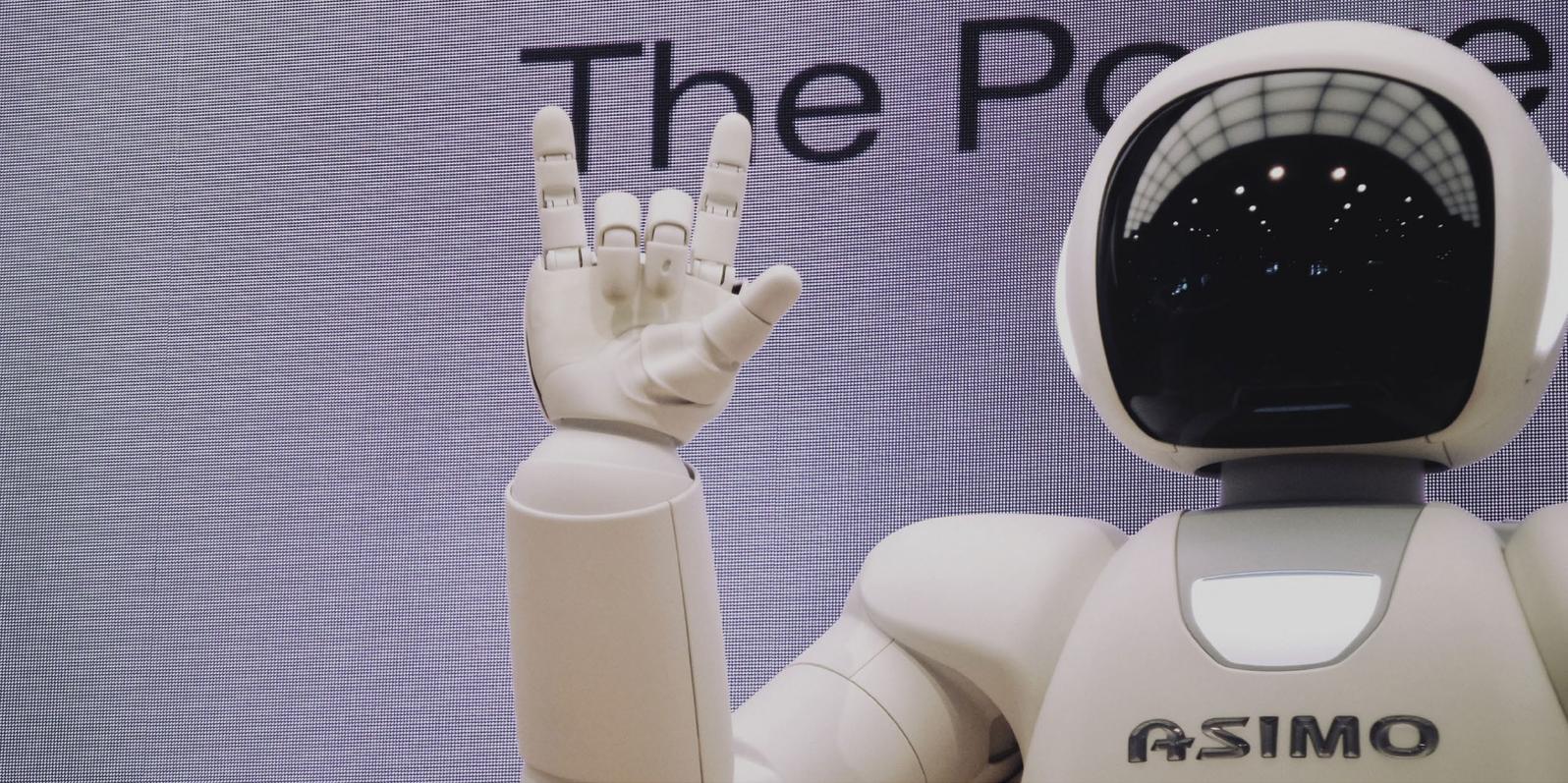


SPACs

HIGH SPEED ALTERNATIVE
TO THE TRADITIONAL IPO





KLOEPFEL CORPORATE FINANCE IPOs/SPACs

KCF - Your partner for independent financial advisory services for small- and medium-sized companies and capital market transactions.



