding or non-binding agreements taken between the SPAC and the *target* ownership or management[69]. Another key metric presented in the Summary Sheets is the proportion between primary and secondary proceeds. The primary proceeds are defined as the amount of money collected at the IPO by the SPAC and employed to increase the capital of the *target* at the BC: these are the resources that the SPAC effectively injected into the *target* company either to finance the growth or to payback the debts. The secondary proceeds instead are the money raised at the SPAC IPO employed to liquidate the *previous shareholders* of the *target*. The ratio is computed by hand on the basis of the information available in the BC presentation and the BC information document and reported approximated. Notably, it considers the primary and secondary proceeds net of the amount of money paid back to redeeming shareholders. The redemption rate is another variable highlighted in the Summary and computed as the percentage of shares redeemed after the results of the eventual option offering to non-dissenting investors of the shares redeemed at first. Finally, the Sheet also report the pre-money Equity valuation of the *target*, stated in the information document of the BC, and the corresponding EV/EBITDA and P/E[70] multiples.

The last section of the Sheets deals with the period after the BC completion. It firstly highlights the shareholding structure of the post-BC entity and how the capital is split between the *previous shareholders* (that is the shareholders of the *target* pre-BC), the market (that is the IPO investors of the SPAC) and the SPAC *promoters*. The ownership of the *promoters* includes the conversion of the first tranche of special shares. Then it reports the new governance with a special focus on the

[69] Agreement to reinvest the proceeds of the acquisition or option to subscribe a further capital increase, as examples.
[70] When available

promoters roles in the post-BC company and on the CEO identity (if confirmed or if appointed a new one). Finally, it informs about the outcome of the BC assessing on one side the performance of the company through its market capitalization on July 2021 and on the other side the return of the investment for *promoters* and IPO investors. Note that the market capitalization can be a proxy of the company performance after the closing of the BC, but it may include further capital increases and other extraordinary deals carried out by the post-BC entity[71]. Thus, it is not a good proxy for the return for investors and *promoters*. To assess this last element, the approximated annual IRR for *promoters* and IPO investors is also reported.

An additional part of the Summary Sheet clarifies the kind of sources employed building case study and, specifically who has been interviewed.

The interviews' blueprint

The second tool adopted during the case study research has been the interviews' blueprint, which included the main lines of inquiry to be pursued during the interviews with the *promoters* and *targets'* managers. The interviews' blueprint is less structured than the Summary Sheet, still it has a solid backbone made by the points that in every interview should have been touched. And which are briefly summarised in the following lines.

- The events, motivations and objectives underlying the creation of the SPAC, with a special focus on the dynamics behind the establishment of the team of *promoters* and their personal.
- The strategic and tactic considerations behind the definition of the investment policy, structure of the unit and *promoters* incentive.
- The context in which the SPAC was established, the policy adopted during the fundraising, the obstacles met, and solution implemented to ensure a successful book building.
- The strategy, the tactics and the procedures followed during the *target selection process*.
- The situation of the *target* before the BC, the rationale behind its choice of exploiting the SPAC to go public and the implementation of the BC.
- The benefits brought to the *target* by the BC and the role of the *promoters* in the post-BC entity.

[71] It includes at least the capital increase performed at the BC

- The main determinants behind the post-BC entity performance and the return for the investors.

In particular, while all these points were touched during the interviews with the SPACs' *promoters*, the interviews with the *targets'* representatives were mainly focused on the last three.

The key theoretical concept behind the *interviews' blueprint* is the distinction between questions of level one and questions of level two. According to Yin (2014) the questions of level two are those *"asked of the individual case"*, that means are the questions that the researcher wants to answer analysing a single case. The level one questions are instead the *"questions asked of specific interviewees"*, that means the questions effectively asked during the interviews. The level two questions correspond to the *mental* line of inquiry, while the level one questions correspond to the *verbal* line of inquiry. Practically, the bullet points above are the expression of the *verbal* line of inquiry, over which the data were collected during the interviews and then elaborated following the *mental* line of inquiry driven by the two research questions.

5.1.6 Data collection procedure

Once identified the unit of analysis and drafted the research protocol, it started the data gathering phase. Differently from other research methods, for the case study analysis, the quality and the quantity of data is not under the researcher control. In particular, the methodology followed for this research includes, as the core element, the conduction of semi-structured interviews to the main stakeholders involved in the SPACs establishment and development. Thus, after the preparation of the research protocol and desk research on Italian SPACs (that is the work presented in the chapter 4), the next step was to contact all the *promoters* to pitch them the research and to ask for the availability to sustain an interview. For the vast majority of the SPACs, the contacts were found through the websites or the prospecta. In some cases, the *promoters* have been contacted directly through LinkedIn or via a phone call, in some other cases instead the contact happened via e-mail. The request to collaborate was sent to all the *promoters* of the SPACs in the sample, but not everyone was available in the time and manner needed for this research. Thus, the results reported in this section refer only to the cases for which at least the interview with one or more *promoters* has been successfully carried out.

During the data collection procedure, two key principles of the case study methodology have been employed. The first deals with the usage of multiple sources of evidence, such as official documents of SPACs and *targets* released on their websites, press releases and press articles talking about the topic analysed, communications for the regulators and the market authority besides the primary source of information that are de interviews with the *promoters* and, when has been possible, with the *target's* managers. All these different sources have been employed in a perspective of triangulation, that means synergically to discover and corroborate the findings. Also, for each case, a database has been built with all the documents, the archival records and the recordings of the interviews related to it (Yin, 2014).

5.1.7 The narrative of the cases

The narrative of each case study follows a linear chronological order, but not a perfect replication. It is in fact partially driven by the interviews made with the *promoters*. The argument is that the way in which they answered to the question of the interviewer and the level of detail with which they told their experience are crucial for the understanding of the case study. The single case study narrative integrates information gathered by secondary sources with the ones collected during the semi-structured interviews with the SPAC *promoters* and the *target* managers. The purpose of the interviews is to understand the reasons behind the SPAC establishment and the mechanisms underlying the SPAC operating activities. The data and information collected during each case study and reported in the following paragraphs are meant to answer the research questions RQ2 and RQ3. The cases are reported anonymously to safeguards the identity of the interviewed and to keep the focus more on the theoretical concepts than on the specific contingencies.

5.1.8 The analytic strategy and technique

Finally, the analytic strategy adopted consists of *working the data from the ground up*. Coherently with the research design and purpose described until now, this inductive approach is the most appropriate to a context in which the first relevant element is to make the evidence speak for itself, without leaving any previously built theoretical framework to hinder possible innovative and unexpected findings. The corresponding analytic technique relies on a cross-case synthesis which treats every individual case as a separate study but then aggregates the findings from all the cases analysed to find robust results. Given the low numerosity of the case studies effectively conducted, the synthesis does not employ quantitative techniques but strongly relies on word tables and on their argumentative interpretation (Yin, 2014).

5.2 Case studies reports

5.2.1 Generic SPAC: SPAC1

Table 19 Summary sheet for SPAC1. Personal elaboration.

Summary Sheet SPAC1	
Team of promoters	*Promoter1,* experienced in PE and M&As, manager of investment funds, formerly investment banker *Promoter2,* expert in extraordinary deal-making on behalf of PE funds and industrial companies *Promoter3,* former investment banker and PE operator with experiences as director in many industrial firms
Investment policy	The *target* should be an Italian SMEs with EV between 100 and 300 mln € and should belong to one of the following categories: Belong to a PE portfolio, with a *good P&L* but a high debt (*bad A&L*) Be a family business, undergoing a generational shift or a restructuring of the ownership structure Belong to the portfolio of an industrial multinational group willing to refocus on the *core business*
IPO market	AIM Italy
IPO proceeds	> 50 mln €
Unit structure	Warrants' assignement at the IPO
Warrant characteristics	In-the-money, quasi-cashless
Promoters incentive	Three tranches of special share, one converted @BC and the others st price thresholds, high conversion ratio.
Target sector	Wholesale trade
Target ownership and governance	Managerial company with highly fractioned shareholding structure
Target key figures	800 mln € of turnover with < 5% of EBITDA margin @BC
Time to announcement	16 months
Time to BC	19 months
BC structure	Merger by incorporation of the *target* into the SPAC
Redemption rate	< 20%
Primary/secondary proceeds	60% primary / 40% secondary
Target Equity pre-money valuation	> €100 million
Multiples	EV/EBITDA: 3.5x P/E: 7.1x
Shareholding structure @BC	< 70% *previous shareholders* > 30% market < 2% promoters
Post-BC governance	*Promoter1* member of the BoD, promotion of an internal resource as new CEO
Post-merger entity capitalization	> €2.000 million @July, 2021
Investment return	70% for *promoters* ; > 15% for investors
Primary sources	Interviews with *Promoter1* and *Promoter2*
Secondary sources	Bebeez.it, press articles, SPAC and Target websites, press releases, financial statements, investors presentations, Borsa Italiana

Introduction

Founded by three *promoters*, SPAC1 has been one of the pioneers SPACs in Italy. It collected around €50 million from institutional investors at the IPO, during which it offered an ordinary share with the free assignment of in-the-money warrants exercisable on a quasi-cashless basis after the BC. The shares and the warrants of SPAC1 traded on AIM Italy. Sixteen months after the IPO, it announced the agreement to perform the BC with a company operating as a wholesale distributor of products and services and closed the deal, after the approval of the general meeting of shareholders, after nineteen months. Valued just over €100 million at the BC, after the merger with the SPAC, the post-BC entity capitalizes more than €2.000 million at July 2021 and its shares trade on the Star segment of MTA.

The promoters

Promoter1, after graduation in International Finance, started to work in the Investment Banking sector, dealing with high-value M&A and LBOs operations. Then he moved to the PE sector, working both in banks and for investment funds. After a brief experience as Managing Director of a PE fund on behalf of a prominent Italian industrial company, he became responsible for Italy of a foreign investment fund. Thanks to some of his former colleagues who went to work in the USA, *Promoter1* met the SPACs and started his learning process about these vehicles and their functioning.

Promoter2, after his graduation in Business Economics, has been responsible for the financial engineering department in a big Italian bank and then founded his financial advisory company. He is specialized in deal structuring and M&A advisory and followed more than a hundred M&A operations focused on SMEs on behalf of many European PE funds. He has strong technical skills in deal structuring, including the definition of the perimeters of M&A deals.

Promoter3 has graduated in Business Administration and developed his career within Investment Banks and PE funds, working both as an investment manager and responsible for fundraising. After this experience, he operated as a freelance operator in PE. In addition, he took the role of independent director or non-executive chairman of many industrial firms in which he or his companies invested.

The members of the SPAC *Promoter* team had solid financial backgrounds. The team embedded all the skills necessary to successfully run a SPAC, from the fundraising to the target selection process and the post-merger operations.

The SPAC establishment and its structure

The reasons behind the establishment of SPAC1 included personal motivations and context factors. The first motivation pointed out by *Promoter2* was the willingness to act as a principal and investor and sit at the negotiating table with these roles. *Promoter1* stated that their primary objective while establishing the SPAC was delivering the BC and seeing *"the stock price skyrocketing and make money"*. Besides, *Promoter2* also highlighted the willingness to introduce an innovation in the Italian ECM that could have had success in the following years[72].

For what concerns the context factors, the SPAC was born to exploit an opportunity and solve a problem. The opportunity was the availability of a considerable amount of liquidity managed in Italy by open-end funds that invest the vast majority of their portfolio in listed and traded securities instead of illiquid instruments. PE funds, not being listed, could not access extensively to this money, while a SPAC could[73]. The problem was the presence of shareholders' agreements ("Patti parasocial") and drag and tag along clauses in the PE deals. *Promoter2* said that *"we saw many PE deals fail because of these clauses. Many entrepreneurs did not accept the possibility of having to sell everything and leave the negotiating table when seeing these clauses"*. The SPAC was a way through which the entrepreneurs could raise qualified money invested in Equity capital without any binding discipline of the liquidation events, being the investors in the company dispersed and with a traded, liquid security in the hands. Again, *Promoter2* affirmed that *"we believed that this solution, applied to the context of Italian SMEs, many of which with big potential but not listed, could have had success"*[74]

The establishment of SPAC1 has been long and complex. The *promoters* copied the basic concepts of the SPAC by the experience of the USA, but three main issues arose: the way to segregate the investment of *promoters* and IPO proceeds, the right to have back the investment to be granted to investors who dislike the proposal of BC, the way to carry out the liquidation process and the merger with the *target*. Together with the available legal consultants, the team of promoters studied for a long time how to solve these issues. According to *Promoter2*, the solutions found were rudimental,

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[72] In their following experiences, *Promoter1* fine-tuned the SPAC vehicle working mainly on the skills of the *promoters* with few innovations in the technical characteristics of SPACs, while *Promoter2* focused more on the innovation and radically changed the structures of these vehicles.

[73] *Promoter2* analysed how the excess liquidity is structural in Italy and how the households tend to keep money in the current account or, at most, to invest in very liquid open-end funds.

[74] The firm of *Promoter2* has as clients PE funds that give the mandate to structure their deals. *Promoter2* considered that the SPAC is not a direct competitor of PE funds, for the reasons seen before. The entrepreneur who decides to raise money through a SPAC is not willing to accept the clauses of a PE fund, so it is not one of its potential clients.

with some flaws, but in general effective. Firstly, they created the escrow account in which to put all the IPO proceeds. The *promoters* cannot touch the money in the escrow account until the BC approval. Then they created two categories of shares, with different seniorities in case of liquidation. The shares offered to the public had priority in liquidation[75], Finally, they created the redemption right, making the shareholders vote for a change in the company's objective while approving the BC. Regarding the unit structure, the decision to give a warrant for each share at the IPO was copied from the US, but this did not prevent opportunistic behaviours at the BC[76]. Moreover, also finding a Nomad and a Global Coordinator has been difficult.

The fundraising and the target selection process

The fundraising activity was complex too. The GC did not manage to find a suitable number of potential investors as it could not clearly explain the product they were offering. So, the *promoters* themselves went to pitch the SPAC to institutional investors leveraging the virtually risk-free option embedded in the SPAC structure that grants the redemption right and the potential upside in case of successful BC, with the slogan "why not?".

Once closed the book and performed the IPO, the team started the target selection process to close a deal within twelve months. Even though the investment policy was not focused on a specific sector, the *promoters'* idea[77] was to find a prestigious *target* within the sectors of excellence of the Italian industry, the so-called *"three F"* of Fashion, Food and Furniture. The *target* origination process started with the knowledges of the *promoters*, deriving from years of experience in the M&A and PE sectors. After an initial enthusiasm, recording the interests of many fascinating firms for the proposed deals, however, the *promoters* found obstacles in terms of too long time necessary to close the deal and lack of bravery of the *target* managers and owners to involve their companies in a completely new venture. Moreover, (and this, according to *Promoter2*, is one of the weaknesses of the traditional SPAC) they could not test the investors' sentiment (who had to vote for the BC in the shareholders' meeting) before the public announcement of the agreement. This was because of the rules imposed on listed companies in terms of information disclosure. After unfruitful negotiations with many companies, the *promoters* "stumbled" into the *target*.

[75] Note that *Promoter2* identified a weakness in this structure as in case someone embraces a legal action against the SPAC, there is a risk that even the money in the escrow account can be withheld for a certain period.
[76] *Promoter2* said that one of the investors decided to redeem all his investment and keep the warrants opportunistically.
[77] That emerged from the interviews with *Promoter2* and *Promoter1*

The target

Target was a company operating in the sector of wholesale distribution of products and services. Its business was not very appealing at the time of the BC; thus, it has been challenging to build an attractive Equity story for the investors. Moreover, the *target* had two main business lines with conflicting objectives (the second business line was a competitor of the first's clients). For this reason, the company was keeping a "low profile" in terms of image promotion. Overall, the company's profitability was relatively low (EBITDA margin lower than 5%).

Moreover, its ownership structure was very complex, with dispersed shareholders with different objectives and a meagre capital. This situation was the outcome of the company's developing process as an association of different small local operators who joined together exchanging *"paper"* instead of injecting new Equity capital. On one side, the main target's suppliers, concerned about the company's creditworthiness, pushed for the company's recapitalization. On the other side, the different and conflicting objectives of shareholders were causing the company not to have a precise vision and mission and were generating a burden in terms of costs and governance structure deriving from those shareholders who wanted to liquidate their positions but could not. In this context, the company tried to go public some months before the first contact with SPAC1 *promoters* with a big Italian Investment Bank as the underwriter, but the Investment Bank judged it not no match for it and closed the door of a potential IPO. According to the words of *Promoter1*, the Investment Bank submitted the company to him. The meeting with the company and the Investment Bank turned the tide of the SPAC. Again, according to what *Promoter1* declared, he saw potential in the company, even if the business was not fancy at the time, after analysing the successful experience of a comparable company in the USA and judging its business as very interesting in perspective. So, the negotiation with the *target* begun.

The BC

SPAC1 had an extreme negotiation power, and thanks to this, it was able to impose its conditions, getting a very low price, with a multiple EV/EBITDA lower than 4x. Once defined the deal, however, it was necessary to obtain the approval of the investors. Unfortunately, the identified *target* proved to be far from the expectations of many investors. Thus, *Promoter1* said that an important Italian entrepreneur whose family office invested more than €3 million in the IPO was very disappointed about the *target* selection and decided to redeem all the shares purchased at the IPO: he was expecting a "star" in a very appealing business. Another investor warned *Promoter2* that *the target* would have been a *"good company but a bad stock"* because its business was not fancy and appealing. Despite difficulties raising money, the obstacles found during the *target selection*, the frictions and ominous premonitions during the deal's approval (that led to a considerable share of redemptions of near to 20%), the BC docked.

Promoter2 defined their role in the deal with *the target* that of "problem solvers". The reverse merger in SPAC1 that brought the *target* to be listed on the AIM Italy was meant to solve the issues mentioned above: lack of capital and conflicting shareholders' objectives. The solution implemented was daring and brilliant. The SPAC offered a way-out to the company's shareholders who wanted to liquidate their position at a certain valuation, while, for the remaining shareholders, the valuation was higher with the introduction of 36 months of lock-up period and the mechanism of price adjustment shares.

The offering to liquidating shareholders was accepted by a relevant portion of the share capital and allowed the company to get rid of investors not aligned with the development path that the BC just started and to cut costs related to their salary, *"causing the first increase of EBITDA to be an easy job"*, as *Promoter2* affirmed. The remaining money was entirely invested in the company. The day after the recapitalization, an important vendor increased its commercial credit line by €60 million. In addition, the *promoters* in the post-merger entity played a supporting role in M&As and extraordinary deals, also helping to deal with the stock exchange requirements and the new governance deployment in the first years.

The price-adjustment share mechanism implies that the release of a portion of shares of the new company in the hands of the pre-BC shareholders is subject to the meeting of particular performance. In the case of *the target*, the reward was linked to specific thresholds of consolidated net profit in the two years after the BC. This mechanism has two powerful effects: the first is to provide a strong signal of the credibility of future growth objectives given that the value of the controlling shareholders' investment is strictly linked to them, the second is to hedge the investors in the market from possible dilution effects due to bad company performance[78].

In the first three years after the BC, all the tranches of special shares were converted, and the warrants met the accelerating condition. The *target* stock price rose to 14€, granting an annual IRR of nearly 70% to SPAC *promoters* and more than 15% to IPO non-redeeming investors. Interestingly, redeeming investors got 15% of annual IRR too[2], proving that the unit structure of SPAC1, if

[78] If the Earnings are below the forecast, a certain number of shares in the hands of the controlling shareholder are cancelled and this prevents the P/E from falling.

replicated in subsequent ventures, could create arbitrage opportunities and opportunistic behaviours. In the long run, the performance of *the target* is astonishing, recording more than 19x MoM at the end of July 2021 for IPO investors (without considering dividends).

5.2.2 Generic SPAC: SPAC2

Table 20 Summary sheet for SPAC2. Personal elaboration.

Summary Sheet SPAC2	
Team of promoters	*Promoter1* worked in the strategic consultancy, then became entrepreneur and CEO of a multinational firm *Promoter2* , legal consultant and expert in M&As *Promoter3* , expert in due diligence and M&As *Promoter4,* expert in due diligence and M&As
Investment policy	n/a
IPO market	AIM Italy
IPO proceeds	> €50 million
Unit structure	Balanced warrants' assignement at the IPO and at the BC
Warrant characteristics	In-the-money, quasi-cashless
Promoters incentive	Three tranches of special share, one converted @BC and the others st price thresholds, high conversion ratio.
Target sector	Manufacturing of machinery and equipments
Target ownership and governance	Family business
Target key figures	> €200 million of turnover, production plants in 6 countries
Time to announcement	18 months
Time to BC	24 months
BC structure	Merger by incorporation of the SPAC into the *target* .
Redemption rate	0%
Primary/secondary proceeds	100% primary
Target Equity pre-money valuation	> €100 million
Multiples	EV/EBITDA: 6.2x
Shareholding structure @BC	> 70% previous *target* shareholders (controlling shareholder with < 50%) < 3% SPAC promoters < 25% market
Post-BC governance	Two out of the four *promoters* entered the BoD, former CEO confirmed
Post-merger entity capitalization	> €450 million @July, 2021
Investment return	50% for *promoters* , > 5% for investors
Primary sources	*Interview with Promoter1* who entered the BoD after the BC
Secondary sources	Bebeez.it, press articles, target website, press releases, financial statements, investors presentations, Borsa Italiana

Introduction

SPAC2 was born from the initiative of two promoters who have been among the pioneers of SPACs in Italy. The other two promoters joined them to form the team that led the company to the IPO on AIM Italy. During the IPO, SPAC2 collected around €50 million from institutional investors selling units made up by one ordinary share and in-the-money warrants assigned in a balanced proportion at the IPO and the BC, exercisable on a quasi-cashless basis after the BC. SPAC2 announced the closing of the master agreement with the target eighteen months after the IPO. The target selected was a well-established medium-sized family firm operating in the manufacturing and distribution of machinery and equipment in different countries worldwide that was still looking for a way to go public. The BC came into force in 2015, twenty-four months after the IPO. It consisted of a merger of the SPAC into the target. The post-merger entity then published the document of admission to have its securities traded on the AIM Italy. Valued more than €100 million at the BC, the target capitalizes about the triple at the end of July 2021. Its shares and warrants trade on the MTA.

The promoters and the SPAC establishment

Promoter1 graduated in engineering and attended an MBA. After finishing his studies, he started to work in the strategic consultancy for a firm leader globally. As a strategic consultant, he worked on projects for many different industries and countries. Then, he started his career as an entrepreneur establishing two successful ventures that he sold to big international brands. After his experience as an entrepreneur, he entered a big mechanical firm, of which he became CEO and, subsequently, chairman. As CEO of this group, he worked on many extraordinary deals, brought it public and led the company toward an international expansion.

Promoter2 is graduated in Business Economics and attended an MBA. During his studies, he became an accountant. Then he started to work in the consultancy and founded an auditing firm, of which he was also CEO. Simultaneously, he worked also as a corporate and tax consultant in Italy with a particular focus on the realization of extraordinary deals and the support of M&A activities. During his activity as a consultant, he entered in contact with many firms in the Italian and international markets and assisted many PE funds in carrying out their transactions.

Promoter3 and *Promoter4* are graduated in Economy and are accountants. They work in the company founded by *Promoter2*, assisting Italian firms in the realization of cross-border M&As, Joint Ventures and sell-offs. Moreover, *Promoter4* also worked as a consultant specialized in the due diligence and financial restructuring areas. *Promoter1* and *Promoter2* knew each other while studying for the MBA. Then, *Promoter1* developed his career as an entrepreneur, manager and director of industrial firms while *Promoter2* started his path in the world of extraordinary deals. So, when *Promoter1* ended his previous experience as chairman of an important mechanical firm, *Promoter2* involved him in launching a SPAC, which was an innovative investment vehicle with still few cases in Italy. The launch of SPAC2 happened in the wake of the first successful experiences in Italy. *Promoter1* and *Promoter2* had complementary skills. The former was an industrial man who saw many extraordinary deals from the operating point of view, while the latter had a legal and consulting background and had more developed technical skills in the dealmaking process. They also involved two junior partners (the other promoters) in helping them in the analyses and in the SPAC operating activities. According to *Promoter1*, they developed a strong mutual trust. This led them to neither write down any shareholders' agreement nor define precise behavioural rules while running the SPAC. In the team of *promoters* of SPAC2, the informal coordination mechanism was dominant, which was reflected in all the activities of the SPAC.

The rationale and the investment policy

From the interview carried out with *Promoter1*, it emerged how the *promoters* of SPAC2 thought SPACs as possible solutions to a problem related to the Italian business environment. According to *Promoter1*, *"in Italy, we have many firms, and many firms of good quality. But the problem is that they tend not to grow"*. In this context, he believes that going public and listing on the stock exchange provides value to firms in two ways: on one side, it provides a solid stimulus for growth, while on the other side, it helps to develop more rational decision-making processes. Listed companies have the *"challenge of the market"* that privately held firms do not have and promote the meritocracy. Moreover, many of the requirements imposed by market regulators and stock exchanges in terms of quality of the governance, financial disclosure and transparency nowadays are *"must-be"* for firms who want to be efficient and to compete at the national and international levels. Therefore, SPACs are a possible solution to the problem of scarce growth of Italian SMEs and are suited to the Italian economic context.

Given this rationale behind the creation of the SPAC, it derives an investment policy targeting middle-sized Italian companies, leaders in a niche of business with substantial entry barriers, with a positive cash generation and good potential growth. They should have an excellent net financial position and be willing to be listed on a stock exchange. Also, their management should be of good quality and willing to begin, with the BC, a long-term oriented growth path. For this reason, the management should have *"the right age"*, that is it neither too young nor too old. The ideal *target* management is experienced but with many years ahead to pursue a strategic growth path. SPAC2 was not interested in companies undergoing a restructuring process: the resources collected at the IPO must finance the growth of the *target*.

The unit structure, promoters incentive and fundraising

SPAC2 adopted deferred warrants assignment mechanism. The idea of assigning warrants together with the share at the IPO came from the experience of SPACs in the USA. The *promoters* looked at the most developed market for SPACs at the time and copied the unit structure. The decision of assigning a fraction of the warrants at the IPO and the remaining part at the BC only to not redeeming shareholders (so-called deferred warrants assignment) was meant to reduce the arbitrage opportunities that investors could take[79] and to favour long-term oriented investors, willing to keep the stakes also in the post-BC entity. On the other hand, the *promoters* remuneration was linked to converting the special share they bought at the IPO into ordinary shares after the BC when the share price hit specific barriers.

For what concerns the fundraising, despite being one of the first Italian SPAC, it went smoothly. According to *Promoter1*, the most critical element the *promoters* leveraged during the process has been his successful industrial track record. The credibility built in many years operating in different industrial sectors has been a critical driver of the trust that investors and entrepreneurs put into SPAC2. Also, both *Promoter1* and *Promoter2* had built their network of knowledge during their careers, so they were well-known among institutional investors, which helped the fundraising process.

The target selection process

Once established the SPAC and raised the money at the IPO, the team of *promoters* started to seek a potential *target*. During this process, the team worked jointly, exploiting the synergies derived from the complementarity of skills of the team members. *Promoter2* was more experienced in the technicalities and the legal part of the deal, while *Promoter1* exploited his knowledge during the negotiations with the entrepreneurs and managers of the potential *targets*. The *target selection* has been an iterative process. The contact with a potential *target* could happen directly (if it belonged

[79] A previous Italian SPAC that assigned all the warrants at the IPO recorded about 20% of redemption rate that put the completion of the BC in danger.

to the promoters' network) or indirectly. Then, the following step was to understand whether the identified company was interested in starting the growth path described above while discussing the investment policy. If the *promoters* found a fertile environment in the target, they started deep due diligence to gather as much information as possible related to the financial and strategic position of the firm. In this phase, there might emerge problems that undermine the following steps. On the other hand, if the due diligence gave a positive result, the *promoters* tried to persuade the *target* owners and managers to undertake the BC and draft the deal.

The *target selection* process of SPAC2 found an obstacle in the fact that SPACs were at the edge of the innovation in Italy, and no one knew what doing a BC meant. For this reason, it took time and required the *promoters* to explain to target entrepreneurs the benefits and the consequences of this kind of deal. According to what *Promoter1* affirmed, his entrepreneurial past helped him establish bounds and create empathy with the *target* entrepreneurs. As a result, they *"spoke the same language and faced the same problems"*, which proved crucial while negotiating the deal.

The target and the Business Combination

SPAC2 closed the deal with an Italian family firm operating mainly as a manufacturer and distributor of machinery and equipment. The company was wholly owned by two families that also expressed the CEO and the top-level managers. With a safe and sound cash generation ability and a well-established production network spread across the globe, the company was looking to undertake a new investment cycle to foster its growth further. For this reason, they were seeking for raising new capital through an IPO. In fact, the controlling shareholders did not want to give up the firm's control, and a PE investment would have imposed too many constraints on their activity. In this situation, the BC with SPAC2 was an attractive alternative to the IPO mainly for the following reasons:

- The IPO exposes the firm to the market risk, that is, the roadshow is public, and if the company fails to close the process, because of external reasons such as a market meltdown, on one side, it has wasted money and time, on the other side the entrepreneur suffers a reputational risk
- The IPO process exposes the entrepreneur to the moral hazard of the Investment Banks. In fact, they tend to exaggerate the valuation during the *"beauty contest"* to get the mandate and gain on fees, but then the valuation tends to decrease, and the entrepreneur is *"forced"* to accept it. The SPAC instead grants the certainty of the valuation

- The entrepreneur in an IPO does not know the quality of the investors (the book quality) ex-ante, exposing the company to arbitrageurs and flippers. The SPAC has already built the book at its IPO, and the *target* can evaluate its quality
- The SPAC *promoters* have interests aligned with the *target* owners and management and can help them grow. In particular, they can exercise the role of advisors and support the target in managing the market and the stock exchange requirements. Instead, the Investment Bank that performs an IPO has no interest [80] in the company performance after the IPO.

In particular, *Promoter1* remarked on the role that the promoters played in the post-BC entity as strategic advisors and *"challengers*" of the management decisions.

The BC was carried out through a merger by incorporation of the SPAC into the *target* that allowed the *target* to build the floating capital and, after having published the required admission document, to have its shares and warrants traded on the AIM Italy. In addition, the BC injected all the money collected at the IPO into the target as primary proceeds, acting as an accelerator of its business plan. In fact, the company would have generated the same amount of cash in nearly five years. This fact, together with the benefits overmentioned, led the *target* management to accept a valuation discounted by 35-40% with respect to the listed peers and a multiple EV/EBITDA around the 6x. The discount on the valuation has also been crucial to get the BC approved by the SPAC shareholders' meeting with no redemption and to grant a good stock performance after the listing.

The conversion of the whole package of special shares granted to the SPAC *promoters* an annual IRR higher than 50% and the conversion of warrants also allowed IPO investors to get a positive return in the first three years after the BC. Another key feature of the BC deal between SPAC2 and its target has been the definition of *performance shares* in the hands of the *previous shareholder*; such shares would have been cancelled if specific performance targets had not been met, protecting investors from dilution derived from lousy performance and incentivizing the management to operate in the interests of the company.

After the BC, *Promoter1* and *Promoter2* entered the BoD of the post-merger entity, acting as strategic consultants and bringing their experience to the Board. They did not play an intrusive role as the control, and the management was in the hands of the *previous shareholders* but gave their

[80] Net of the greenshoe option

contribution in terms of experience with M&As and extraordinary deals and challenging the assumptions and decisions of the management, also bringing the voice of the market inside the Board.

5.2.3 Sectorial serial SPAC: SPAC3

Table 21 Summary sheet of SPAC3. Personal elaboration.

Summary Sheet SPAC3	
Team of promoters	*Promoter1,* experienced in PE and M&As, serial SPACs' *promoter* *Promoter2* , former manager of a multinational in the *target's* sector *Promoter3* , strategic consultant and entrepreneur *Promoter4,* experienced in M&As and valuation
Investment policy	Sectorial investment policy. The *target* should be a family firm with valuation between 100 and 250 mln, not listed, eventually with ownership troubles. Open to take over the control or to acquire a minority stake.
IPO market	AIM Italy
IPO proceeds	> €50 million
Unit structure	Balanced warrants' assignement at the IPO and at the BC
Warrant characteristics	In-the-money, quasi-cashless
Promoters incentive	Three tranches of special share, one converted @BC and the others st price thresholds, medium conversion ratio.
Target sector	Wholesale trade
Target ownership and governance	Family business
Target key figures	> €600 million of turnover, 1.4 of NFP/Equity @BC
Time to announcement	12 months
Time to BC	16 months
BC structure	Spin-off of the *target's* non-core assets
	Purchase by the SPAC of SFPs from the *target's* creditor banks
	Merger by incorporation of the *target* into the SPAC
Redemption rate	< 10%
Primary/secondary proceeds	35% secondary / 65% primary
Target Equity pre-money valuation	> €100 million
Multiples	EV/EBITDA: 6.7x
Shareholding structure @BC	< 50% *previous shareholders* > 50% market < 2% *promoters*
Post-BC governance	Promoter1 and *Promoter2* BoD members
Post-BC entity capitalization	> €150 million
Investment return	> 40% for *promoters* , < 0% for investors
Primary sources	Interviews with *Promoter1* , *Promoter3* , a top manager of the *target* , SPAC and *Target* websites, press releases, financial statements, investors presentations, Borsa Italiana
Secondary sources	Bebeez.it, press articles

Introduction

Founded by four *promoters*, SPAC3 collected more than €50 million at the IPO and was listed on the AIM Italy. The offered unit was composed of one ordinary share and in-the-money warrants, assigned in a balanced proportion between the IPO and the BC and exercisable after the BC on a quasi-cashless basis. One of the *promoters* already established other SPACs in Italy, and SPAC3 adopted a *sectorial* investment policy. Exploiting the experience of Promoter2 in the *target's* industrial sector, the SPAC announced the BC in less than twelve months and completed it about sixteen months after the IPO. The *target* was a company operating as producer, distributor and seller of consumer goods. Before the BC, the *target* was undertaking a restructuring process and after the BC took it changed its name. Evaluated more than €100 million for the BC, at the end of July 2021, its market capitalization is higher than €150 million, and its shares trade on the MTA segment Star.

The promoters

Promoter1, a former investment banker and manager of investment funds with significant experience in M&As and LBOs transactions, already established other successful SPACs in Italy. He had built strong credibility and a sound reputation as a SPAC *promoter*.

Promoter2 worked in *the target's* sector for most of his career. He covered many top managerial roles in one of the world's most recognized Italian brands. During this experience, he developed a deep knowledge of Italian and international retailing and built a knowledge network. Before establishing SPAC3, he left his position as the CEO of this company, whose turnover had grown by more than one-third in less than ten years under his management.

Promoter3 earned a PhD and an MBA. He developed strong expertise as a strategic consultant in growth strategy, turnaround, due diligence, SMEs, market analysis and consumer insight. In his professional experience, he worked for six years as a strategic consultant in a big international company, spent thirteen years as a business school manager, and started an entrepreneurial venture.

Promoter4 combines a solid theoretical basis with significant managerial experience in the corporate finance field. He studied the firm valuation and wrote many books on the topic. His job experience is strictly related to M&A and restructuring processes both as an employee of prestigious firms and as an external consultant of international PE funds operating in the European mid-market. In addition, he founded an independent advisory firm for extraordinary corporate finance deals.

The SPAC establishment and the investment policy

Promoter3 played a pivotal role in the SPAC3 establishment. It pointed out some personal reasons that led him to invest in the SPAC as *a promoter*. First and foremost, his risk propensity was coherent with the investment profile. SPAC *promoter*s take a considerable risk that can lead to financial gains only if the BC is completed and to significant economic improvements if the BC is successful[81]. Moreover, they do not get any salary and remuneration during the target selection process. Compared to managing a PE fund, SPAC Sponsorship requires higher risk propensity and the possibility to work for some months without gaining a salary. According to *Promoter3*, however, the SPAC structure grants a better alignment of interest between managers and investors with respect to the structure of a PE fund in which the managers gain money even if the deals they carry out are not successful. Strictly related to this is also the involvement that a PE fund requires in terms of time horizon. A manager of a PE fund has a job for at least five-to-seven years; the commitment required by a SPAC to *promoter*s instead is way too short and, according to the view of *Promoter3*, it ends at the BC delivery. Secondly, he has known *Promoter1* since he was young, and he invested at the IPO in one of the former *Promoter1*'s SPACs. From that experience, he got enormous financial benefits. So, he started to talk about establishing a new SPAC with him. However, *Promoter1* always denied saying that the skills of *Promoter3*, an expert in strategic advisory, were not coherent with the skills required for a SPAC *Promoter*. Without giving up, *Promoter3* entered in contact with *Promoter2*, who was quitting the CEO role in a big Italian firm operating in the *target's* sector and presented him to *Promoter1*. *Promoter2* and *Promoter1* developed a common view and decided to create a new SPAC, SPAC3, also involving *Promoter3*, who had the merit of bringing them together, and *Promoter4*, who had strong technical competence in firms valuation and deal-making. The so-composed team worked following the principles of shared leadership. According to his characteristics, everyone contributed to the achievement of the goal of delivering a value-creating BC.

[81] That means that the price of the shares after the BC reaches the thresholds which allow for the conversion of special shares into ordinary ones

The different *promoters* objectives and the heterogeneity of the *promoters'* team influenced the investment strategy of SPAC3.

Targeting the specific sector defined in the investment policy meant to exploit the particular competencies and the credibility of *Promoter2*. Moreover, *Promoter2* made himself available to enter the BoD of the post-merger entity even as non-executive president, supporting its development. This has resulted in an investment policy open to take over the control of the *target*, which was an innovation at the time. Thus, SPAC3 had a "*double soul*", one more traditional and financial oriented, the other more innovative and industrial oriented thanks to the presence of *Promoter2* in the *promoters'* team. This fact had consequences during the *target selection process* and the negotiations with potential *targets*, besides being the reason behind the sectorial investment policy.

The unit structure and the target selection process

The experience and the creativity of *Promoter1* have been crucial in the definition of the SPAC characteristics. While the unit structure followed the Italian market development with the deferred assignment of a portion of warrants only at the BC to incentivize Investors not to redeem their shares, SPAC3 introduced the innovation of the put option in the hands of investors. One of the theoretical advantages of investing in a SPAC is the liquidity of the shares and warrants traded on the secondary market. However, in Italy, the AIM suffers from low liquidity and exchange volumes. The lack of liquidity was a problem that *Promoter1* detached from listening to the investors' voices. They argued that even if the shares were traded, in practice, their investment would have been illiquid until the BC. To solve this issue, he introduced the aforementioned put option according to which the shareholders could sell to the SPAC their stocks with a haircut even before the BC approval. In the words of *Promoter3*, this tool was extremely appreciated by the market and constituted a strong differentiator of SPAC3, even if it has been adopted for a residual amount.

Besides its role in the definition of the investment policy outlined before, the role of *Promoter2* has been very relevant in the potential target valuation. Thanks to his experience in the sector, he was able to check the industrial plans of the companies to evaluate. Furthermore, thanks to his connections with firms of the industry's supply chain, he was able to check the truthfulness of the business plans of the potential *targets*. According to what *Promoter3* declared, *"without his competence, we wouldn't go so deep in the analysis"*.

The *target selection process* has been composed of three main stages. The first stage was the origination of potential interesting companies to merge with. In this activity, the only one who had previous experience in a SPAC was *Promoter1*. The whole team benefited from the fact that he still had in the pipeline companies already met with the earlier SPACs but that at the time were not ready for the BC. Besides, everyone in the team looked for his contacts and knowledge. This allowed building a long pipeline exploiting the potential of the *promoters* networks and always keeping a *"plan B"* that, according to *Promoter1*, is a key to a SPAC's success. After the first screening of all the potential *targets*, carried out jointly by all the team members, the second stage of the process consisted of a deeper valuation, made in cooperation with the GC and M&A advisors, of the shortlisted companies. The due diligence ended with the estimation of the value of these firms. The last stage consisted of reverse bidding in which the shortlisted firms has been put in competition. The one that accepted the higher discount on its value was the one selected. This final stage of the process was carried out transparently towards the counterparties. The rationale behind this decision-making criterion was that the higher the discount, the higher the likelihood of an increase of the share price after the listing, which was the promoters' main (and only) objective. In fact, the only variables considered in the selection have been the quality and attractiveness of the firms' business plans and the discount they were willing to accept on their value in the transaction. Other considerations, for instance, on the post-BC governance, had very low weight in the selection. In SPAC3, this process has been particularly effective because there was little-to-no competition on *targets* from other SPACs.

However, the *promoters* decided not to establish a sectorial SPAC anymore after this experience for two interrelated reasons. The Italian corporate market was too small to carry out the target selection process described above. Thus, limiting the search to a specific sector would have caused the loss of opportunities available in the market.

The target and the BC

At the end of the competitive selection process above depicted, the “winner” was a company operating mainly in producing and distributing consumer goods in Southern Europe. Born as a wholesale distributor, in the first years of 2000, it integrated vertically and became a *“small multinational group vertically integrated”* with oversea production (sometimes direct production, sometimes through partnerships and agreements with local producers), naval logistic, harbour management and distribution warehouses for all the Southern Europe topping around 1.2 billion of turnover.

About ten years before the BC, the Group had to face a generational change. The Group developed a new capital-intensive investment policy both in harbours and production and in diversified, non-core businesses with logic similar to that of a "family office". So, it entered the GFC with huge investments just done and critical leverage. Thus, all the capital-intensive businesses went troubled, and the core business could no longer cover the losses of these other businesses. With nearly €500 million of net debts and an EBITDA plummeted to €15 million, the survival of the Group was in danger.

Facing the need for debt restructuring, a famous consulting company received the mandate of defining a new business plan following the logic *"back to core business"*, working on industrial efficiencies to renegotiate the debt with the creditors. According to the words of the top manager interviewed, the debt restructuring plan was one of the most significant and most complex plans in the Italian market. Moreover, some years before the BC, a new founding family member took control, discontinuing the family business.

The restructuring plan included spin-offs, selling off non-core businesses, and converting many banks' credits into SFP[82]. The mechanism of SFP required the shareholders to sell the company at a certain point with the proceeds of the selling that would have gone pre-emptively to the holders of the SFP (that were the banks) and only residually to the shareholders who virtually still held the 100% of the capital but could reap a lower portion of the value.

Moreover, the restructuring deal imposed many constraints on investments (only maintenance investments and no M&As) that could undermine the competitive position of the company and the feasibility of the restructuring plan. On top of this, the shareholder, punished by the deal, would have worked for years with low incentives and low motivations.