Dr. Heiko Frank
Managing Director



Sven-Roger von Schiling
Partner

EDITORIAL

Dear Reader,

In 2020, a new and very interesting route to the stock market for companies with such aspirations opened - Special Purpose Acquisition Companies (SPACs). Currently, more than 450 American SPACs - with an average of USD 330 million in cash - are looking for established medium-sized companies and ambitious tech start-ups looking to take advantage of a stock market listing.

Going public through a SPAC is being achieved by merging your company with a SPAC. This process is slightly more complex than a conventional M&A transaction due to the listing, but it is much less time-consuming than a traditional IPO, a kind of high-speed IPO.

We consider SPACs to be a very exciting option for capital market-savvy companies in the DACH region due to our personal SPAC experience. One of the authors founded the second, and so far, last SPAC listed on the German Stock Exchange in 2010. Moreover, both authors possess comprehensive IPO experience as CEO, CFO as well as Supervisory Board Member.

In a SPAC project, however, it is important to consider the motivation of the various „stakeholders“ involved in order to ensure the optimal transaction structure for you, in particular valuation and cash inflow. Your negotiating partners are not only the SPAC’s sponsor team, but also their bank, which manages the SPAC’s IPO and sometimes pursues interests and needs that diverge from those of the SPAC. In addition, there are the SPAC investors who must approve the transaction in a General Meeting. If necessary, the shareholder structure must be partially modified in the run-up to the General Meeting in order to ensure a successful transaction in your interest. Last, but not least, by the time the General Meeting approves the merger of the SPAC with your company, you and your company must have implemented all processes and structures to comply with the requirements of the respective stock exchange.

Based on our experience gained through a number of IPOs and a SPAC, we not only know the opportunities, but are also well aware of the challenges of the de-SPAC-ing process and a listing. We are therefore happy to support you in the successful design of this process, from the identification of the „right“ SPAC for you, to the preparation and implementation of the entire de-SPAC-ing process, to ensuring your „IPO-readiness“ on the day of the General Meeting and your “take over“ of the SPAC’s stock exchange listing. To our knowledge, we are the only independent German corporate finance consultancy with hands-on SPAC and IPO experience. We look forward to answering your questions on SPACs, de-SPAC-ings and IPOs and to supporting you in your venture. Your project is too important as to do it without experienced and independent advisors!

We hope you enjoy reading our SPAC report and thank you for your interest.

Kind regards,

Dr. Heiko Frank

Sven-Roger von Schiling



SPACs have been on the rise again in the US for a few years now, 248 SPACs went public in the US in 2020 - every second IPO was a SPAC. Their challenge now is to find attractive target companies for the „de-SPAC-ing“. An opportunity for tech companies.

SPACs have been around for many decades in the USA. Since 2017, their popularity has increased significantly. A SPAC is founded and taken public, to use the IPO proceeds to acquire an unspecified company after the IPO. In 2020, most SPACs were founded by private equity funds, financial institutions or groups of investors, also known as sponsors. The sponsors fund and prepare the IPO, in which investors typically purchase units (a share plus a warrant) for USD 10. The net proceeds of the SPAC-IPO are held in an escrow account until they are released to fund the Business Combination, for which the sponsors typically have two years to execute. If this does not occur, the SPAC is liquidated, and shareholders get their money back.

The costs incurred by the SPAC after the IPO in the search for an acquisition target are borne by the sponsors. Depending on the structure, the interest income generated by the escrow account may also be used for this purpose. The purchase of or merger with an active operating company is referred to as de-SPAC-ing or Business Combination. The de-SPAC-ing must be approved by the shareholders of the SPAC at a General Meeting. Shareholders, who vote against the Business Combination have the right to return their shares in exchange for a pro rata share of the escrow account and retain their warrants. As a result of the de-SPAC-ing, the target company becomes a listed company. For the target company, the Business Combination with a SPAC is an attractive alternative to the classic IPO.

de-SPAC preparation and structure

- Identification of the right target company or SPAC
- Due diligence of the transaction
- Negotiation of the transaction structure with the SPAC
- "Wall-crossing" of investors (old and new)
- Preparation of stock exchange documentation and, if necessary, additional PIPE financing

Marketing of the de-SPAC-ing

- de-SPAC-ing press release
- Submission of stock exchange documentation, updating the prospectus, if necessary
- Roadshow old investors
- Preparation of Analyst Day
- Roadshow new investors, preparation of share „roll-over“
- Preparation and invitation Extraordinary General Meeting