The top manager interviewed said that once closed the restructuring deal the first objective was to find an alternative way out from it for two main reasons:

- To free the company from the constraints imposed by the restructuring plan
- To give to the shareholders a new "reason why" to run the company

[82] Strumenti Finanziari Partecipativi (Participatory Financial Instruments)

The shareholders and managers of the company started to seek solutions to the problem evaluating the following alternatives:

- A "distressed IPO". But it was (and still is) practically impossible in Italy, while in other more developed countries is more exploited
- A PE investment. But it was challenging to find an attractive valuation and would have imposed the cession of the control.
- An industrial partner. But it would also have meant to give up to the control of the group.

Thanks to a professional who knew both the *Promoter1* and the needs of the group, SPAC3 and the *target* had a contact. In less than seven months, they signed the deal that led to the BC. Even if at the beginning the *target* owners and managers had to precisely understand the mechanisms of a SPAC that they did not know, they found out that it would have been an excellent solution to their problems as

- It allowed the *previous shareholders* (the founding family) to keep the control while changing the company's status from private to public would have given the creditors the signal of discontinuity they needed to the losses on the credits "politically acceptable". In fact, the deal included as pre-condition the acquisition by the SPAC of all the SFP in the hands of the banks at a significantly discounted price and the closing of the bankruptcy procedures ongoing.
- It pushed for acceleration and finalization of the last operations of spin-offs of non-core assets, which still were in the stand-alone business plan, but that entered the agreement with the SPAC as a pre-condition of the BC
- It injected *"fresh money"* required for the growth, both organic and through M&As.

According to the *interviewed manager,* the deal with the SPAC was *"the best option to finalize the long recovery and revival path of the Company".*

Once closed the deal and announced to the market, the managers of the *target* and the SPAC *promoters* started a roadshow during which they met the investors to pitch them the agreement and convince them to vote in favour of it at the BC. With respect to a roadshow of a traditional IPO, it was way shorter and targeted at investors who needed some more explanations about the deal. The *interviewed manager* also stated that, with respect to a traditional IPO, the deal carried out with the SPAC allowed the company's management to stay more focused on the daily operating activities and to save costs (as the IPO costs had been already born by the SPAC). However, the low entry multiple, the *promoters* incentive and the issued warrants caused a substantial dilution for the controlling shareholder that lost the absolute majority of the stakes. This was a critical passage to be managed, but in the end, the benefits overcame the costs also for the controlling family.

After the BC, *Promoter1* and *Promoter2* entered the BoD of the new Company assuming *"for their decision"* non-executive roles. *Promoter1* was focused on managing the investors and gave feedback from the market, while *Promoter2* brought its experience of marketing & sales and product. However, the fact that they did not take responsibilities in the BoD posed a limit to the effectiveness of their contribution, and they exited when the company has been listed on MTA, less than two years after the BC, to leave space to minorities and to focus on their next SPAC. Besides, the management also kept in contact with the other two *promoters. Promoter3* gave from outside some feedbacks on the market, while *Promoter4* brought attention to potential M&As.

The company resulting from the BC changed its name with respect to the pre-BC group for marketing purposes. Evaluated about €100 million at the BC, it capitalizes more than €150 million at the end of July 2021.

5.2.4 Generic serial SPAC: SPAC4

Table 22 Summary sheet for SPAC4. Personal elaboration.

Summary sheet SPAC4	
Team of promoters	Serial team of *promoters* *Promoter1* experienced in PE and M&As, was at his fourth Italian SPAC *Promoter2* , strategic consultant and entrepreneur, *Promoter3* , former manager of a multinational, *Promoter4,* experienced in M&As and valuation, at their second experiences as *promoters* with *Promoter1* *Promoter5* and *Promoter6,* experts in M&A advisory, at their first experiences as *promoters*
Investment policy	The *target* should be a middle-sized Italian not listed firm, leader in their market niche, needing money to consolidate its business or integrate other businesses, and to help the expansion abroad. The company should Be a family business Belong to a PE portfolio Belong to a multinational industrial group
IPO market	AIM Italy
IPO proceeds	< €100 million
Unit structure	Warrants assigned at IPO and at BC, predominant deferred warrants' assignment
Warrant characteristics	In-the-money, quasi-cashless
Promoters incentive	Three tranches of special share, one converted @BC and the others st price thresholds, medium conversion ratio.
Target sector	Manufacturing of machinery and equipments
Target ownership and governance	Managerial company controlled by a family (that expressed the chairman)
Target key figures	> €200 million of turnover (90% abroad) @BC
Time to announcement	7 months
Time to BC	12 months
BC structure	Spin-off of non-core businesses Acquisition of the *target* by the SPAC Merger by incorporation of the *target* into the SPAC
Redemption rate	< 10%
Primary/secondary proceeds	90% primary / 10% secondary
Target Equity pre-money valuation	Around €100 million
Multiples	EV/EBITDA: 6.2x
Shareholding structure @BC	< 50% previous shareholders (>60% voting rights) About 50% market < 3% *promoters*
Post-BC governance	Promoter3 and *Promoter4* entered the BoD, former CEO and chairman confirmed
Post-BC entity capitalization	< €100 million (takeover bid and delisting)
Investment return	> 5% for *promoters* ; -20% for investors
Primary sources	Interviews with *Promoter1* and *Promoter2*
Secondary sources	Bebeez.it, press articles, SPAC and target websites, press releases, financial statements, investors presentations, Borsa Italiana

Introduction

SPAC4 was born from the initiative of a team of four serial *promoters*. With two formerly consultants on the team, they established SPAC4 and collected a little less than €100 million from institutional investors at the IPO. SPAC4 was listed on the AIM Italy. The unit offered to investors was composed of one ordinary share and in-the-money warrants assigned for free at the IPO and the BC and exercisable after the BC on a quasi-cashless basis. The majority of the warrants were assigned at the BC to non-redeeming investors. SPAC4 announced the *target* seven months after the IPO. The *target* selected was a well-established large firm operating as a manufacturer of machinery and equipment. It was controlled by the founding family but had developed a managerial form that led it to expand the business in many markets abroad. Operating in a growing business with high technological content, it needed fresh capital to strengthen its competitive position and pursue technological development. The BC came into force twelve months after the IPO and consisted of merging the *target* into the SPAC. Valued nearly €100 million at the BC, the company has undergone a takeover bid at a valuation of less than €90 million after less than two years. After the takeover bid, the company is not listed anymore.

The promoters

Promoter1 was one of the most relevant players in the Italian market of SPACs. With high-profile experience in PE and Investment Banking, he had already successfully founded other SPACs in Italy, consistently delivering successful BCs. He also had already established another SPAC with *Promoter2*, *Promoter3* and *Promoter4*.

Promoter2 earned a PhD and an MBA. He developed strong expertise as a strategic consultant in growth strategy, turnaround, due diligence, SMEs, market analysis and consumer insight. He worked as a strategic consultant in a big international company, has been a business school manager and started an entrepreneurial venture.

Promoter3 had been the former CEO of one of the world's most successful Italian multinationals, whose turnover had grown by more than one-third in less than ten years under his management.

Promoter4 combines a solid theoretical basis with significant managerial experience in the corporate finance field. He studied the firm valuation and wrote many books on the topic. His job experience is strictly related to M&A and restructuring processes both as an employee of prestigious firms and as an external consultant of international PE funds operating in the European mid-market. In addition, he founded an independent advisory firm for extraordinary corporate finance deals.

Promoter5 and *Promoter6*, instead, both with a background of advisors for extraordinary deals such as M&As, LBOs and restructuring, worked as consultants for the other promoters in another SPAC established by them. In this case, they were brought on board as members of the BoD (*Promoter5* was co-CEO) or managing partner (*Promoter6*).

The SPAC establishment and the investment policy

According to what *Promoter2* said, the establishment of SPAC4 was the natural consequence of the team's previous experience, with previous consultants as additional promoters. The main objectives of the *promoters* were to deliver a successful BC again to get a substantial financial gain from the activity and make the investors gain money too. Both for the *promoters* and the investors, the possibility of getting a financial gain was linked to an increase in the price of the post-BC company. In order to pursue this objective most effectively, the *promoters* decided to adopt a generic investment policy without focusing the *target selection* process on a specific sector. According to what emerged from the interviews, both *Promoter1* and *Promoter2* believe that adopting an investment policy targeted at a specific sector in Italy poses severe problems and reduces the likelihood of closing the *"best deal"*, that is, the deal that creates more value for *promoters* and investors of the SPAC.

Besides, the investment policy contemplated that the potential *target* could belong to one of the following three firm categories: a family firm, a firm belonging to a portfolio of PE funds, or a company subjected to spin-off from an international industrial group. Also, the possibility of targeting so different categories of firms, which overall represented quite the whole Italian market of SMEs, was meant to leave the *promoters* as much choice as possible during the *target seeking* and *deal-making* processes.

The unit structure and fundraising

The choice of the unit structure was dictated by the personal experience of the *promoters* and by the analysis of the Italian SPACs market and was taken in cooperation with the Global Coordinator. These two factors led to the adoption of the deferred warrants assignment, with a higher proportion of them assigned at the BC to non-redeeming investors. This would have allowed for a lower risk of opportunistic behaviours from investors as they would have had a higher incentive to stick with the investment even after the BC to grab the benefit arising from the assignment of additional warrants.

Once established the SPAC and defined the unit structure and the *promoters* incentive, the team started the roadshow and book building phases. At the opening of the investment booking window, during which the interested investors could book their stakes into the SPAC, the *promoters* recorded twice the demand as the offer. Two reasons mainly caused this. On the one hand, the Italian SPAC market was very "hot" at the time, as many institutional investors had liquidity to be invested into liquid assets[83]. On the other hand, the *promoters* carried on investors who had put their money in their previous ventures and decided to trust them again, satisfied by the returns achieved. This put the *promoters* in front of a challenge. In fact, the amount of money booked outsized the amount required for any potential BC. *Promoter2* affirmed that they had to decide whether to keep all the money or to ration the units offered. The first solution would have exposed them to the risk of using only a portion of the money for the BC. This could have led to the shareholders' meeting proposal of a split-up of the SPAC into another one with the remaining money. Instead, the second solution was subject to pressures from those who booked the investment not willing to see it cut down. The choice fell on the first option, and the *promoters* gave back half of the already committed investment. *Promoter2* justified this choice by saying that, for him, the SPAC is a promise to the investors, made by the *promoters*, that they will either use their money to find and list a *target* or give back the money in a certain time. Proposing a split-up after the IPO is a breach of the promise and, *Promoter2* assumed also basing on the observation of similar cases on the market, investors would not have liked it. Sticking with the promise made to investors means not to change the conditions of the deal after the IPO, and this is a way through which the *promoters* aimed at preserving their personal Brand Equity.

The target selection process

Once the financial allocation for the BC was made available, the team of *promoters* started to select the *target* company that best would fit. For this purpose, they took advantage of the experiences in the previous SPACs in the origination phase. They had encountered potential attractive *targets* that were not ready to conclude a merger with a SPAC for different reasons. These firms were still in the pipeline at the very creation of the new SPAC. *Promoter2* said that *Promoter1* proved to be very

[83] In particular the PIRs, Piani Individuali di Risparmio, had a compulsory percentage of Assets under Management to be invested into liquid securities of Italian SMEs to receive fiscal benefits.

anxious whenever they started to go deep in the negotiation with a company starting to search for other firms. Having a long pipeline and always having an alternative were two key elements of the SPAC4 *promoters* strategy.

After the origination phase, the *target seeking process* continued with the first screening of appealing companies to build a shortlist of selected firms. The shortlisted companies were then passed under scrutiny and valuated. At this moment, the presence in the promoter's team of two formerly M&A advisors allowed to leverage internal resources instead of using external consultants, saving costs.

SPAC4 had to deal with a challenging competitive environment in which many SPACs were operating on the Italian market simultaneously. This fact was a threat to the ability of SPACs to close a successful deal as the competition on potential *targets* intensified. At that point, it could happen that two SPACs were put in competition by the same *target* that had the power to decide the SPAC to merge with. The seed of successes of the previous BC of the SPAC4 *promoters* also stayed in their ability to create competition on shortlisted companies and to list the one that would have accepted the highest discount on the valuation. The higher the discount, in fact, the more the possibility, once that the company is listed, that its shares would increase, generating financial gains for *promoters* and investors. Also, the *promoters* have to pitch the deal to the shareholder base that has the right to vote against it and redeem the shares. Clearly, in the new context, the game was harder to be played. According to the analysis made by *Promoter2*, the number of active SPACs on the market was not enough to explain why the competition on *targets* was so tough. A key factor was the inexperience of many newcomers promoters. On one side, they did not have gained money before from launching SPACs and were more loss adverse with respect to the *promoters* of SPAC4. On the other side, they knew that the market of SPACs would have been closed to them if they had failed to deliver the first BC. For these reasons, many SPACs tried to deliver the BC at any cost, even proposing valuations that *Promoter2* judged too high, almost driving SPAC4 out of the market.

The target and the BC

Despite the obstacles met, only seven months after the IPO, SPAC4 announced the closing of the deal with the target. It was a company operating in the manufacturing and distribution of machinery and equipment. The company was owned by a family that expressed the chairman of the BoD but was still a managerial company. With more than €200 million of turnover, of which the 90% generated abroad, the company was looking for a partner that had the financial resources required to consolidate the competitive position in the core business both through organic and external growth, integrate some stages of the value chain to improve the competitive strength, develop new products and undertake the significant investments necessary to pursue the paradigm of *Industry 4.0*. In particular, at the BC, the company and the SPAC *promoters* defined a plan of M&As to undertake in the subsequent years, and the *promoters* helped the *target* management to reach the goals playing an advisory role, even if without interfering with the management of the company, still in the hand of the *previous shareholders* (also thank the assignment to them of multiple-voting shares) that exercised the control confirming the former CEO.

The company's management closed all the foreseen M&As even in advance with respect to the schedule, but, both for internal and external reasons (a big recession that hit the Italian economy), it has not been able to integrate the huge amount of assets and companies acquired restructuring the group. This led to a severe drop in both the profitability and the value of the company. While the investors did not convert their warrants, the *promoters* only converted their first tranche of special shares (linked to the completion of the BC and not to the post-BC performance). So, the SPAC *promoters* organized a takeover tender by an industrial company that bought and delisted the target, allowing for a partial recovery of the investors' losses. The *promoters* gained about 5% on an annual basis from the operation, which is very low for people who worked for some months for free, while investors lost about 20% on an annual basis from the investment.

5.2.5 Institutional generic SPAC: SPAC5

Table 23 Summary sheet of SPAC5. Personal elaboration.

Summary Sheet SPAC5	
Team of promoters	Joint venture between two institutional investors: an *Investment Bank* and a *Private Equity Operator*. Two promoters expression of the *Investment Bank (IB)* Two promoters expression of the *PE Operator (PEO)*
Investment policy	Middle-sized firm, with international vocation Firm with the need of operating and financial support to continue its growth Equity value between €100 million and €400 million Sectors: manufacturing, mechanical, F&B, design, luxury, furniture, logistic, business services
IPO market	AIM Italy
IPO proceeds	> €100 million
Unit structure	Warrants assigned at IPO and at BC, predominant deferred warrants' assignment
Warrant characteristics	In-the-money, quasi-cashless
Promoters incentive	Four tranches of special share, one converted @BC and the others st price thresholds, medium conversion ratio.
Target sector	Manufacturing of industrial products
Target ownership and governance	Managerial company owned by PE funds. The CEO and the *PEO* had minority stakes into the company
Target key figures	> 15% EBITDA margin @BC
Time to announcement	5 months
Time to BC	9 months
BC structure	Acquisition of the 100% of the *target* with nearly a half of the IPO proceeds remaining Split up of the SPAC into *SPAC5.2*, with the remaining cash Capital increase of about €5 million (from reinvestment of the resources of the acquisition)
Redemption rate	< 10%
Target Equity pre-money valuation	<€100 millions @BC
Primary/secondary proceeds	100% secondary (93% secondary / 7% primary after reinvestment of secondary proceeds into the company)
Multiples	EV/EBITDA Adj: 6.6x P/E Adj: 9.0x
Shareholding structure @BC	90% market <5% *PEO* <2% *promoters* Residual to *target* management
Post-BC governance	Two *promoters* (one from the *IB*, one from the *PEO*) as directors, former CEO confirmed
Post-merger entity capitalization	€50 million @July, 2021
Investment return	-15% for *promoters*, -10% for investors
Primary sources	Interviews with one *promoter* from the *IB* who entered the BoD after the BC
Secondary sources	Bebeez.it, press articles, SPAC and target websites, press releases, financial statements, investors presentations, Borsa Italiana

Introduction

SPAC5 is an institutional SPAC born by the joint venture between an Italian *Investment Bank* (*IB* from now on) and an Italian *Private Equity Operator* (*PEO* from now on). The team of *promoters* was made by two exponents for each of the two founding firms. Each constituting firm had either the chairman or the vice-chairman and one of the two co-CEOs on the SPAC BoD. SPAC5 collected more than €100 million from institutional investors at the IPO, during which it offered units made up by one ordinary share and in-the-money warrants assigned for free at the IPO and the BC and exercisable after the BC on a quasi-cashless basis. The majority of the warrants were assigned at the BC to non-redeeming investors. The company has been listed on the AIM Italy. After less than five months from the IPO, SPAC5 announced the agreement to close the BC with a medium-sized Italian company operating as a manufacturer of industrial products. Together with the deal, it announced the split up into SPAC5.2, which remained with a capital endowment of around half of IPO proceeds[84]. SPAC5.2 expired without completing the BC. The BC of SPAC5 with its *target* came into force about nine months after the IPO. Valued about €70 million at the BC, the *target* capitalizes around €50 million at the end of July 2021, and its shares and warrants still trade on the AIM Italy.

The promoters

The institutional nature of SPAC5 makes it more relevant to analyze the track record of the founding firms than the personal track records of the promoter. Notably, on the homepage of the SPAC5 website, the initial remark says: *"SPAC5 was born as an initiative of two institutions, IB and PEO, to put unique experiences on the market at the service of its investors of the entrepreneur"*.

IB is an Italian independent Investment Bank operating as a partner of firms and institutional investors. As an Investment Bank, it operates in the ECM supporting firms during the IPOs and listings, playing the role of GC, bookrunner, Specialist, Sponsor or Nomad with a special focus on SMEs and small & mid-caps. Besides, it has a strong track record as an M&A operator and advisor. In particular, it is among the first ten M&A advisors in Italy for the number of operations. It also works as a financial markets analyst in Europe, North America, Japan and Oceania and offers Sales & Trading services on shares, bonds, derivatives and ETFs. Another key business is Equity Research, where *IB* acts covering the vast majority of the Italian firms.

[84] The cash neither employed for the BC nor given back to redeeming shareholders.

PEO is an investment firm operating as a Private Equity fund and Venture Capitalist. In these two areas, it is one of the leaders in the Italian market, with more than sixty operations carried out. Its core competencies are the professional support offered to the investees to promote their growth and the ability to structure the deals in a highly flexible and customized way.

The SPAC establishment and the fundraising

The two over-described firms established a strategic partnership to create and launch innovative tools of equity investment, such as the SPACs. Within this strategic partnership, they established SPAC5.

The main reason behind the birth of the SPAC was the possibility to take a market opportunity derived from the diffusion of ordinary PIRs[85]. According to the *interviewed promoter*, the SPACs were the ideal recipes for the enormous amount of money collected in Italy by the PIRs (nearly €19 billion), which had strict requirements about the possible uses of the resources. So, in less than one day of fundraising, SPAC5 collected the target set before collecting more than €100 million, which was a remarkable amount for an Italian SPAC. Thus, the *promoters* could exploit a favourable regulatory and market context to start this new venture.

The decision of creating a SPAC with a partner instead of alone was dictated by the idea of putting together complementary competencies. In particular, *IB* brought into the joint venture specific knowledge of the ECM required to carry out the IPO process and deal with the listing requirements and tasks related to being on a stock exchange. Thanks to *IB*, SPAC5 did not record any costs for the listing. However, *IB* did not have PE competencies, which are crucial for SPACs, so the PEO partner brought these into the venture. The team of *promoters* mixed market knowledge and deal-making competencies and was made by the two founders of the *PEO*, a member of the BoD of the *IB* and the responsible for the newborn division of Private Equity within the *IB*. As the *promoters* came from different organizations and had strong track records, the first problem arose in coordinating them and in harmonizing the strong personalities. For this reason, they established that all the four *promoters* would have had the same power and exposure toward media and entrepreneurs. The message that should pass outside was that SPAC5 was an institutional one, not the creation of a specific member of the promoter's team. Therefore, maintaining the equilibrium between them was critical.

[85] Piani Individuali di Risparmio.

For what concerns the unit's structure and the *promoters* incentives, SPAC5 leveraged on the previous experience of *IB* as GC and Nomad for several other SPACs. Thus, they adopted a traditional unit structure, including a deferred warrants assignment at the BC. Nevertheless, they decided to differentiate the venture from other SPAC, setting an initial conversion of special shares that did not grant an immediate return after the BC to *promoters* but only allowed to break even the initial investment made. This solution was meant to improve the alignment of interests between *promoters* and IPO investors.

The target seeking process

At this moment, the *promoters* also started to think that they had collected too much money at the IPO and that, to enhance the possibility of finding a suitable *target,* they would have had to reduce the size of the deal and give back money to the investors. Facing these difficulties, they developed another strategy to look for a *target*. Everyone in the team started to mobilize his network of knowledge created during his career. According to the *interviewed promoter*, the final choice of the *target* derived from this procedure as the *PEO* previously worked with the *target* management. Checking the BC documents, the *PEO* was a minority shareholder of the *target* company.

The *promoters* shortlisted around five other potential *targets during the process,* but they did not close the deal with them either because they discarded the firm or because the deal did not convince the target managers and owners. The main problems that undermined the closing of the deals were the firms' valuation and the dilution of *previous shareholders* embedded into the SPAC. In the end, the trust in the *target's* CEO has mainly driven the choice of the selected target: the *promoters* put themselves in the hands of the manager, trusting his ability to lead a company operating in a traditional sector.

Notably, SPAC5 was able to differentiate itself from competitors being an institutional SPAC[86]. This was an essential strength point as it had to face intense competition from other SPACs active in the market.

The target and the Business Combination

The selected *target* company was a firm operating in the manufacturing and distribution of industrial products with a turnover lower than €100 million and an EBITDA margin of more than 15%

[86] The *interviewed promoter* affirmed that many potential *targets* chose to dialogite with them instead that with other SPACs as they were more credible.

on average in the previous years. The ownership structure was composed of more than 90% PE funds and the CEO for about 4%. It was a middle-sized managerial company where the CEO was the operating arm of the PE funds that owned the firm. During the management of the CEO, the company recorded a growth of revenues (with a CAGR of more than 7%) and a substantial expansion towards the international market.

The deal negotiated with the SPAC implied a dismission of the stakes by the holding PE funds and acquisition of the whole Equity capital by the SPAC employing less than a half of the capital raised at the IPO. In this operation, all the cash injected into the company has been used to cash out existing shareholders at a valuation of 6.6x the EBITDA and a P/E of 9.0x. However, both the CEO and the *PEO* reinvested the proceeds from selling their stakes into the post-merger entity. Thus, the CEO kept his role while one exponent of each of the founding members of SPAC5 entered the post-BC BoD.

The new management team defined as strategic objective the expansion of the company through M&As. According to the *interviewed promoter*, one of the jobs of the two SPAC *promoters* in the post-BC entity was to select and propose to the management potential targets for M&As. However, the opportunities did not find a realization for many reasons. Besides confidential ones, one reason was embedded into the structure of the deal with the SPAC. In fact, the company valuation was depressed with respect to its comparable, which inhibited many M&As: on the one hand, the counterparties did not accept depressed valuations; on the other hand, offering a higher valuation would have meant diluting the existing shareholders. The other strategic objective was to consolidate the position in the existing business, judged as stable and mature. Besides their role as advisors for extraordinary deals, the *IB* and *PEO* helped the management of the post-BC firm to keep the relations with the stock exchange and the investors (helping in defining the governance and appointing the IR) but also helped the firm to develop and implement an ESG strategy. Overall, the SPAC found a well-managed and established firm, previously owned by PE funds, and tried to enhance its performance through external growth, openness to the market, and an ESG policy development. However, the poor performance of the securities of the post-BC entity[87] shows that

[87] Now the capitalization is lower than at the BC, the investors could not exercise their warrants and the *promoters* only converted one tranche of special shares not recovery the initial investment.

the strategy was not successful in the first three years after the BC, partly because of the already mentioned obstacles found to the external growth strategy.

The split up into SPAC5.2

As said, only a portion of the IPO proceeds has been employed during the BC. The remaining part has been assigned to a new SPAC born by the proportional split of SPAC5. SPAC5.2 started the target selection process exploiting the pipeline created by the promoters with SPAC5 but did not close the BC and went into liquidation. Two main factors drove this. The first is related to the change in the regulation of PIRs[88] which dried funds from SPACs. The second, partially linked to the first, was that the share price of SPAC5.2 on the market went below the parity[89] and this opened the way to arbitrageurs, that is, investors who bought the shares the market to gain redeeming them. They were not interested in any proposed BC and would have redeemed in any cases[90]. In order to avoid a reputational loss from the rejection of a proposed deal from the shareholders meeting, the *promoters* decided to liquidate SPAC5.2 buying back the securities even before the beginning of the true liquidation process[91].

[88] In 2019 they were pushed by a legislative amendment to invest more in non-listed assets, and this reduced the capital available to invest into SPACs.
[89] That is the amount to be redeemed to redeeming investors, actualized at the risk-free rate.
[90] These investors often kept the SPAC shares in their BS as cash collateral.
[91] This reduced drastically the recovery time for investors.

5.2.6 Generic serial SPAC: SPAC6

Table 24 Summary sheet for SPAC6. Personal elaboration.

	Summary sheet SPAC6
Team of promoters	Serial team of *promoters* *Promoter1* worked in the strategic consultancy, then became entrepreneur and CEO of a multinational firm *Promoter2* , legal consultant and expert in M&As *Promoter3* , expert in due diligence and M&As *Promoter4,* expert in due diligence and M&As
Investment policy	The *target* should belong to one of the following categories: Family business willing to go public and available to accept dilution in order to get financial resources to finance growth Firms owned by PE funds not willing to invest anymore and for which the listing is a good exit opportunity Not strategic subsidiaries of industrial groups
IPO market	AIM Italy
IPO proceeds	> €100 million
Unit structure	Balanced warrants' assignement at the IPO and at the BC
Warrant characteristics	In-the-money, quasi-cashless
Promoters incentive	Three tranches of special share, one converted @BC and the others st price thresholds, high conversion ratio. Conversion thresholds revised at the BC.
Target macro-sector	Constructions
Target ownership and governance	Family business
Target key figures	> €300 million of turnover, EBITDA margin 20% @BC
Time to announcement	18 months
Time to BC	24 months
BC structure	Merger by incorporation of the SPAC into the *target*
Redemption rate	> 25%
Primary/secondary proceeds	100% primary (just a fraction of the IPO proceeds)
Target Equity pre-money valuation	> €300 million
Multiples	EV/EBITDA: 5.2x P/E: 9.7x
Shareholding structure @BC	> 70% previous shareholders < 30% market < 2% *promoters*
Post-BC governance	Two *promoters* entered the BoD, former CEOs confirmed
Post-merger entity capitalization	> €900 million
Investment return	> 70% for *promoters* , > 15% for investors
Primary sources	Interview with *Promoter1*
Secondary sources	Bebeez.it, press articles, SPAC and target websites, press releases, financial statements, investors presentations, Borsa Italiana

Introduction

A *serial* team of *promoters'* that had already closed before more than one BCs in Italy established SPAC6. SPAC6 collected around €150 million from institutional investors selling units made up by one ordinary share and in-the-money warrants, assigned in a balanced proportion between the IPO and the BC and exercisable after the BC on a quasi-cashless basis. SPAC6 announced the BC eighteen months after the IPO. The selected *target* was a well-established large family firm operating in the constructions sector, and the BC came into force twenty-four months after the IPO. It consisted of a merger of the SPAC into the *target*. The post-merger entity then published the document of admission to have its securities traded on the AIM Italy. Valued more than €300 million at the BC, the *target* capitalizes about €1 billion at the end of July 2021. Its shares and warrants trade on the MTA.

The SPAC establishment, investment policy and fundraising process

The investment policy focused on growth companies in many different industrial sectors. The only industrial sector excluded was the financial one because it requires specific skills that the *promoters* did not have. The policy was coherent with the previous experience of the *promoters* and with their idea of SPAC as a solution for firms with a high potential to go public and raise the money needed for financing further investments without the uncertainties of the IPO process. The promoters founded SPAC6 in continuity with their previous experiences, particularly concerning the structure of the unit and the *promoters* remuneration mechanism, made by special shares to be converted in tranches after the BC. However, differently from the previously established SPACs, SPAC6 was born in a hot period for these vehicles in Italy. The diffusion of PIRs caused an increase in the liquidity available to be invested in listed securities; SPACs benefited from this trend. As a result, the SPAC6 raised at the IPO the triple with respect to the previous SPACs of the same team. Besides, many investors of the previous ventures of the team, who earned a lot from those successful BCs, invested also in this SPAC. The Brand Equity built by the *promoters* in the market proved to be very relevant for the fundraising. Another critical element that enhanced the trust in the *promoters* was that they had always been granted to give back the entire initial investment of €10 to redeeming investors[92], thing that not all the SPACs did.

[92] In the SPACs established until then they always recorded a redemption rate equal to 0%

The target selection process

The *target* selection process undertaken by SPAC6 followed a structured procedure. First, for the firms in the pipeline, with characteristics coherent with the investment policy, the *promoters* started to understand whether the owners and the manager were interested in going public and beginning a growth path. If yes, they carried out the due diligence to discover some hidden problems that could undermine the company's appeal for the SPAC. Then the negotiation of the deal started.

One external factor, two internal factors and a contingency influenced this process. The external factor was the harsh competition between SPACs on potential *targets*. SPAC6 developed its activity in a moment in which a high number of SPACs were listed in Italy. Thus, it could happen that two or more SPACs were targeting at the same moment the same company. In these situations, the companies could auction the SPACs, and the less dilutive SPAC, or the one that proposed the higher valuation, would have won the auction. However, according to what *Promoter1* affirmed, this has not been a big problem for SPAC6 as they found competition only on two potential *targets,* discarded for other reasons. Notably, these firms went public with other SPACs with discrete success[93]. Instead, the first internal factor was related to the nature of serial SPACs *promoters* of the SPAC6 management team. In previous experiences, they contacted many firms that they did not bring public for different reasons. However, they could be potentially interesting. So, at the dawn of the new venture, the pipeline of potential *targets* was still partially full of these companies. This fact is another significant advantage of serial SPAC *promoters*: the origination process is more straightforward, reducing the time required for the whole target selection. Besides, the other internal factor, always related to the nature of serial SPAC, has been the role of the *target* managers of the companies that closed the BC with the team earlier. The *promoters* kept excellent relations with them and exploited them as a "marketing lever" to reassure the entrepreneurs of potential *targets*, telling them their good experiences. The contingency was that a bank pitched to the team the company that then became the selected *target*.

The target and the BC

The company pitched by the overmentioned bank was very appealing in terms of quality of the P&L and international exposure. It was a large family business operating in the construction macro-sector with a CAGR of revenues higher than 20%, an EBITDA margin near 20% and a solid ability to

[93] The source is the interview with *Promoter1*

generate cash flow. Moreover, it was still operating in many countries worldwide and had a track record of good M&As.

The main objectives set about the usage of the SPACs funds were two. The first was to finance the growth through M&As both in Europe and extra European markets, consolidating the position in the core businesses in Italy and entering new complementary businesses. The second was to raise the CAPEX to enhance production capacity and improve the assets' quality. For these reasons, the BC consisted of a reverse merger of the SPAC into the *target.* All the money injected by the SPAC into the target were used for the capital increase. However, the size of the company was not big enough for the size of the SPAC. Thus, a fraction of the money collected at the IPO[94] has been returned to investors as reserves distribution. Notably, in the SPAC investment policy statement there were written that whether *"after the approval of a first BC, the remaining amount of money would be sufficient to do another BC, a partial and proportional demerger can be proposed to the shareholders' meeting"* so that the new SPAC born from the demerger could seek another *target.* However, this did not happen, and the deal closed with the *target* included the distribution of the remaining money as reserves to SPAC investors, as well as the distribution of an extraordinary dividend to *previous shareholders* jointly with the assignment for free of warrants (out-of-the-money) to both SPAC investors and *previous shareholders*. In this way, the investors had the option to invest the money they received back later on and only in the BC would have created value. This innovative solution was meant to align the need of money of the company with the moment in which it would have received these money and to offer a way for investors to gain from the whole initial investment and not from only a portion of it.

Another key feature of the BC deal between SPAC6 and its *target* has been the definition of *performance shares* in the hands of *the previous shareholder.* Such shares would have been cancelled if specific performance targets had not been met. In particular certain share price barriers threshold have been set. This mechanism allows protecting investors from dilution derived from lousy performance and incentivizing the management to operate in the company's interests. Also, the BC deals included a revision in a more market-friendly way of the conversion mechanism of special shares, with an elevation of the price barriers set at the IPO and a linkage of the conversion of the last shares package to the success of the deferred capital increase above discussed.

[94] Net of redemptions that will be discussed later

However, the completion of the BC has been severely put in danger by the number of redemptions rights exercised by dissenting shareholders. At the end of the redemption period following the approval of the BC in the shareholders' meeting, the number of ordinary shares asked back amounted to more than the threshold set in the bylaws (30% of the shares issued at the IPO) that would have triggered the resolution of the deal and, because the deal was closed near to the twenty-four months limit of the SPAC life, the liquidation of the vehicle. As a result, only the intervention of the *target's* controlling shareholder, who bought at the option offering all the shares required to lower the redemption rate under the statutory threshold, allowed the completion of the BC. According to *Promoter1*, this situation happened because, in that period, the market started to think of the SPAC as a *"liquidity parking"*, buying on the market the shares at a price lower than €10 and waiting for the BC only to exercise the redemption right and to exploit an arbitrage opportunity on this risk-free investment, especially in an environment with low-to-null interest rates on government bonds.

After the BC, *Promoter1* and *Promoter2* entered the BoD of the post-merger entity, acting as strategic consultants and bringing their experience to the Board. Coherently with their idea that SPACs are mainly vehicles for bringing good companies public, after the BC, they played only the role of supporting and challenging the strategy and the actions taken by the management. *Promoter1* remarked that SPAC *promoters* could add value to the post-BC entity mainly bringing an external and independent voice (the voice of the market) to the BoD. However, they can also help to deal with M&As and other extraordinary deals thanks to their experience in the field.

Just two years after the BC, the capitalization of the post-merger entity increased by three times with respect to the *target* value at the BC, granting an annual IRR higher than 70% for the *promoters* and near to 20% for the IPO investors. At the end of July 2021, the company's shares trade on the MTA segment Star.

5.2.7 Sectorial SPAC: SPAC7

Table 25 Summary sheet for SPAC7. Personal elaboration.

Summary Sheet SPAC7	
Team of promoters	*Promoter1* , experienced manager in the *target's* sector *Promoter2* , expert of technology applied to the financial industry *Promoter3* , formerly board member of many financial and industrial firms
Investment policy	The *target* should belong to a specific sector. At the IPO the SPAC had already sign a non-binding Letter of Intent (LOI) with a potential *target* .
IPO market	AIM Italy
IPO proceeds	< €50 million
Unit structure	Balanced warrants' assignement at the IPO and at the BC
Warrant characteristics	At-the-money, fixed rate
Promoters incentive	Four tranches of special share, one converted @BC and the others st price thresholds, high conversion ratio
Target macro-sector	Financial and Insurance
Target ownership and governance	Family business open to the market, listed on AIM Italy
Target key figures	> €400 million of Total Assets, < €20 million of Equity @BC
Time to announcement	< 1 month
Time to BC	7 months
BC structure	Merger by incorporation of the SPAC into the *target*
Redemption rate	< 5%
Primary/secondary proceeds	20% secondary / 80% primary
Target Equity pre-money valuation	< €50 million
Multiples	n/a
Shareholding structure @BC	< 70% *previous shareholders* of which < 15% to the *target* founders > 30% market > 3% *promoters*
Post-BC governance	Promoter1 Executive Chairman of the BoD and CEO, *Promoter2* BoD member
Post-BC entity capitalization	> €100 million
Investment return	75% for *promoters* , > 10% for investors
Primary sources	Interviews with Promoter1, Target website, press releases, financial statements, investors presentations, Borsa Italiana
Secondary sources	Bebeez.it, press articles

Introduction

Founded by *Promoter1*, former CEO of two big players of *target's* industry, and the other two *promoters,* SAPC7 collected less than €50 million at the IPO and was listed on AIM Italy. The *promoters* had already signed, before the IPO, a non-binding Letter of Intent with a potential *target* (which then became the actual *target*) and disclosed this information in the securities' prospectus. The offering to public investors regarded one ordinary share and at-the-money warrants, assigned in a balanced proportion between the IPO and the BC. SPAC7 performed the BC with a company already listed on the AIM Italy. The BC was a merger by incorporation of the SPAC into the *target*. In less than eight months, at the end of 2018, the BC became effective, and *Promoter1* became CEO of the post-merger entity, elaborating a new business plan based on four strategic pillars and focused on the pervasive adoption of technological solutions in the firm. Two years and a half later, the company's securities still trade on AIM Italy, and the firm has a capitalization higher than €100 million against a valuation less than €50 million made for the BC.

The promoters and the rationale behind the SPAC

The story of SPAC7 is the story of the deployment of an entrepreneurial project inspired by *Promoter1*. *Promoter1* graduated in Economy. He started as an analyst in big consulting firms focusing on projects for banks and insurance companies. Then he started his career in the financial and insurance sector, working for a famous Italian player. Then, he moved to a multinational group, for which he became the CEO in Italy. Finally, he became the CEO of another Italian company when a PE fund took over its control. During this prior working experience, he entered in contact with the world of PE funds on one side. On the other hand, he started developing the innovative technology-oriented business idea that he cultivated, establishing SPAC7 and running the post-BC entity.

Promoter2, after his graduation in Business Administration, entered an important consulting firm where he started to work with big Italian groups on projects related to digital strategy deployment and application of IoT to new products. He is one of the most influential experts of technology applied to the financial sector in the world.

Promoter3 graduated in Business Economics and, after experience in public administration, he became CEO of the Italian merchant bank of an international group. In addition, he has been a board member of many companies, both in the industrial and the financial world, developing a solid network of contacts during his career.

According to what *Promoter1* said, he adopted the SPAC as a tool to develop his project of an innovative technologically oriented financial firm. At first, he excluded the possibility to launch a Start-up because of its riskiness and the high entry barriers in the industry (also regulatory). Given this, he had to face how to finance his idea and considered the SPAC as an alternative to PE and banking finance. The decision of establishing a SPAC arose from the following four primary considerations.

- Firstly, it allowed the establishment of an independent board and enabled the company's autonomy from other industrial players. These features were coherent with its industrial plan.
- Secondly, it permitted to mobilize liquid capital, having access to the pools of money that could be invested only in listed assets, that were the vast majority of the funds managed by institutional investors and are *"easy to get and easily identifiable"*. The liquidity of the shares reduces the cost of the capital besides increasing the pool of potential investors.
- Thirdly, the performance targets ("shed cost of capital") were lower for a SPAC than for a PE fund. While PE funds required a capital remuneration of around 20%, the SPAC required profitability in the "lower double-digit area", more coherent with the market and the business plan that *Promoter1* had in mind.
- Finally, the SPAC financing gave access to patient long-term oriented capital. While PE funds have a timeframe of their investment of around seven to ten years, the SPAC investors do not have such a limit, so the funds raised are more stable.

In conclusion, *Promoter1* interpreted the SPAC as a tool of *"finance at the service of the real economy".* SPAC7 aimed at creating a public company with an entrepreneur (the SPAC *"dominus"*) at the centre. In the post-BC entity, the management board would have taken all the decisions related to the business strategy without external influences. In contrast, the shareholders would have played the role of supervisors and controllers of the performance, firing the management if it had not delivered the desired results. This organization's design would have been coherent neither with the influence of industrial controlling shareholders (captivity) nor with establishing shareholders' agreements and drag/tag along clauses imposed by PE funds.

The SPAC establishment

The composition of the *promoters'* team was functional to the implementation of the strategy. According to what *Promoter1* said, *"it's clear that there are not three people that decide together to create a SPAC but an entrepreneur who has the 51% and who decides to whom attribute the remaining 49% of stakes"*. *Promoter1* owned the majority of the special shares and decided to bring two key individuals who could add value to the venture on board. *Promoter2* was the ideal partner to enhance the credibility of a technological-oriented plan. *Promoter3* instead, thanks to his developed knowledge network, was the person who identified the *target* and pitched it to *Promoter1*: he was the deal maker.

The unit structure, the investment policy and the fundraising activity

For what concerns the bylaw structure and the SPAC value proposition, the choice has been to go for a standard design and an innovative investment policy. The standardization of the design aimed at facilitating the placement of the securities to investors. A typical structure is easier to be built and easily recognizable by investors. On the other hand, the significant innovation of SPAC7 was to pitch the investors a preliminary non-binding agreement with the *target* at the IPO. This fact provided the SPAC with a strong differentiation element in comparison to the others. In the words of *Promoter1*, who conceived this solution, a preliminary *target's* disclosure was meant to reduce the uncertainty of the investment, enhancing the transparency of the operation and reducing the cost of capital. Reducing the uncertainty embedded into the investment was *"the most important advantage of disclosing the target in advance"*. Furthermore, this innovation improved the speed of execution of the BC, which is a critical element of the success of a SPAC. However, implementing this solution was difficult because of conflicts with legal advisors who did not want to execute it.

During the book-building phase, to avoid opportunistic behaviours from investors seeking arbitrage opportunities investing in SPACs, *Promoter1* leveraged its placing power. It achieved to have *"all investors who were industrial partners, long-term friends, investors I knew during my experiences…"*. The vast majority of these investors confirmed their investment in the company at the BC. As a result, SPAC7 recorded a redemption rate lower than 5%.

The target selection process and the BC

The *target selection process* followed was very peculiar. The SPAC promoters had carried it out before the IPO and in parallel with the SPAC establishment. As aforementioned, *Promoter3* played a crucial role in pitching the *target* to *Promoter2*. Another point is that SPAC7 was a sectorial SPAC focused on a sector with few potential *targets* in the Italian market. In this context, the added value of scouting was very low as few firms met the characteristics required.

The *target* has been chosen for four main reasons. First of all, it had a “synergic business”, which means that its core business could be exploited as a way of access to a broad customer base to kick-off the new entrepreneurial project. Then, it had an acceptable size. With the BC, some of the *previous* shareholders exit the company. Still, the valuation at which they sold their shares to the SPAC permitted the SPAC to inject the remaining part of the IPO proceeds as cash to finance new investments, especially in digital technologies, and revamp the existing business. In fact, it was emerging from a difficult period, and it was “for sale”, available at an attractive price. Finally, there weren’t credible industrial competitors for the acquisition. The target was already listed; this caused procedural complications in the deal definition, but it has not impeded to the BC, even if it was not a feature seek on purpose.

After the BC, SPAC7 shareholders held less than 30% of the post-BC share capital. Still, no shareholder had the majority in the shareholders’ meetings, and the BoD was made by a majority of independent members, with *Promoter1* as Executive Chairman. *In addition, Promoter2* entered the BoD as an independent director and played the role of innovation advisor, contributing to the innovative soul of the company.

Thanks to the BC with SPAC7, the *target* got recapitalized, recovering in this way from a distressing situation. But, in addition to this, it got a new mission and a new business plan, enlarging its business and developing a technology-oriented strategy. Moreover, it recorded an improvement of the financial performance following a revamp of the existing assets. Furthermore, the new management achieved these objectives without firing employees and without moving the headquarter outside of Italy, which were two main risks that the *target* would have undergone in case of a restructuring carried out by a foreign industrial acquirer.

Despite having the securities still traded on the AIM Italy, the post-BC entity paid its first dividend in 2021 and, in the first two and a half years after the BC, it granted an annual IRR (dividends included) near to 75% for the Sponsors and higher than 10% for IPO investors.

Chapter 6: Cross cases analysis, discussion of findings

6.1 Why are SPACs established? A discussion on promoters’ motivations and objectives

Intending to answer the second research question (“Why are SPACs established?”), this paragraph analyses the evidence arising from the case studies to find the reasons why *promoters* establish a SPAC and which objectives they set. Because of the limited number of cases available, the analysis starts with creating a word table that displays and summarizes the data from the individual cases (Yin, 2014). Once built the word table, its examination strongly relies on the argumentative interpretation of data that requires some preliminary considerations.

Understanding the motivations behind the SPAC establishment is difficult mainly for three reasons:

- Problems of definition

For the purpose of this discussion, the motivations are defined as the set of elements that can explain why a person puts in place a series of behaviours to reach some specific objectives. The objectives instead are defined as specific results to be achieved through the behaviours put in place.

- Desirability bias

The data on which this discussion is built upon are collected mainly through semi-structured interviews with the SPACs *promoters*. Given the subjectivity of the topic, the answer given by the interviewed persons can suffer from social-desirability bias. The social desirability in the interviews arises from the *“tendency”* of the interviewed *“to deny socially undesirable traits and to claim socially desirable ones”* and from the *“tendency to say things which place the speaker in a favourable light”* (Nederhof, 1985).

Figure 5 Motivation, behaviour and objectives, theoretical framework. Personal elaboration.

To deal with this bias:

- Neutral questions: the questions asked during the interview were not the direct translation of the research question ("why did you establish a SPAC?") but more indirect and neutral ("from where the idea of establishing a SPAC arose? Which were the dynamics behind the creation of the SPAC?"). This procedural way is also coherent with the distinction between level one questions (the second example) and level two questions (the first example) outlined by Yin (2014).
- Anonymity in the reporting of the cases. Granting anonymity to the interviewed can reduce the likelihood of desirability bias as the reader of the case cannot judge him without knowing his identity
- Use of secondary sources additional sources of evidence to confirm or contradict the information extracted from the interviews and to integrate these data with other possible findings following the principle of triangulation of multiple sources of evidence (Yin, 2014) (Nederhof, 1985). In particular, checking the motivations and objectives as arisen from the interviews with the actual involvement of the *promoters* in the post-BC entity, it can be developed a more objective and valid interpretation of the data.

These solutions implemented both in the data collection and analysis phases aim to enhance the quality of the research findings.

- Unconscious motivations

Despite the effort in presenting objective and complete results, people do not have a clear motivation for some behaviours. In these cases, the reasons behind certain behaviours are hidden, and neither the data collection through interviews nor the triangulation with other sources of evidence can disclose them. Further research on the topic requires a psychological investigation, which is outside both of the competences of the researcher and of the scope of this study.

Table 26 Promoters' motivations and objectives, table of words. Personal elaboration.

Cases (*n* = 7)	Promoters' motivations	Promoters' objectives
SPAC1, generic	To act as a principal and investor To introduce an innovation with high potential in the Italian ECM To exploit the opportunity of high liquidity in the Italian economic system available to be invested into liquid assets To offer to entrepreneurs an alternative to PE financing that did not involve shareholders' agreements and *drag/tag along* clauses	"To see the stock price skyrocketing and to make money"
SPAC2, generic	To solve the problem of too many small, good quality firms that do not growth in Italy	"To bring public an Italian SME"
SPAC3, sectorial serial	To enter the *promoters'* team of a new SPAC after having been a SPAC investor Uniformity of visions between a previously SPAC *promoter* and a formerly CEO of a big company in the F&B sector	"To deliver the BC and make a lot of money if the post-BC share price increses"
SPAC4, generic serial	Natural consequence of the previous successes of the *promoters* team	"To deliver a successful BC and gain money on the price increase"
SPAC5, institutional generic	To exploit a market opportunity derived from the diffusion of PIRs	"To create and launch innovative tools of equity investment"
SPAC6, generic serial	To provide an alternative to the IPO for SMEs willing to go public	"To bring public an Italian SME"
SPAC7, sectorial	To finance an entrepreneurial venture independent from industrial groups and PE funds, mobilizing patient liquid capital with performance targets in line with the business profile	"To develop an entrepreneurial idea"

Table 26 shows that both the promoters' motivations and objectives in establishing a SPAC proved to be very heterogeneous.

In some cases, the main objective that *promoters* want to achieve establishing a SPAC is mere financial gain. This is, in general, true for those *promoters* who have a solid financial background and see the establishment of SPACs as a serial activity. For them, the main motivation is extrinsic and coincides de facto with the possibility of earning a lot of money from a successful BC thanks to the mechanism of conversion of special shares. In some cases, this is the only motivation. In some other cases, instead, it goes hand by hand with intrinsic motivations, such as the willingness of acting as principals investing their own money in the venture or the aspiration of bringing innovation into the market. It must be remarked that establishing a SPAC is a hazardous activity because *promoters* do not get any salary at least until the BC and have to make an initial investment to pay all the expenses in which the SPAC incurs during its operating activities. Moreover, if the *promoters* fail to deliver the BC, they can suffer huge losses and can be done out of business even in the future (due to reputational losses). But, if the BC is delivered and the *target* creates value after it, the financial returns for the *promoters* can be astonishing (as analysed in chapter 4). Thus, it is an investment with a high risk and a high return which requires a relevant initial availability of money and a high risk-propensity.

In other cases, the objective declared by the interviewed *promoters* instead is to bring an Italian SME public. This objective has been declared by *promoters* with experience as top managers of industrial companies. With this aim, they establish a SPAC as they believe it is a vehicle suited for the Italian economic context and has many advantages compared to a traditional IPO. Another related situation is that of institutional SPACs. From the empirical analysis it emerges that they have other objectives than the financial gain. In particular, in the case of institutional promoters, the establishment of a SPAC follows a different logic. It aims to diversify and amplify the portfolio of products offered, get new customers, and create and launch innovative tools of equity financing. In both these situations, the objectives of establishing a SPAC go beyond the mere financial gain and responds to personal aspirations or organizational goals. Thus, in some ways, the SPAC establishment is a way through which the *promoters* try to pursue a personal or organizational mission.

Finally, another objective of the *promoters* emerged by the multiple case studies was the willingness to establish a new *entrepreneurial venture*. In these cases, the motivation behind the SPAC establishment is the need to find a suitable financing tool for the project.

Across the three depicted situations, the differences are so big to justify creating of three different categories of SPACs.

In the first case, for the *promoters,* establishing a SPAC is a job per se. Their main objective is getting a huge financial gain (coherent with the risks they take) and delivering a successful BC, and their main job ends once they have done it even if their remuneration is linked to how good the target is and how much value it will generate afterwards. In general, this kind of *promoter* tends to be serial and to have a low-to-null involvement in the post-BC entity's governance. For the purpose of the research, these situations are clustered under the SPAC-as-an-end (SAAE) paradigm. Within this cluster of SPACs, there are cases in which the *promoters* have other objectives over and above the mere financial gain. The empirical evidence showed that these additional objectives could be personal if individuals make up the SPAC or organizational if one or more institutions establish the SPAC. In both cases, the motivations and objectives are related to finding a problem or exploiting a market opportunity. The involvement of *promoters* in the post-BC is heavier and its modalities are related to the achievement of the mission[95]. For the purpose of the research, these situations are clustered under the SPAC-as-a-mission (SAAM) category. The SAAM category belongs to the SAAE paradigm, which encompasses a predominance of the financial objectives over the industrial ones and a light involvement in the post-BC entity of the *promoters.*

In the second case. instead, the *promoters* only see the SPAC as a tool to finance their entrepreneurial project. Thus, their job starts once the BC is delivered as they take an executive role in the post-BC entity. For this reason, the financial objective embedded into the SPAC takes a back seat. Obviously, the relevant involvement in the post-BC entity precludes to these *promoters* the possibility to establish other SPACs and is remunerated through a salary as director or manager. In this case, the *promoters* adopt a SPAC-as-a-tool (SAAT) paradigm, which encompasses the predominance of the industrial objectives over the financial ones and heavy involvement in the post-BC entity of the *promoters.*

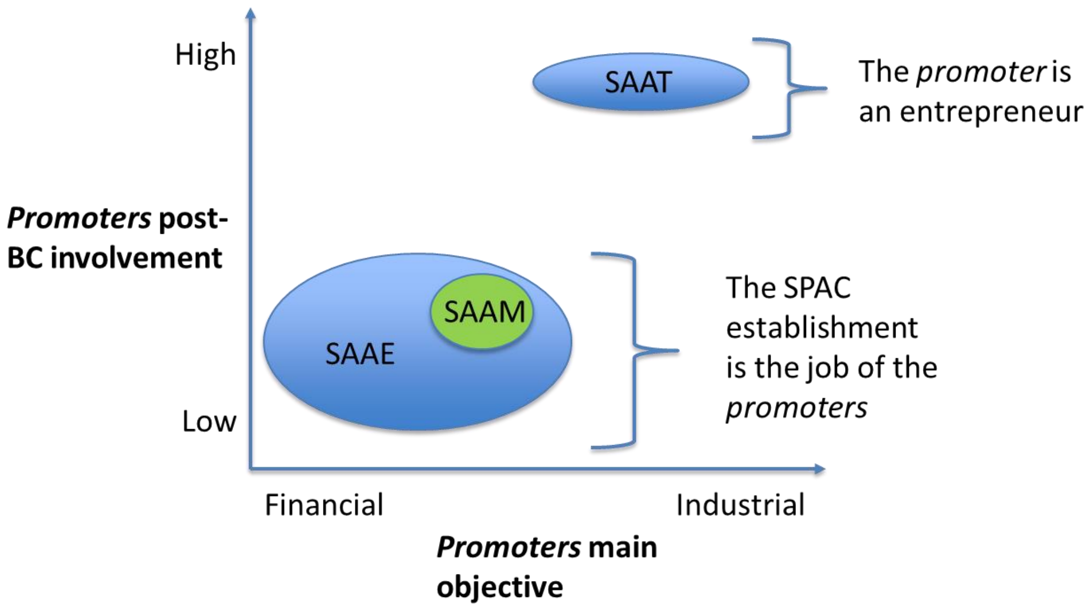

Figure 6 SAAE and SAAT: classification of SPACs according to the promoters' main objectives and their involvement in the post-BC entity. Personal elaboration.

[95] For instance, in the cases of SPAC2 and SPAC6 the *promoters* kept in touch with the *targets'* managers and exploited the good relations built with them as a marketing tool to convince other reluctant entrepreneurs to go public with them, coherently with their mission of bringing Italian SMEs public.

6.2 How do SPACs create value? The SPAC's value chain

Once understood the reasons behind the creation of the SPACs and the objectives that *promoters* set to launch these ventures, this paragraph aims at understanding how they can reach them through the activities carried out during the whole life cycle of the SPAC. In the previous paragraph has been defined what for *promoters* value is. This paragraph shows how this value is pursued and can be reached. For this purpose, the first step has been identifying all the activities and functions that, interrelated between them, are meant to create value for the SPAC. Figure 7 shows the elaboration of the SPAC value chain. The vale chain concept is derived from Michael Porter (1985) and applied at the firm level. The analysis of the cases brought to the identification of the following primary and support activities.

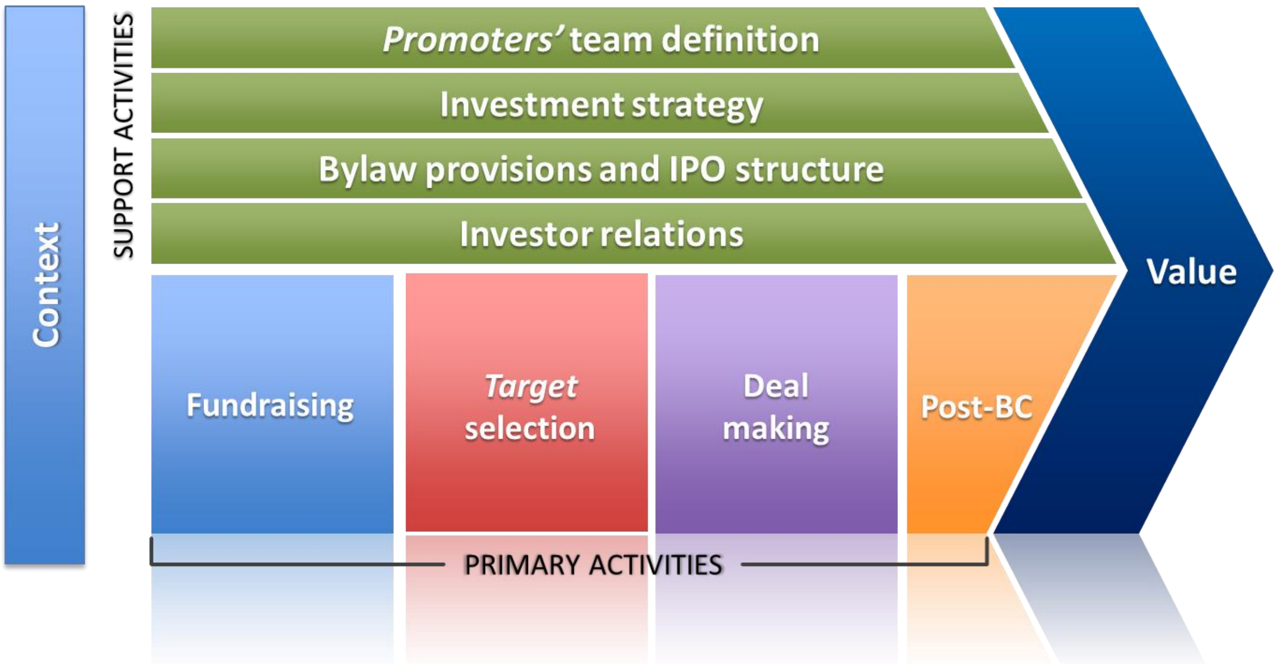

Figure 7 The SPAC's value chain. Personal elaboration.

The primary activities are essential to add value and create a competitive advantage for the SPAC.

- Fundraising: fundraising is defined as the activity carried out before the IPO to collect from institutional investors the money that will be used for the BC. It ends at the IPO with the listing of the SPAC securities on the stock market.
- Target seeking (or selection): it refers to the origination of the potential *targets*, their screening, the due diligence and the valuation. It ends with the identification of a suitable company for the BC.

- Dealmaking: it comprehends the set of activities carried out while negotiating a BC deal with a potential *target*. The dealmaking refers to the strategic and technical solutions implemented in the BC and proposed to the investors to be approved. The dealmaking ends with the BC announcement and its presentation to the investors.
- Post BC: it refers to the activities carried out by the SPAC *promoters* in the post-BC entity, to their role as managers or owners of the post-BC company and to the relations between the *target* stakeholders and the SPAC *promoters* that are established once closed the BC deal.

The support activities instead are those that help the primary ones to be more efficient and effective. Improving one support activity should improve the efficiency of at least one primary activity. They also constitute the structure over which the primary activities are built.

- *Promoters'* team definition: it refers to how the team of *promoters* is composed, to the competencies and the human capital of the team members and to the roles they cover in the SPAC. It is crucial as the *promoters'* team is the only asset (beyond the cash) that a SPAC has and as the vast majority of the other activities are done by the *promoters*, although supported by consultants and advisors selected by them.
- Investment strategy (or policy): defines the principles followed by the *promoters* while carrying out the research of a *target* and while negotiating with potential candidates the terms and conditions of the BC deal. It is also the *promise* that *promoters* make to the investors. The strategy is disclosed on the SPAC website and in the IPO prospectus.
- Definition of bylaw provisions and IPO structure: it refers to the design of the SPAC structure. This activity involves the design of the securities offered to investors at the IPO and of the securities bought by the *promoters*, with their characteristics in terms of type, number, price and rights granted to their owners. The outcome of this activity is the drafting of the SPAC bylaw and of the securities' regulation and the publication of the IPO prospectus.
- Investor relations: being a listed company, a SPAC must set up an IR office. For the SPACs, in which the effectiveness of the BC is prone to shareholders' approval and to a redemption threshold (as in the case of Italian SPACs), this function is crucial.

Behind these activities, the cross-cases analysis also considers the context, which has a relevant impact on how both the primary and support activities can be carried out. Context factors refer to systemic elements and to market factors, such as the maturity of the market of SPACs and the level of competition.

6.2.1 Investment strategy: the SPAC's ID card

One of the characteristics of the SPACs is that being investment vehicles, in the prospectus of the securities issued at the IPO, they disclose information on the investment strategy that they will follow. The *promoters* give information about a company's prerequisites to be an interesting candidate for the BC in the investment strategy statement.

Common to all the cases analysed, the ability to generate stable and growing cash flows together with a solid competitive position in the core business are features appreciated by Italian SPACs. Also, a high attractiveness of the business, usually translated into the requirement of high entry barriers in the *target's* business, is generally required. Another information frequently stated in the SPAC investment policy regards the company's size, measured through its Equity value. The size must be coherent with the amount of money raised at the IPO (also considering a redemption rate as high as the limit threshold) to allow for full utilization of the proceeds and for reaching the desired post-BC ownership structure (balanced between the *promoters*, the market and the *previous shareholders*). In this regard, usually, the investment policy of SPACs foresees the acquisition of a minority stake in the *target*. However, the promoters may be open to acquiring the majority of the *target.* This was the case of SPAC3, in which the presence in the team of the *promoters* of a former CEO of a big industrial company left open the possibility that the SPAC would have taken control of the *target*. However, this possibility did not materialize. It can be argued that a more flexible investment policy, open both to the acquisition of a minority stake and the control of the *target*, can improve both the *target selection* and the *deal-making* processes and increases the likelihood of closing the BC. A flexible investment policy must be enabled by the characteristics of the *promoters* and their vision of the SPAC. On one side, at least one *promoter* shall have specific managerial and industrial competencies; that is, he shall be at least a former manager, better yet if they maturated experience in the *target* sector. On the other side, the *promoters* have to interpret the SPAC not only as an end but also as a tool (SAAT) and to be available for a heavy involvement, eventually in executive roles, in the post-BC entity.

Another information usually disclosed in the investment policy is the desirable sector in which the *target* should operate. Still, in the case studies reports, the SPACs are classified as generic if they target more than one sector and sectorial if they target one specific industrial sector. The distinction between sectorial and generic SPACs has substantial managerial implications and impacts how the SPAC can create value. In fact, a sectorial SPAC can provide investors with a better way to allocate their money. From this discussion, it emerges the hypothesis that the investors more appreciate sectorial SPACs. Thy hypothesis deserves to be empirically tested; however, it is reasonable for the following motivations. Firstly, if the investors know that the SPAC in which they invest will seek a *target* in a specific sector, they will be better able to diversify their investments. It is worth remarking that for Italian SPACs listed on the AIM Italy, only institutional investors can participate in the IPO, and usually, their allocation strategy and procedure include the sector as a parameter to allocate the money. Therefore, a sectorial SPAC shall suit better the decisional process of these institutional players. Secondly, the logic of sectorial SPAC is coherent with the idea that the diversification of risks should be carried out at the level of the investors, while the investees shall focus on doing their core businesses most efficiently and effectively possible. A targeted investment policy, if supported by a suited structure of the SPAC, may guarantee a better development of the activities aimed at creating value.

The empirical evidence shows that in both the cases of sectorial SPACs (SPAC3 and SPAC7), at least one *promoter* had a strong track record in the sector identified in the investment strategy and that the setting of the strategy was derived from the presence of these *promoters*. This is particularly true for SPAC3, which *promoters'* team was made up of three individuals with competencies in PE, M&A, Investment Banking and strategic consultancy and only one with previous experience as CEO in one of the most important multinational operating in the Food and Beverage sector: this last fact drove the choice of the sector of specialization of the SPAC. More than this, the presence of the *promoter* with specific knowledge in the field positively impacted the *target selection process*, specifically due to the possibility of better understanding the business plans of the potential *targets* and verifying whether they were realistic and feasible. The firms' valuation has been very deep and accurate. Also, it granted higher credibility during the negotiation with the companies and provided flexibility to the investment strategy discussed above in this paragraph. From the interview with the *Promoter3* of SPAC3, it emerged that they were able to *"show the full potential of the SPAC"* to the companies. That means they could offer specific and tailored financial and industrial solutions that could go from the acquisition of a minority stake with low involvement in the post-BC to the takeover of the firm, from the restructuring of the financial structure to the completion of a merger with a competitor or with another player of the supply chain. It can be argued that a sectorial SPAC, backed by strong sector-related competencies of the *promoters*, can be more appealing to the investors, credible and flexible for the *targets* and can carry out the *target selection process* in a more efficient way with respect to a generic SPAC. The relevance of specific competencies in the *target* sector is magnified whether the *promoters* adopt a SAAT paradigm. In this case, the *promoters* want to become the target managers and define a new business plan. In the case of SAAT, the disclosure of the *target's* sector is a condition sine qua non for the project's credibility both for the investors and for the potential *targets*.

However, if the *promoters* adopt a SAAE, in Italy the efficiency of a sectorial SPAC may be undermined by the littleness of the corporate market. As discussed, in the cases of SAAE, the *promoters* have low-to-null involvement in the post-BC entity, see the establishment of a SPAC as a job which is concluded once delivered the BC and have as main objective the increase of the share price after the BC. For this last reason, they want to find the company on the market which is willing to go public with the highest discount possible on its theoretical value. For them, thus, limiting the research of a potential *target* in only one sector is a constraint that can prevent the conclusion of more advantageous deals. If this downside of sectorial SPACs can be acceptable in big corporate markets, such as in the USA or at the European level, in a tiny market like the Italian one, limiting the research of the *target* to one single sector can be problematic for this view of the SPACs.

Another possible approach to the investment strategy provides that the potential *target* shall be identified before the IPO and disclosed simultaneously to the public offering. For many years this has been a taboo for SPACs in Italy. The standard practices provided that the *target* should be identified and disclosed to the market after the IPO. However, there are no rules in Italy that forbid SPACs to go public with already a *target* in mind, either with a non-binding agreement or a binding one signed. The empirical evidence coming from SPAC7 shows that disclosing the *target* at the IPO reduces the uncertainty related to investing in a SPAC for IPO investors and speeds up the whole process that leads to the BC. On the other hand, it exposes the *promoters* to the risk that the agreement will not be concluded, and, in this case, it can be challenging to begin a new *target selection process*, and the new deal proposed to investors can be seen as a clear "plan B" and lack of credibility. To cover from these risks, the *promoters* may think to sign a binding agreement before the IPO of the SPAC, but this would expose the *target* to the market risk typical of a traditional IPO without allowing the *target* owners and managers to evaluate the quality of the book in advance[96].

From this discussion it emerges that SPACs can adopt different investment policies in terms of flexibility of post-BC ownership and governance, focus on a specific sector or openness to more than

[96] See the discussion of the benefits of a SPAC with respect to a traditional IPO for the *target* in paragraph 6.2.7

one sector, disclosure of the *target* at the IPO or after it. The strategic choices made at this level are driven by the objectives and the characteristics of the *promoters* team and influence all the other primary and secondary activities of the SPACs value chain.

6.2.2 Bylaw provisions: a sophisticated vehicle

Establishing the SPAC, the *promoters* have to decide the terms and the conditions of the securities offered to the market and those bought by them. The data gathered during the research shows that the definition of the unit's structure and the promoters' incentives play a relevant role in the *fundraising* and deal-making processes.

From the case studies analysed, it emerges a significant point. Whenever the definition of the so-called "bylaws provisions" were not meant to add value for the SPAC, the *promoters* tried to standardise them as much as possible. This, for example, was the case of SPAC7, with the leading *promoter* who followed the SAAT paradigm and judged that adopting a standard structure would have been better for investors, who still had to recognise and understand the innovation introduced in the investment policy. On the other hand, adding another complexity would have been counterproductive.

Also, from the cases, it emerges that, whenever the structure chosen by the *promoters* was standard, the only variables were selected in cooperation with the Global Coordinator and were based on a market analysis. The easier the collection of the money, the lower the incentive, in the form of warrants given to the investors. The more the competition between SPACs on potential *targets*, the lower the dilution that *previous shareholders* would have accepted. In fact, when the market of SPAC is highly competitive, the *targets* may put the SPACs in competition and, in these cases, the one that grants the lower dilution to *previous shareholders* (in the form of warrants freely assigned to IPO investors and conversion of special shares) is the one that wins and closes the BC. The higher the competition on *targets* and the easier it is to raise money at the IPO for SPACs, the lower the warrants assigned freely with the ordinary share and the lower the conversion ratio of the special shares.

Besides the considerations on the market competition, the mechanisms of assignment of warrants and conversion of special shares are meant to provide the *promoters* with a suitable incentive to find a good *target* and align the interests of *promoters* and investors (Chatterjee, et al., 2016). As highlighted analysing the performance of Italian SPACs, the warrants assigned at the IPO, that even redeeming investors can keep after the BC, can provide them with a strong incentive to behave opportunistically and to redeem their shares independently from the quality of the proposed deal, keeping a *"free ticket for the lottery"* that can grant even remarkable gains if the post-BC entity creates value. It is mainly for this reason that at first, the mechanism of deferred warrants was introduced and, then, the proportion between warrants assigned at the IPO and assigned at the BC (only to non-redeeming investors) moved in favour of the latter. For what concerns the conversion of special shares instead, they are meant to align the interests of investors and *promoters*. One of the critical elements of the value proposition of a SPAC for the investors is, in fact, that the *promoters* do not get any money (in the form of management fees) during the *target selection* phase and only gain whether they achieve to deliver a successful BC, that is, they gain money only if also investors do. This is only partially true. Again, the performance analysis shows that *promoters* can gain significant returns even if investors are losing money in the investment. This problem is also analysed by Kolb and Tykvova (2016) and, more recently, by Klausner et al. (2020) and discussed in the literature review. To mitigate the problem, during the time, the conversion ratio has been reduced while the conversion threshold has been increased.

The analysis of the cases highlights how the SPAC *promoters* introduced in the provisions of the bylaw some innovation meant to improve the attractiveness of the SPAC toward investors, strengthening its competitive position. For instance, SPAC3 and SPAC4 included in their bylaws the possibility for IPO investors to withdraw from the investment even before the announcement of the BC, exercising a put option and selling the shares bought to the SPAC, with a haircut on the initial price which was variable according to the moment in which the put option is exercised. As described in the case, this solution solved the lack of liquidity of the shares traded on the AIM Italy, which hindered the theoretical advantage of investing in a SPAC, that is, the possibility to liquidate the investment at any moment. Also, SPAC6 adopted a mechanism of conversion of the special shares thanks to which the *promoters* would not have gained a positive return yet at the BC, but only if the share price would have increased afterwards and exploited this solution as a competitive lever for the fundraising.

The discussion on SPAC's bylaws provisions shows how they were introduced from the USA and adapted slightly to the Italian legislative environment. Their evolution followed the evolution in the USA too and was driven by market forces (the competition during the fundraising and the *target selection*) and by the willingness to solve problems that arose time by time for SPACs (opportunistic behaviours from investors, lack of liquidity of the shares and misaligned incentives between *promoters* and investors). The definition of the provisions of the bylaw can create value either through their standardisation or innovation. The standardisation makes the investment in a SPAC easier to understand and accept by potential investors, reducing the information asymmetry and complexity. The definition of a standard structure of the SPAC derives from the experience of the GC and the analysis of the market. To standardise the structure of the unit offering, the mechanism of conversion of special shares and the other provisions (above all, the redemption right) is a valuable solution, especially in SAAT cases. The innovation instead shall be meant at solving problems that undermine the efficiency and the effectiveness of the SPAC in delivering a good BC. The empirical evidence shows that the innovations are generally introduced by *serial* and *institutional promoters,* can be used as differentiation tools, and proved valuable, especially for SAAE.

6.2.3 Investor relation: under the market scrutiny

Once the BC deal with the *target* is closed with the signature of the "master agreement", the parties involved in the transaction have to disclose it to the market. In particular, for the SPAC this is a requirement imposed by the market authority. Together with a press release, which informs about the characteristics and the details of the agreement, the *promoters* and the *target* usually prepare a BC presentation for the investors. The information disclosed in the presentation is discretionary[97] but usually includes the history of the *target*, the description of its governance and ownership, the explanation of its business and its competitive position and a business plan with its strategy, goals and lines of action. Moreover, the presentation depicts the technical elements characterizing the BC deal and how the proceeds from the deal will be used. As in the case of an IPO, the *target* and the SPAC *promoters* have to sell the transaction to investors. It must be remarked that, at the moment of the BC announcement, the SPAC investors have all the right to vote against the proposed deal and to withdraw their money. This is an important point: while negotiating with the *target*, the *promoters* do not have the money but may have the money available whether a sufficient fraction of SPAC IPO investors or any other investor that bought the SPAC shares in the meanwhile, appreciate the BC and stick on it with their money. Thus, after the announcement, a roadshow starts. Thanks to the interview with a top manager of SPAC3, this research provides insights into how this roadshow happens and the differences with respect to a traditional roadshow for an IPO.

[97] Even in the USA the information disclosed at the BC announcement about the *target* are not disciplined by the regulators.

After a plenary session in which the investor presentation overmentioned is disclosed and explained to all the SPAC shareholders, the representatives of the *target* and of the SPAC meet the individual investors during focused meetings. According to the interviewed manager, only those investors who were critical for the success of the BC and those who expressed doubts about the deal and wanted better clarifications after the plenary session were met. Having a pre-identified pool of investors, instead of the whole universe of investors that theoretically can buy the securities at an IPO, allowed to reduce the time and the effort required during the roadshow while dedicating more time to specific problems and investors. This, jointly with the fact that the negotiation of the deal was carried on in a private form, allowed the *target* management to waste less time in the process and to keep more the focus on the operating activity of the firm with respect to what would have been happened during a traditional IPO process.

The case of SPAC1 showed another interesting point on how direct can be the relation between the *promoters* and the investors. The former can receive immediate feedback from the market when they announce a deal and try to adjust or modify the situation in a more favourable way. Unfortunately, this sometimes can also mean that thanks to their position of strength derived from the redemption right, investors can blackmail the *promoters*.

Talking about the direct relationship between the *promoters* and the investors, the interviewed *promoter* of SPAC5 said that, after the split up, they were aware that many investors would not have voted in favour of any BC. In fact, many of the investors were arbitrageurs that kept the SPAC shares as cash or cash equivalent in their balance sheets and could not stick with a long-term investment. The *promoters* knew this fact and decided to liquidate the SPAC without even announcing the BC.

While after the BC announcement, the relations with investors are critical for the above-described reasons, before the announcement they suffer from the obstacles to the communication imposed by the rules of price-sensitive information disclosure for listed companies. The *promoters* cannot talk about it to anyone during the target selection and cannot test the market feeling for a specific company or a specific sector. This can be a problem as after the signing of the binding “master agreement” the terms of the deal cannot be changed, exposing the *promoters* and the *target* to higher uncertainty and risk with respect to a situation in which the sentiment of the market was tested before.

The activity of keeping the relations with the investors continues even after the BC, when the *target* becomes a listed company. In general, SPACs' *targets* are private companies[98]. Thus, they do not have experience in dealing with the market. Thus, the support of the SPAC in establishing the IR function is a value added that the BC can bring to the *target* (see the paragraph related to the post-BC involvement for further discussion about this topic).

6.2.4 Promoters' team: the core asset

The team of *promoters* is the only asset (besides the cash invested by them and the cash raised at the IPO) of a SPAC. The *promoters* are responsible for the SPAC establishment and the development of the majority of the SPAC activities and do not receive any remuneration until the BC.

The SPAC *promoters* must be well known and highly credible individuals or firms. This fact derives from the "blank check ghost" that haunts SPACs. The reputation of *promoters* is the first guarantee to investors that the money put in the SPACs are safe and will not be used fraudulently. The skills and competencies of the *promoters* instead are the guarantee that the money invested in the SPAC will be employed to create value. The number of members of the *promoters'* team in the analysed cases ranges between three and six. The *promoters* have different backgrounds and objectives. The discussion about the *promoters* follows the classification of SAAE and SAAT made before.

SAAE: complementarity of skills and teamworking

Analysing the cases classified as SAAE (from SPAC1 to SPAC6), the majority of the *promoters* had a strong financial background. In particular, in all the cases, at least one of the most important *promoters* had an important track record either in the PE or in executing M&As. This highlights how the SPAC is a financial tool, established and run by people who developed their careers in the finance industry. It is worth recalling what the *Promoter1* of SPAC1 (one of the pioneers of SPACs in Italy and one of the most active SPACs' *promoters*) said during the interview about the competencies that, according to him, a team of *promoters* should put together. He stated that the components of the team should primarily have important experience in the PE, because the transaction that a SPAC carries out with the *target* is very similar to what a PE fund does investing into firms and because they usually have developed a network of knowledge of potential investors that can help the fundraising process of the SPAC. Moreover, they should have experience in due diligence and M&A transactions. People who work in this field have experience of deal-making and *"have a pipeline of potential targets"* from which the SPAC can benefit especially during the *target selection process*.

[98] In the cases analysed, only SPAC7 targeted a company that was already listed.

Also, they must know about the financial markets and stock exchanges regulations, which is important both during the life of the SPAC, which has the nature of a listed company, and after the BC, when they can support the post-BC entity in dealing with the market regulators and requirements. Starting from this framework and building upon the empirical evidence, it can be argued that *promoters* with an outstanding industrial background can benefit the SPAC. First of all, they can create a better personal connection and empathy with the *targets'* managers and owners. *Promoter1* of SPAC2 has been for many years the CEO of an important company and affirmed that, during the negotiations of the BC deals, he *"spoke the same language"* of the *targets*' entrepreneurs, and this helped the closing of the transactions. Also, the presence of a *promoter* with an industrial background can help conveying the message of the SPAC as a finance tool in the service of the real economy, and not vice versa. Another illuminating example of how the industrial knowledges can support the value creating ability of a SPAC is the case of SPAC3. The presence of a formerly CEO of a relevant firm in the F&B sector has been determinant to give flexibility to the investment policy and significantly improved the valuation process (see the case report). A final remark about the *promoters'* skills regards the possibility of strategic consultants and legal experts to enter the founding team of SPACs, providing it with technical knowledge and bringing into it the personal network of knowledges.

As said, the credibility and the appeal of the *promoters* is crucial to raise the money needed for the BC. *Serial promoters* seem to have a big advantage with respect to *promoters* at their first experience. The main innovations in the SPAC structure arose from *serial promoters*. Moreover, they can exploit the pipeline of potential *targets* built in the previous experience and their brand equity derived from past successful BC to increase their negotiating power towards firms and investors.

Promoters shall be highly skilled, with a high-risk propensity, the possibility of working for two years without getting a salary and an important loss-absorption capacity. An *institutional promoter* can grant to have these features. Moreover, a security firm can be more independent from advisors, carrying out many activities (such as the listing) internally, saving costs; and it can provide the *target* not only with the support of the individuals who establish the SPAC but also with the competencies of the whole organization.

Talking about the coordination mechanisms, they are more similar to the ones of a start-up than to those of a classic firm. The *promoters* work jointly at a project, with a given amount of financial resources (their investment as working capital and the IPO proceeds to be deployed at the BC), a time constraint given by the bylaw and by the listing requirements and the human resources embedded in the team. In general, it seems that they prefer to adopt informal coordination mechanisms, without any writer shareholders' agreement and to exploit the flexibility and the dynamism that only a small team of close-knit people can grant. However, from the analysis of the case of *institutional* SPAC, it seems that it entails more rigidity and the need for clear behavioural rules for the team member. This is an interesting point because theoretically the *institutional* SPAC have some big advantages over the SPAC established by the individuals, but it seems that it requires a quite different organization, especially when it is built upon a joint venture of two different firms.

SAAT: the entrepreneur-dominus

For SAAT the discussion is quite different. The SPAC in this case is just a tool in the service of an entrepreneurial project. The entrepreneur is a SPAC's *promoter*, who establish the SPAC as the *dominus*. It means that he has the majority of the founding stakes and the control of the BoD. Thus, he can decide in autonomy about everything, from the investment policy to the selection of the *target*. The role of his network of knowledge and charisma is even more important than in the SAAE case, as he has to "bring on board" as investors people who believe in his entrepreneurial talent and his ability to build something new. What seems to be more important for investors in these cases is the quality and credibility of the industrial plan, and it can benefit from the disclosure in advance of the potential *target*. While scouting *targets* is crucial in the SAAE cases to deliver a valuable BC, it is not so relevant for SAAT. The *dominus* of a SAAT takes an executive role of primary importance in the post-BC entity and must have the managerial skills to cover it at the best. Having previous outstanding experiences as top manager of important firms in the same industry is very important.

However, also the *dominus* requires some support. In part it derives from the joint *promoters*, whom the dominus define according to their functionality for the entrepreneurial project. In part it derives from the advisors and the intermediaries (such as the GC and the legal advisors) that help him in executing the operations necessary for running a SPAC (such as the listing procedures and the drafting of the BC deal).

To conclude

In conclusion, it can be argued that the definition of the *promoters'* teams and the functioning dynamics vary between SAAE and SAAT. In the first case, in which the financial gain is the predominant objective of the *promoters* they shall follow the principle of efficiency. The *promoters* should carry out the majority of the activities internally to minimize the initial investment requirement and enhance the return from a successful BC. In this perspective, the complementarity and completeness of skills are desirable, and the *promoters'* teams tend to be more numerous as it allows to internalize skills that otherwise must be acquired on the labour market (mainly by consultants). Always in this perspective, the seriality can enhance the efficiency in carrying out the activities thanks to the learning effect of *serial promoters* and the reputational boost. It can be argued that *institutional* SPACs should be the most efficient because they can rely on a wide pool of resources internal to the founding firms[99]. However, it seems that they require formal coordination mechanisms between *promoters* that can hinder the flexibility and dynamism of the SPAC.

For SAAT instead the main focus should be on the effectiveness, which means it must care mostly about closing the BC deal and establishing a new entrepreneurial venture. SAAT *promoters* are basically entrepreneurs and shall build a team of people able to support their entrepreneurship venture and make use of the best consultants and advisors for reaching their goal of establishing a new venture.

6.2.5 Fundraising: the right amount of money from the right people

Fundraising is the activity through which the SPAC raises the money required to engage in the BC. The SPACs perform an IPO to raise the money from investors and make a capital increase, and the IPO process is regulated by the market authorities and by the managers of the stock market where the securities issued at the IPO will be listed. Besides the regulatory requirements which impose the disclosure of certain information and the publication of certain documents to the issuer of the securities, the fundraising process in a SPAC can take different forms. It can be carried out before the beginning of the *target selection process*, during it or even after. The first case is the *"*traditional*"* situation for SPACs, which issue their securities without disclosing the identity of potential *targets* and before starting the search and the negotiation with any of them. In the second and third cases instead, the SPAC discloses at the IPO the identity of the company with which it has a non-binding (second case) or binding (third case) agreement to complete the BC. In these situations, the *target selection process* is carried out in parallel with or in advance of the fundraising and the potential investors at the IPO can evaluate the quality of the *target* before buying the securities[100].

[99] SPAC7 for instance did not pay the IPO underwriter as one establishing firm played this role.
[100] The case in which the SPAC signs a binding agreement with the *target* before the IPO is called *"accelerated BC"*. In Italy only one SPAC (out of the cases studied) performed an *accelerated BC*.

The analysis of the case studies allows discussing how the *promoters* dealt with the challenge of raising money and which factors influenced this activity. The objective of fundraising is to collect the right amount of money from the right people.

The right amount of money…

The right amount of money means the quantity suited to conclude the BC. The risks related to the quantity raised are both the over and the under collection. The under collection is the worst risk as it may hinder the listing of a SPAC. Even if the capital increase is usually done with a *"soft cap"*, the *promoters* set a minimum amount of money to be raised, coherently with what they think will be required at the BC, under which the capital increase, and consequently the SPAC itself, is aborted. So, the first and main problem that *promoters* have is to attract investors. There are structural elements that make the investment in a SPAC attractive for some types of investors. Among these, the most relevant are the free assignment of warrants at the IPO, which is basically a *"free ticket for the lottery"* that can grant to the holder a strong upside on the post-BC entity, the redemption right associated to the possibility to vote for or against the BC proposed by the *promoters*, which leaves the control over the BC to the shareholders and protects from losses in case of *bad* BC, and the liquidity of the securities, which are traded on an exchange venue even before the BC. These statements, already highlighted by a good portion of the literature on SPACs, are confirmed by the analysis of the cases of this research.

But, there are also idiosyncratic factors that make attractive for investors a certain SPAC instead of another one. The first is the quality of the *promoters*. The credibility and the charisma of those who establish the SPACs are crucial. The SPACs are really *blank checks* with an option of withdrawal for investors. In order to give their money to the SPAC, the investors shall believe that the *promise promoters* make at the IPO will be kept or that, in the opposite case, they will be free to ask back their money. The second is the investment policy. A sectorial investment policy can be more attractive for some investors (see the discussion on the investment policy), enhancing the value proposition of the SPAC toward institutional players with a compatible investment policy[101]. The third is the structure of the bylaw provisions. It is clear that, other things being equal, the more warrants are assigned for free at the IPO, the more the SPAC shares are appealing to investors. Also, the innovation in the bylaw provisions plays a relevant role: if the *promoters* of a SPAC can identify

[101] For instance, an investment policy focused on the sector of the renewables may attract investments from funds engaged in ESG investing.

a problem or an opportunity and modify the offering accordingly, they can gain a competitive advantage over other SPACs.

There is a big distinction between the *promoters* at their first experience and *serial promoters*. *Serial promoters* might have a big advantage if they achieved to deliver successful BC previously. They can carry ahead former investors and make the fundraising activity much easier. It is observed that in some cases, enthusiast investors may become *promoters* subsequently. Moreover, the credibility of *serial promoters* is mainly built on their previous experience with the SPACs, while for newcomers it is built upon their track record either in the financial or in the industrial sectors. In particular, for *promoters* adopting the paradigm of SAAT, the specific competencies in the field of the *target* are very important to attract investors, along with the quality of the business plan.

The problem symmetric to under collection is the over-collection. Despite not hurting the possibility of establishing a SPAC, the over-collection may cause problems in the subsequent *target selection* and *dealmaking* activities. As said, the outcome of a good fundraising process is the collection of the right amount of money. If the SPAC has in the escrow account too many money, there can be a mismatch between the size of the potential *targets* and the money available for the deal. In Italy, there is no minimum threshold on the amount of money SPACs have to deploy for the BC. However, the money raised at the IPO is only meant to perform the BC. If the *promoters* find themselves with more money than needed they can adopt three solutions. The first consists of splitting up the SPAC into two vehicles. To one of these they assign the amount of money needed to conclude the BC with an identified *target*. The remaining money instead are given to the other vehicle, which is a brand-new SPAC. In this way, the *promoters* do not give back the money to IPO investors but keep them with the aim of finding a new *target* to acquire or to merge with. The split up of the SPAC is a way through which the team of *promoters* may exploit a favourable market condition (for internal or contextual reasons) to raise a lot of money at the IPO, using them in different stages. However, it changes the terms and conditions of the investment after the subscription of the securities at the IPO. Investors may dislike the fact that the *promoters* have promised during the fundraising that either they would have used the money collected for a BC or they would have given them back within a certain time limit (twenty-four months), but then they decide to keep the money not deployed in the BC for other time and purposes. For this reason, discussing the research results, it emerges that a split-up of the SPAC may hurt the credibility of the *promoters* and that it is desirable to clearly state in the investment policy what the *promoters* will do in the case of availability of idle money after the BC. The second solution adopted by SPACs in case of over collection is to ration the assignment of securities at the IPO. In so doing, the *promoters* are able to raise the right amount of money and do not need to manage a surplus after the BC. However, investors willing to buy the SPAC's shares may be very disappointed if they are rationed and may exercise strong pressures to *promoters* in order to get the desired quantity of shares. Rationing investments at the IPO is not politically convenient. Also in this case, the quality of the relations between *promoters* and investors can be hurt, with damages to the *promoters'* reputation that can find hard to establish a new SPAC subsequently. Yet, thanks to the rationing, *promoters* can avoid the split up and keep the promise of giving back all the money in case of failure in finding a *target* and being a serial SPAC *promoter* can be a solution of the rationing problem as you can promise to keep the investment booked for another SPAC that you will create. The third solution to over collection is to return the exceeding money to investors. While this can be appreciated by investors as the *promoters* keep the promise made at IPO, it can be disappointing for them as only a portion of the initial investment become potentially fruitful, and this can create problems in their portfolio allocation decisions. A brilliant mechanism that *promoters* can adopt[102] is to give back the exceeding money while assigning the right to take part to future capital increases of the *target* for the same amount. The problem of over collection does not exist whether the SPAC discloses in advance the potential *target* and negotiates the deal before the IPO.

In any case, the transparency of the communication between *promoters* and investors is crucial to absorb potential setbacks arising from unforeseen situations.

…from the right people

The fundraising activity is critical for the success of the BC as it defines the shareholding basis of the SPAC. The investors who buy the shares at the IPO have the right to vote for the BC[103]. If the majority of them votes against it or if a good fraction of them redeem the shares the SPAC cannot deliver the BC. During the roadshow after the BC announcement the *target's* representatives meet the SPAC investors and can evaluate their stature. In light of these facts, SPAC investors shall be likely to keep their shares even after the BC, showing a long-term orientation and loyalty to the *promoters*. This is particularly true for investors in SAAT situations, where the charisma and credibility of the

[102] It was adopted by SPAC6

[103] Given that the SPAC shares are traded on the secondary market immediately after the IPO, it is not necessarily true that the shareholding basis called to vote for the BC is composed by the IPO investors. However, it is reasonable to assume, also in light of the discussion upon the lack of liquidity of the AIM Italy (see SPAC3 case and the discussion on bylaw provisions) that the two structures are similar, in particular for what concerns the large block holders.

promoters in carrying on a new entrepreneurial activity is the main driver for raising the funds required. The personal network of knowledge of the *promoters* is important to bring on board the right people.

The influence of the context

Among the contextual factors that influence fundraising more, there are the sentiment of the market towards SPACs and the level of liquidity in the economic system.

The former includes the knowledge and the reputation of SPACs. From the interviews with the *promoters* of SPAC1 it emerges that they found big obstacles from the fact that many institutional investors did not know at the time what a SPAC was. The Investment Bank in charge of the book building duty for SPAC1 reported to the *promoters* a list full of declarations of noninterest from many investors. Afraid of the venture's lack of success, the *promoters* started to pitch in first person the SPAC to potential investors, leveraging on the safety of the instrument (thanks to the redemption right) with the slogan "why not?".

On the opposite, the diffusion of the knowledge of what is a SPAC among investors facilitated the fundraising, leaving space for new applications of the solution. Thus, the SAAT paradigm's birth happened in a moment in which it was easy for SPAC *promoters* to raise money, and the SPAC was relatively popular.

Another key context factor that facilitated the fundraising for *promoters* was the born of the PIR. The level of liquidity available in the economic system to be invested in listed assets facilitates the fundraising activity for *promoters.* Not only, but the availability of liquidity also proved to be a motivation at the basis of the SPAC establishment at least for SPAC1 and SPAC6.

6.2.6 Target selection: finding the gold

The *target* selection represents a core activity of the SPAC. This phase may last from few days to several months, it shall end before the expiration of the time limits defined in the SPAC's bylaw and it is carried out primarily by the *promoters* personally, possibly with the support of advisors and consultants. Traditionally, SPACs go public without disclosing the identity of potential *targets*. In these cases, the *target* selection begins after the IPO. However, (see the discussion on Investment strategy and fundraising) the *target* selection can be performed even before the IPO. From the interviews, it emerged that the timing with which the *target* selection process is completed is a critical success factor for a SPAC. This relies on the fact that the bylaw provisions constrain the process, and the market seems not to appreciate deals proposed by the *promoters* at the *"last minute"*. Moreover, as time goes by, the *promoters* expose themselves to the risk of *corruption of the book*. IPO investors may either lose trust in the ability of the *promoters* to conclude a successful BC or may need their money back for personal reasons or changed market conditions. When this happens, they sell their stakes on the market, causing the price of the shares to go down and leaving space to arbitrageurs who buy the SPAC's shares under par in order to redeem them and gain a risk-free yield higher than that offered by other risk-free securities. Carrying out the *target selection* in advance or in parallel with the fundraising is a way to reduce the time between the IPO and the target announcement. Another critical success factor for the SPAC is the quality of the selected *target* (besides the quality of the deal which is discussed in the next paragraph).

The rest of this paragraph discusses how the *target* selection process is carried out by SPACs *promoters* analysing the empirical evidence coming from the case studies.

The *target* selection starts with the origination of potential *targets*, which are put in the so-called *pipeline*. The origination can be done in two different ways: in a proactive manner, where the *promoters* start from a blank page and draft a list of the companies that can be interesting to contact or relying on the network and knowledge of the *promoters* to identify firms with good potential for the BC. In only one case of the seven analysed the *promoters* adopted the proactive approach, but it proved not to be effective in channelling the firms toward the next stages of the process. Interestingly, the only SPAC that at first adopted the proactive approach was the only institutional in the panel. All the others relied since the beginning of the process on the network of knowledge and on the experience of the *promoters*. Serial *promoters* have a big advantage in building the pipeline as they can carry forward companies contacted in previous experiences that were not ready for going public with a SPAC, but that have potential and can lead to save time in the *target selection* process and improve the likelihood of closing a good deal.

Once originated the list of the potential *targets*, usually the *promoters* perform a first screening and start to contact the firm which, according to them, are more appealing. They try to understand whether there is some interest in the kind of deal they are offering from the side of the companies. The first Italian SPACs found difficulties in this phase as quite all the entrepreneurs contacted did not know what a SPAC was or did not want to risk entering into an unprecedented transaction. While contacting the firms, *promoters* pitch the managers and entrepreneurs their value proposition. To persuade them to follow the path of the BC with a SPAC, the *serial promoters* may exploit the previous experiences as a marketing tool.

After the first screening, due diligence and valuation are performed on firms interested in the BC with the SPAC. In the due diligence, *promoters* are usually supported by external advisors and by the Global Coordinator. In case of a positive outcome of the due diligence, the SPAC and the *target* can sign a binding agreement (the so-called "master agreement"), that they will announce to the market, in which they define the terms and conditions under which the transaction will happen. The subscription of the "master agreement" may precede the due diligence. In this case, usually, its effects are subordinated to the positive outcome of the due diligence. Also, the due diligence can be carried out in parallel for more than one firm. Given that the "master agreement" will be signed with only one company, when this happens, the potential *targets* are put in competition for the completion of the BC. During the due diligence and valuation phase, strong technical skills are required. If the *promoters* have these skills they can save money and time relying less on external consultants. Moreover, a deep knowledge of the *target's* industry can improve the *target selection* process, allowing for a deeper understanding of the *target* business model and of its quality. This is less relevant in SAAT cases, where the quality of the *target* is less important than for SAAE. The success, and the consequent value creation, of SAAT does not depend on how good is the *target* in its operations, but mainly on how the *promoter-entrepreneur* will transform the *target* to create something new. In this sense, the *target* of a SAAT shall be functional to the *promoter's* entrepreneurial idea. In the only case of SAAT analysed, for instance, the *target* firm had a synergic business with a solid client base that could be the entry key for the innovation proposed by the *promoter-entrepreneur*.

It is remarkable that in two cases out of seven the *target* has been pitched to the SPAC *promoters* by some bank and has been selected almost by chance. This shows how the *target selection* is not really a structured process in which the three over-described phases are always followed linearly. But it is a nonlinear process that can take unpredictable turns and suffers for big risk and uncertainty. The *promoters* are not remunerated during this activity and bear all the risks related to it. Finally, it must be highlighted how the level of the competition in the market for the *targets* may influence and change the *target selection* process. In markets where the SPACs are well-known and diffused vehicles (such as in the USA), the process is carried out conversely, with the potential *targets* that look for a SPAC to go public, may contact a lot of them and put the different SPACs in competition. Even if in Italy during the SPAC boom between 2017 and 2018, in some cases the SPACs found themselves in competition on the same *target*, this level of maturity of the SPACs market has not ever been reached.

6.2.7 Deal making: matching *target's* needs

This paragraph discusses how the SPACs can create value by negotiating the terms and conditions of the BC. The discussion links the *targets'* needs with the solutions proposed by the SPACs and highlights in which situations and how the BC with a SPAC can be a valuable alternative to other financing methods or extraordinary transactions for the *target*. The ability to deliver a valuable solution to the *target* is crucial for the success of the SPAC as it is a pre-condition for the *promoters* to reach their goals.

The first step of the discussion is identifying the challenges that the *target* companies were facing before the negotiation of the deal with the SPACs. Table 27 summarizes, case by case, the company's situation before the BC and the empirical evidence found during the research to support the findings. In parallel with what Tappeiner et al. (2012) have done in their analysis of the demand for Private Equity minority investment in German family firms, the challenges are clustered according to whether they were induced by the business or by the shareholders. In the first case, two types of challenges may arise to push firms toward a BC with a SPAC: the need to face financial distress or the willingness to foster the company's growth. In the second case instead, the challenges may arise from shareholders willing to keep control of the company, even if they need equity capital to face one of the two

Table 27 Dealmaking table of words. Personal elaboration.

	Challenges induced by the business		Challenges induced by the shareholders				Empirical evidence	BC deal	
Case	Financial distress	Growth	Shareholders' conflict	Keep the control	Cashout	Willingness to go public		Primary/secondary proceeds	EV/EBITDA
SPAC1	X		X			X	Interview: "The *target* had given a mandate to an important Italian Investment Bank to go for the IPO a year earlier, the bank had snubbed it completely because it was small, with an ugly business model and was based in a small town. When the boys of Sesa became aware of our SPAC, they wanted to meet with the intermediary of the bank who asked us if we were interested in the company" (Promoter1) Interview: "The target wanted to go on the public for two reasons. First, working with American vendors, these vendors were concerned that the company was growing but had a very low net worth, being born by doing paper against paper with local software vendors. All the family owners were poor and could not make a capital increase. The suppliers were worried about making credit and asked for the company to recapitalized. Second, they had hundreds of shareholders, people over eighty and young people. Some wanted to go out, some wanted to stay" (Promoter1)	60%/40% with differentiated valuation	3.5
SPAC2		X		X		X	Interview: "Our SPACs are made for companies that want to grow internationally, that have beautiful competitive positions and where even the entrepreneurs are, in quotation marks, with the right age. In all three cases we have had entrepreneurs with 45-50 years, people with experience but who still have a number of years to make interesting operations." (Promoter1) Press article: "Before even thinking about the listing and even before meeting the SPAC, we had already defined plans of growth and of strengthening of many of our plants spread over a time horizon of five years." (*Target*'s CEO) Explanatory report of the target's BoD to the BC project: "over time, the idea that it was appropriate to access the capital market for further feed the company's development took shape; in past years, this programme has not been implemented also in view of the general economic and market conditions; recently, the prospect of access to the capital market has come to the attention of the company, due to certain circumstances and considerations such as [...] the increased financial resources needed for the [...] development plans that are currently being studied."	100%/0%	6.2

Table 27 (continued)

Case	Challenges induced by the business		Challenges induced by the shareholders				Empirical evidence	BC deal	
	Financial distress	Growth	Shareholders' conflict	Keep the control	Cashout	Willingness to go public		Primary/secondary proceeds	EV/EBITDA
SPAC3	X			X			Interview: "The target was under a debt restructuring program" (Promoter1) Interview: "[in 2013] with nearly €500 million of NFP and less than €15 million of EBITDA, the survival of the Company were in danger. [...] Facing the need of debt restructuring [a big consulting firm] received the mandate of defining a new business plan following the logic "back to core business" working on industrial efficiencies and renegotiating the debt with the creditors. This activity lasted between 2013 and 2015. [...] The restructuring plan included the spin-off of non core businesses and the conversion of credits into SFP. Moreover, the restructuring deal imposed many constraints on investments. The controlling family, punished by the deal would have worked for years with low incentives and low motivations. [For these reasons], once closed the restructuring deal, the first objective of the management was to find an alternative way-out to free the Company from the constraints imposed and to give to the controlling shareholders a new "reason why" to run the Company" (Target CFO and co-CEO)	65%/35% with aquisition by the SPAC of the SFPs from the banks and end of the restructuring program	6.7
SPAC4		X		X			BC information document: "The proposed Merger aims at accelerating the process of growth and development of the company thanks to access to venture capital" BC announcement: "Listing on the Stock Exchange is a milestone in the development of the company, as it will allow us to have the resources needed to accelerate strongly that growth process, both for internal lines and for external lines, which is a necessary condition to compete in international markets. (*Target's* CEO)	90%/10%	6.2
SPAC5		X			X		Interview: "The target, according to us had already reached its maximum goals for what concerns the organic growth. It could grow but not in a transformational way. To do this it was required to make extraordinary deals" (Interviewed promoter) Interview: "Many of the easiest improvement in the target had already been done. We acquired from a PE, and the PE had already institutionalized and managerialized the target. We were convinced about the investment on the basis of the CEO, we put ourselves in the hands of a manager who we thought was very good" (interviewed promoter)	0%/100% with a partial reinvestment of the proceeds by the CEO and the PEO which were *previous shareholders* of the *target*	6.6
SPAC6		X		X			Interview: "Target has been indicated by a bank, it was very beautiful with EBITDA around 23-24% and it is growing very well and have already made several international acquisitions" (Promoter1)	100%/0%	5.2
SPAC7	X						Interview: "the *target* should be recapitalized, it needed cash"	80%/20%	n/a

business challenges, from shareholders willing to cash out their investment and have to find a suitable acquirer for their stakes, from situations of conflicts between shareholders with different objectives and, finally, from the desire of going public. The business-related and the shareholders-related challenges can be intertwined in different manners.

In three out of seven cases studied, the *target* was facing severe financial troubles. In the case of SPAC1, the *target* suffered a very low capitalisation that put in danger its ability to deal with some strategic supplier of goods, worried about extending commercial credit lines to a firm with such a low equity capital available to absorb potential losses. Moreover, the ownership structure of the *target* was very complex and dispersed and, while some shareholders wanted to revamp and foster the business of the firm, some other desired to exit the investment. The existence of conflicting objectives between the shareholders was causing the company not to have a clear vision and mission. Finally, to solve these problems, the management had already tried to go public but unsuccessfully. In this very peculiar situation, the merger with a SPAC proved to be the only solution able to solve, in one shot, all the open issues. In the case of SPAC3, instead, the *target* had previously signed an agreement with the creditors to restructure the massive amount of debt that was leading the firm toward default. This agreement was very punitive for the *previous shareholders*, that is, the founding family. For them, the only solution available to find a way out from the complex situation while keeping control over the firm proved to be the BC with a SPAC. Also, SPAC7 needed a solid recapitalisation to be able to continue operating in the insurance business.

The SPACs closed very favourable deals in terms of price in these situations, as they got a very high negotiating power. The argument that can be made is that SPACs can draft and conclude extraordinary deals with flexibility and creativity that neither an IPO nor a PE fund can allow. The direct negotiation between the *promoters* of the SPAC and the *target* owners or managers can lead to the design of tailored solutions, specific to the case, which can be highly complex, structured and creative. They may involve, for example, different offerings for different shareholders, as in the case of SPAC1, or the negotiation of favourable conditions with third parties, such as creditors of the *target*, as in the case of SPAC3. If on one side, the complexity of the deals can be structured thanks to the technical competencies of the *promoters* in the field of extraordinary transactions, on the other hand, it is crucial also the quality of the investors in the SPAC book and the ability of the *promoters* to "sell them the agreement" (see the discussion of the Investor relations support process). The investors, in fact, need to understand the terms of the transaction as they have to vote for it at the shareholders' meeting.

In these cases, the structure of the deal included a mix of primary and secondary proceeds, with the latter used either to cash out a portion of shareholders, solving the conflicts between them, or to pay back the credits to the banks, while the former was used to recapitalize the *target* posing the basis of a new course, either with a renewed management or not. An additional consideration that can be made is that distressed companies can be interesting as *targets* for *promoters-entrepreneurs* who adopt the SPAC-as-a-tool paradigm. As discussed, they aim to acquire a firm to take over its control and manage it. If it is a distressed company, its price can be lower than comparable, allowing the *promoters* to enter the business sustaining a low cost.

In some other cases, the major business challenge that *targets* were facing was to find a way to finance the growth. All the cases analysed involve companies in the maturity stage for which the main issues were to expand the business internationally, to consolidate the position of leadership in a certain business and in a certain market (mostly, Italy) and to improve the quality of products and plant investing in new technologies or expanding the production capacity. The role of SPAC financing as an accelerator of the growth has been remarked by the CEO of the *target* and of the post-BC entity in the case of SPAC2. He declared that "the listing means an injection of fresh capital that will allow us accelerating our development plans by almost four years". Similarly, in the cases of SPAC4 and SPAC6, the newly injected money has been used for the purpose of financing new investments. Coherently, for SPAC2, SPAC4 and SPAC6, at least 90% of the money employed by the SPACs for the BC were used for a capital increase (primary proceeds).

In these cases, when the controlling shareholders were one or more families (namely the founding families), the need for financing went hand in hand with a strong determination of keeping control of the firm.

The financing through the SPAC proved to be a valuable alternative to the IPO for the *target*. Analysing the case studies, at least the following benefits of going public through a BC with a SPAC instead of an IPO emerge. Some of them have been still identified by the academic literature, such as the costs and time saving during the process and the reduction of the market uncertainty. Some others, instead, did not have been previously recognised. In particular, among these, there is the fact that the *target* shareholders and management can know the composition of the investors' book in advance before the closing of the BC deal. Thus, they can evaluate the quality of the book and identify desirable features, such as the presence of long term oriented institutional investors, or problems, such as the presence of speculators and flippers, who have a short-term orientation and likely will sell their stakes once gained a certain amount of money. Another element that distinguishes BCs from SPACs and IPOs is the management of the communication during the process. When a company starts the process that leads to the IPO, this information becomes public, exposing the company to a reputational risk that can arise when the listing fails. On one side, this may preclude the way to the market for many months, with the need of repeating the whole long and costly process. However, on the other hand, the personal Brand Equity of the entrepreneur who failed to go public can be severely damaged by such a failure. This is particularly true in small business environments where the personal reputation is relevant, and the personal Brand Equity is an asset that the entrepreneurs want to build and preserve from harm. The BC with a SPAC is instead a private deal negotiated between a representative of the *target* and the SPAC *promoters*, and it is not announced until it is closed, so that the parties involved have to keep the confidentiality until the day of the announcement. This is a common practice and a requirement imposed by the rules related to the disclosure of price-sensitive for publicly listed companies. However, there is still a risk that the shareholders' meeting will reject the BC, but the *promoters*, while negotiating the deal, should try to understand the *sentiment* of the market toward it, even with the constraint imposed by the rule mentioned above on information disclosure which forbids to reveal the identity of the *target* until the public announcement to the market (see the discussion on IR). After the announcement of the BC, there is the possibility for the parties involved in the transaction to implement a marketing campaign similar to a traditional IPO if they judge it valuable. Even in the management of the communication of the deal, the SPAC grants flexibility that other instruments, namely the IPOs, do not allow.

Also, the financing of growth through the SPAC proved to be an alternative to PE financing. The discriminating element between SPACs and PE funds regards the post-BC governance. The SPAC is valuable for the *previous shareholders* as it typically acquires a minority stake in the *target*, leaving *previous shareholders* the control over the company without imposing shareholders agreements and drag along or tag along clauses. This goes in pair with a soft involvement of the promoters after the BC, who leave space to the controlling shareholders to take the strategic decisions and to appoint the management, but still act in general as strategic advisors and give them support.

It is worth discussing the SPAC6 as a peculiar case of BC. On one side, the *target* was not a family business but was held by PE funds that appointed a professional CEO. On the other side, the SPAC was institutional, with an Investment Bank and a PE operator as *promoters*. The peculiarity of the case is that it is an example of cash out of *previous shareholders* through a merger with a SPAC (the money injected in the company with the BC were all secondary proceeds, even if a small portion of them has been reinvested into the firm). Also, the challenges derived from the business were different with respect to the other cases of growth financing. The *interviewed promoter* declared that the *target* business was quite mature and that there was no more much space for internal growth. So, the business plan drafted at the BC foresaw a path of external growth through M&As, and the BC should have been an enabler of this development thanks to the competencies of the institutions behind the SPAC.

A common rule to both the SPACs for distressed companies and financing growth is that the entry multiple is a crucial parameter for determining the success of the SPAC. The companies willing to conclude a BC with a SPAC have to accept a discount on their theoretical value that can be very relevant compared to the price they can get from a PE fund or a traditional IPO. This is crucial for two interrelated reasons. The first is that the remuneration of *promoters* is linked to the completion of the BC and the increase of the share price after it. Theoretically[104], if a company is listed at a discount on its value, the share price should increase, granting SPAC *promoters* a safe and sound remuneration. The second is that the IPO investors can gain a lot from an upside of the share price (thanks to the mechanism of the warrants), and their approval in the extraordinary shareholders' meeting is required to conclude the BC. If they judge the valuation granted to the *target* for the BC too high, they will vote against the BC and undermine its effectiveness. Thus, it seems that SPACs are not a good way for *previous shareholders* to sell their stakes or, at least, that selling to a SPAC should be the last resort to cash out from an investment. Also, a high amount of secondary proceeds undermines the role of the SPAC as a tool for financing growth or solving distressing situations. However, SPAC6 is an example of a deal in which the *previous shareholders* sold whole their stake. In this case, the deal was configured similarly to a Management Buyout in which the former CEO brought on board a new shareholding basis that could help him in the process of external growth.

Besides the entry multiple, another issue for *previous shareholders* is the dilution that derives from the exercise of the warrants and the conversion of special shares. During the negotiation, the

[104] Assuming the EMH (Efficient Market Hypothesis) and perfect rationality

promoters and the *target* representatives can agree to change the conversion thresholds for the special shares. This solution has been adopted along with the assignment to *previous shareholders* of warrants with the aim of reducing the dilution effect for *previous shareholders* and improve the alignment of interests between the market and the *promoters*. Still, the entrepreneur willing to conclude a BC with a SPAC has to accept a lower price for the company in comparison with other solutions like an IPO or an investment of a PE fund and the risk of being furtherly diluted after the closing of the deal.

In the balancing of benefits and costs, the advantages of the SPAC discussed in this paragraph have to overcome these costs for the *previous shareholders* in order for this solution to become attractive for the *target*.

6.2.8 Post BC: marriage in action

The BC with a SPAC changes the ownership structure and the governance of the *target*. Even if the SPAC does not exist anymore as an investment vehicle after the BC, it shows its effect after the acquisition of or merger with the *target*. The first effect deals with the shareholding base of the post-BC entity. For almost all the cases analysed, the *previous shareholders* keep the absolute or relative majority of the new company. Leaving the control to *previous shareholders*, the SPACs create value matching their wills. But, the market enters the post-BC entity, and this is something that must be carefully managed for at least two reasons. The first reason is technical and regards the provision imposed by the market authorities in terms of governance and transparency to listed companies. Often, *targets* are private family businesses, without previous experience of managing a company listed on a stock exchange. Therefore, dealing with new requirements can be burdensome and needs specific knowledge. The second reason instead is managerial and regards the necessity to interact with and account for the management decisions to the minorities, dispersed market investors. Even in this case, the *target* entrepreneur used to manage the firm as a private property may find some difficulties. Given this, the SPAC *promoters* can support the *target* entrepreneur in the transition between private and listed company. On one side, *promoters* with previous experience as managers of listed companies or with specific technical skills and personal knowledge can help the *target* establish a fruitful relationship with the market authorities, set up a suitable governance structure, and comply with all the requirements. On the other side, the *promoters* can act as filters between the voice of the market and the post-BC management. Usually, they play this role as independent members of the post-BC BoD as representatives of the market, which is made up of the SPAC investors.

The BC, in general, brings new financial resources to the *target*. These money are meant to be used either for restructuring or growth. In any case, at the BC, the *target* and the *promoters* negotiate how the money will be spent and set some objectives to be reached. Even if the BC leaves the "steering" to the *target* management, the SPAC *promoters* can help "rowing", which means help to reach the strategic goals. The most important and recurrent case where the *promoters* intervene to support the post-BC management is the external growth through M&As. The extraordinary deals imply technical and organisational complexities that many *targets* are not ready to face with their internal resources. A *promoter* with a solid track record as M&A advisor, dealmaker or PE operator brings inside the company skills required to deal with such operations. This is furtherly strengthened in the case of the *institutional promoter*, where the competencies of the whole firm establishing the SPAC become available to the post-BC entity. The growth through M&As is often a strategic goal set in the BC deal. Less frequently, in some cases, the *promoters* make their voices heard in the development of the business strategy, giving advice in marketing and sales, and of an ESG strategy, setting up an ESG framework and helping the company develop it. In the case of SPAC3, the *promoter* who gave the advice in the marketing and sales field had previously been CEO of an important firm in the same industry of the *target*, in the case of SPAC5, the *promoters* were institutional and knew that the adoption of an ESG policy would have been increasingly important for a company to remain competitive and to attract investors. This last evidence sheds some light on how a BC with a SPAC can bring innovations beyond traditional financial-centric activities. This can also be a way through which SPACs can differentiate themselves from others in a competitive environment. Another objective often set at the BC is the transition on the MTA from the AIM Italy of the listed securities. Often promoters help during the process as well as help establishing an IR office. In the case of *institutional* SPAC, the IR office was directly taken in charge by one of the two *promoting firms*.

The discussion made until now holds for SAAE, in the cases of a family business as a *target* and if the *target* is still a managerial company (as in the case of SPAC5). The SAAT paradigm requires different reasonings. In fact, in the case of SAAT, the SPAC *promoters* play a relevant role in post-BC governance. In the case analysed (SPAC7), *Promoter1* became CEO and Executive Chairman of the BoD and *Promoter2* entered the BoD as president of the innovation committee. As previously discussed, the post-BC operations are at the core of the SAAT paradigm, the *promoters* start their "true" job after the BC. In these cases, the *promoters* give the target a new vision and mission, kick off a new business plan, and execute it. They need the support of the market, that is, of the SPAC investors, to carry on their entrepreneurial project, and they create value as in other "traditional" firms, which means creating a competitive advantage for the post-BC entity. Analysing the case, the evidence shows a big relevance of innovation in this kind of entrepreneurial venture. This gives a lead that SPACs can be vehicles of innovative firms in the economic system.

The post-BC activities are exposed to the market and strategic risks that can hinder the ability of the post-BC entity to reach its objectives. It is worth mentioning that there may arise conflicts between the management and the SPAC *promoters*. One of the peculiarities of the relation between them is that the *promoters* can speak "freely", challenging the company's strategy and the management decision. This derives from the fact that they are not employees but independent members of the BoD. This fact can be a driver of growth for the firm but can undermine the relations between management and *promoters*. The evidence shows that the more serious difficulties that post-BC records are in carrying out the plan of M&As. In one case, the management completed all the acquisitions agreed at the BC but did not integrate them effectively, causing a drop in the firm's profitability and value. In another case, instead, the management was not able to implement the foreseen plan of M&As. For what concern the case of SAAT instead, it is interesting to notice that the entrepreneurial project of the *Promoter1* changed after the BC and the emerging strategy overcame the planned one. The post-BC entity is a full-fledged operating firm, and it is exposed to the traditional risks affecting them. The cooperation between *promoters* ad management is critical to address the new challenges arising from the public status and the new expansion plans.

Chapter 7: Conclusions

7.1 Originality of the findings and practical implications

This research proposed analysing SPACs assessing their performances, understanding the rationale behind their existence and investigating the functioning mechanisms that underlie their value-generating ability. The need for this study relies on one side on the increasing relevance that SPACs are having as investment vehicles and equity financing tools across the globe and, on the other side, on the scarcity of academic research on the topic. In pursuing its objectives, this research adopted two different approaches and focused on the Italian context. The first approach was based on desk research and quantitative analysis and aimed at describing the phenomenon of SPACs and assessing their performances for investors and *promoters*. The second approach was based on case study research and aimed at discovering why SPACs are established and how they create value for the stakeholders involved. The originality of this work is double-folded. On one side, it innovates the method of research on SPACs. On the other side, it provides new results on the topic.

7.1.2 The method

The innovations introduced in the methodology can be useful for other researchers willing to update this study or to replicate it in other contexts facing the same research questions. For what concerns the SPACs' performance assessment, this study provides an integrated view that includes both the short-term and the long-term time horizons and all the components of the investment that can grant a return to the investors. For the first time, it adopts an investment analysis approach to assess the long-term performance of SPACs, including in the computation of the returns the cash flows derived from the conversion of the warrants and the dividend distribution after the BC. SPACs are complex investment vehicles and calculating their yield considering only the share price is wrong, even if the bulk of the papers published on the topic have done it. Moreover, this work applies systematically for the first time the case study research methodology to SPACs and shows how it can be adapted to the topic.

7.1.3 The results

Performance assessment and targets' analysis

Chapter 4 shows how Italian SPACs can be profitable investments for the *promoters'* and the IPO investors. This finding contrasts with what the bulk of the literature on USA SPACs has found in the past and shows that SPACs (at least the Italian ones) are not toxic investments, even if they can give rise to adverse incentives to promoters in concluding the value-destroying BCs. Also, it shows how investors can exploit the information available on the market (the share price) to take advantage of *good* SPACs and avoid the *bad* ones. This finding can be very interesting for institutional and retail investors as it can drive their portfolio allocation choices. Moreover, the overview of the SPACs' *targets* indicates that, on average, they are solid and growing firms and that, after the BC, they, on average, receive a boost of the growth and improve their financial position. This contrasts with the idea, corroborated by some empirical research in the American market, that only *"lemon"* firms exploit the BC with the SPACs as a second-handed solution to go public because they cannot face a traditional IPO process.

Two paradigms

Chapters 5 and 6 instead offer a new interpretative framework of what are SPACs and how they work. The discussion of the case studies' findings shed light on some mechanisms and situations that, in the previous research, either were not considered as relevant before or were not known. Answering the second research question (Why are SPAC established?), this study found that there are other objectives than the mere financial gain that drive the decision of individuals or firms to become promoters of a SPAC (discussed in paragraph 6.1). The most significant finding related to this topic is identifying two paradigms of SPACs: the SPAC-as-a-tool (SAAT) and the SPAC-as-an-end (SAAE). This relevant point does not emerge from the academic literature: SPACs are not a unique cluster of particular firms, but they include very different realities. For this reason, SAAT and SAAE should be treated separately when studying the phenomenon of SPACs. Also, for practitioners, identifying the different paradigms may help diversify the technical solutions implemented according to the promoters objectives, improving the efficiency and effectiveness of SPACs. Moreover, different things need different policies. It seems that SAAT can be useful for financing and establishing innovative firms. Thus, it may be interesting to implement policies suited for favouring similar experiences to improve the dynamism and innovativeness of the economic system.

The value chain

For what concerns the third research question (How do SPACs create value?), the first remarkable result of the research is the identification of the key primary and support activities behind the functioning of the SPACs, summarized in the SPAC value chain. The SPAC value chain has been the basis upon which the findings disclosed in paragraphs from 6.2.1 to 6.2.8 were built upon. The following lines draft some conclusive remarks over the findings presented in paragraph 6.2.

A multistakeholder perspective

It is relevant to remark that the SPAC is a multistakeholder entity that has to interact with the regulators, the investors and the stakeholders of the *target* company. In order to reach their objectives, the *promoters* need to be able to create value for all the actors involved directly or indirectly in the SPAC. Moreover, SPAC *promoters* operate in a competitive environment, so that they should be able to differentiate their venture from the others. Therefore, SPAC *promoters* have to deliver a suitable investment solution for the investors and a good financing tool for the *target* while complying with a complex regulatory framework to create a competitive advantage and reach their objectives.

Solution for the target

The SPACs can create value for the *targets* in two ways. First, the SPAC can create value by providing *targets* with unique financial solutions that traditional tools (such as an IPO, a PE investment or bank financing) cannot provide. They can leverage the flexibility and creativity allowed by the BC, a privately negotiated deal between the *target's* representatives and the *promoters*, and the *promoters'* competencies in complex dealmaking. Secondly, SPACs can also facilitate the listing by reducing the uncertainty related to the market in an IPO, allowing the *target* to know the investors (book) in advance and simplifying the roadshow. Moreover, *promoters* can help keep the relations with the market, smooth the transition between the private and the public company, and support the strategic development of the post-BC entity. Another appreciated feature of the BCs with SPACs is that the *target* entrepreneur can keep control of the firm without being constrained by shareholders' agreements and drag along and tag along clauses.

The intermediation role

The *promoters* act on the ECM as intermediaries between the investors and the firms. In doing this job, they bear many risks. Granting investors the redemption right, they bear the financial risk of losing the initial investment done to establish and run the SPAC before the BC. They also bear the reputational risk. Not delivering a BC may hinder the SPAC's promoters' credibility, driving them out of the market. This is important because the *promoters* can have the incentive to close a BC deal "whatever it takes" to avoid financial and reputational losses. Thanks to their competencies, both in the financial and industrial areas, they can reduce the information asymmetry on the market. The *promoters* ability to conduct a deep valuation of the potential *targets* and capacity to negotiate good-quality deals with the *targets'* owners and managers are two key elements underlying the value-generating capability of the SPAC. Also, the clearness of the value proposition to investors, translated into a transparent and credible investment strategy, is crucial for attracting the investors who provide the capital required for the BC. It seems that an investment strategy focused on a specific sector, especially when backed by specific competencies of the *promoters*, may improve the attractiveness of the SPAC for the investors. Moreover, serial *promoters* can leverage the reputation built with the previous experiences to raise the awareness and attractiveness of their SPACs, with potential benefits on their ability to raise money. About this, it is worth making two remarks.

First of all, a too-small corporate market can prevent the *promoters* from establishing a sectorial SPAC. One of the mechanisms through which the SPAC creates value regards its capacity to close a deal at an attractive price, as investors have to vote for the BC, and the *promoters* can gain if the share price after the BC increases. In a small corporate market (for instance, Italy), restricting the field of the potential *targets* specifying a sector in the investment strategy can reduce dangerously the likelihood of closing a good deal, causing to miss potential good opportunities in other sectors. For this reason, a conclusion is that the SPACs can work better at the European level. It is time to build truly integrated financial and legal systems in the European Union, allowing for the SPAC to become a valid tool to foster the continent's economic growth. Still, some *promoter* is putting in place a SPAC targeting the whole European market with a special focus on the technologically advanced firms[105].

The second remark deals with the competition between SPACs. As well as a too-small market of the potential *targets*, a very populated SPAC market can lead to a higher failure rate and worst BCs. The competition is even harsher when many *promoters* are inexperienced. They tend to have a low loss-absorption capacity and still have to build a sound reputation in the SPAC market. For these reasons, they tend to try everything to close the BC even at disadvantageous conditions for the investors. For securities firms and PE funds, establishing a SPAC can be a way to exploit their network of clients to enter a new market segment, which can be very profitable. A mature SPAC market would include experienced *promoters*, either *serial* individuals or institutional, specialized in running SPACs. Firms should know the costs and benefits of a SPAC. Moreover, it is observed that *institutional* and *serial promoters* are the ones that introduced more innovations in the SPAC market.

[105] 360 Disruptech EU

Bylaw provisions

The design of the IPO structure and the *promoters'* investment are crucial for many different reasons. On one side, they should guarantee the alignment of interests between the IPO investors and the *promoters* through a suitable remuneration mechanism for the latter. During the years, the two things changed in order to reach this objective. The last Italian SPAC, Industrial Stars of Italy 4, adopted a very innovative offering structure and *promoters'* remuneration mechanism. Also, it impacts the deal-making. The IPO structure can be rigid, defined at the IPO and not modifiable. To improve the flexibility of the deal and to avoid the regulatory provisions related to the price-sensitive information disclosure for listed companies, some experiences avoid the listing and issued convertible bonds instead of shares and warrants[106].

Liquidity

The SPACs are particularly suited to the Italian context. A critical element that favoured their development has been the abundance of liquidity derived from private savings. However, to work well, SPACs need stable conditions. In Italy, the introduction of PIRs and, after some years, their reform contributed both to the boom of SPACs between 2017 and 2018 and to their disappearance after 2019. It can be argued that a prerequisite for the sustainable development of SPACs is the stability of the legislative framework and the market conditions.

SAAT

Regarding the SAAT, the SPAC financing can be a suitable alternative to PE and bank financing for innovative ventures as it provides the *promoter-entrepreneur* with patient capital. In these cases, the charisma and credibility of the *promoter-entrepreneur* are even more important than his technical skills. In fact, investors put their money in a new entrepreneurial project of which the *promoter* will be the leader and executor.

Accelerated BC

A final remark regards the accelerated BC and the disclose of the *target* at the IPO. It seems to have some advantages in terms of reduction of uncertainty for the investors and reduction of the execution time of the BC and to be particularly suited in the case of the SAAT paradigm, where the scouting process does not add value and the acquisition of the *target* is meant as a key to enter the market.

[106] These experiences are the so-called IPO Challenger and SPACs in cloud.

7.2 Limitations and further developments

For what concerns the performance assessment, one limitation relies on the limited numerosity of the sample used to compute the CARs and discuss the topic related to *good* and *bad* SPACs. This fact can give rise to low precision of the statistical estimates of the parameters used in the analysis. For this reason, it has been avoided to perform a statistical analysis to validate the findings of the case study research. However, further development of this work can regard a broader sample of SPACs. It could aim to test whether and how some variables highlighted in the qualitative analysis (for instance, the entry multiple of the BC transaction, the mix of primary and secondary proceeds, the seriality of the *promoters*) impact the SPACs' performances and the likelihood of closing the BC deal. Also, the analysis shows that the shareholders' meeting approves even value destroying BCs (bad SPACs). Further research can try to understand why this happens.

Another limitation regarding the performance assessment is the lack of a suitable benchmark for the long-term return from the investment. The choice of using the return of the FTSE Italy Small Cap as the benchmark has been suboptimal as the market index does not include the dividends and other cash flows that the investment in a SPAC instead involves. For this reason, it would have been better to use as a benchmark an index that tracks the return from PE investments. However, both at the European and Italian levels, such an index does not exist. Further research on the SPACs' performance in the USA should consider this and include a PE index as a benchmark, such as the Cambridge Associates LLC US Private Equity Index. Moreover, it can be helpful to develop a PE index also in Europe to facilitate further studies on the topic.

For what concerns the qualitative research based on the case study methodology, the first limitation is that it has been not exhaustive. Not all the Italian SPACs have been analysed, and this may leave space for an update of this very study with the same explorative aim giving rise to new findings. Also, only one case of SAAT has been identified. This did not allow to draft sweeping conclusions on this kind of SPACs. Still, this discovery has high potential and deserves further analysis, for instance, by developing a single case study of a prominent example of SAAT. As well, the most innovative experiences of SPACs and the alternative vehicles (such as the SPACs in cloud), deserve a further deepening.

Moreover, all the primary sources for the case studies have been internal to the SPAC or the *targets*. What has been missing is the standpoint of the investors. Further development can be to analyse who invested in the Italian SPACs and investigate why they decided to invest in a SPAC through, for instance, a survey. It can provide empirical evidence of what is appealing for SPACs' investors and can be based on some propositions and hypotheses developed in this research.

Finally, a limitation common to the whole research is that the findings cannot be generalised beyond the context of the study, that is, the Italian market. However, further developments may exploit the methodological and theoretical frameworks developed here and adapt them to different contexts, also highlighting the differences and the similarities between SPACs around the world with respect to the Italian ones. For instance, it would be interesting to analyse the competition dynamics in place in the USA, where the SPACs' market is way more mature and competitive than in Italy, and the Equity Capital Market is much more developed.

Index of figures

Index of graphs

Index of tables

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