General Meeting

- Redemption of shares up to 2 days prior to the Extraordinary General Meeting, after possibility of „rollover“ to new investors
- Execution of the General Meeting
- Closing of the de-SPAC-ing

2 to 3 months

2 to 4 months

2 weeks

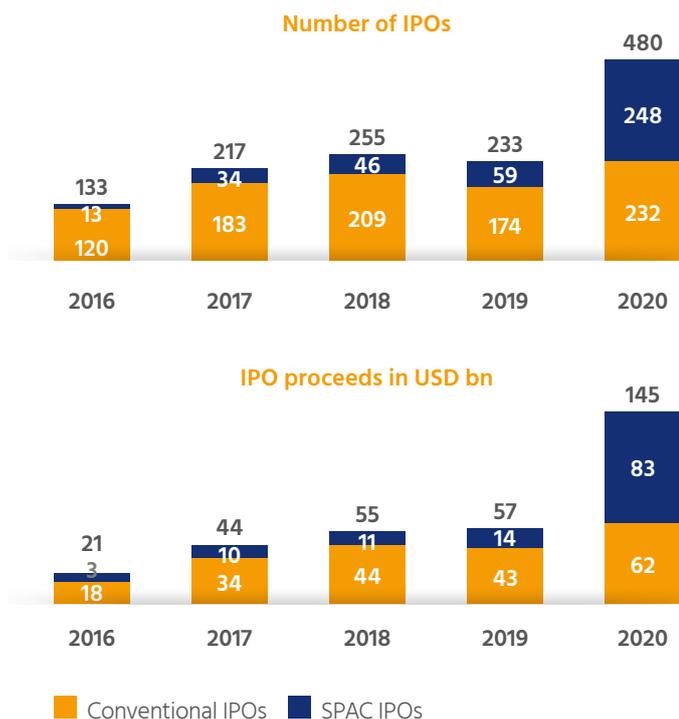
Graphic 1 – ideal-typical de-SPAC-ing-Process



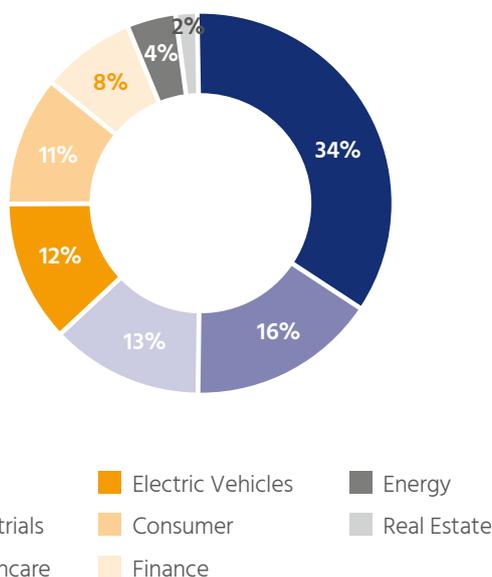
The SPAC market is booming - by April 12, 2021, 306 US SPAC IPOs had already raised USD 99 bn, i.e. 20% more than the SPACs of 2020 (USD 83 bn). More than 450 SPACs are currently looking for target companies, with preferred industries being various tech sectors.

The SPAC market was previously a purely American market, which awoke from its slumber in 2017 and has been growing rapidly ever since. In the four years 2013 – 2016, 55 SPACs went public in the USA and raised a total of USD 10.6 bn. In 2020, the preliminary peak was reached with 248 SPAC IPOs and USD 83 bn in IPO proceeds. This benchmark will be far surpassed in 2021; in addition to the 306 SPAC IPOs in the US so far in 2021, several SPAC teams are ready to go public. In Europe, the SPAC market is still in its infancy. Five SPAC IPOs since the beginning of 2020, including two in 2021: ESG Core (Euronext) and Lakestar SPAC 1 (Deutsche Börse). However, several more are expected.

The average SPAC IPO proceeds were approx. USD 330 mn per SPAC in 2020 and 2021, with a range from USD 50 mn to USD 4 bn. Usually the de-SPAC-ing transaction volume has to be at least 80% of the IPO proceeds raised and typically ranges between two and three times the SPAC IPO proceeds. Just under 50% of the 95 Business Combinations completed from 2019 to January 2021 targeted tech companies, 34% involved the TMT sector (Tech, Media and Telecoms), and 12% manufacturers of electric vehicles. Currently, more than 450 SPACs are looking for target companies for a Business Combination. In our view, the focus will continue to be on the above-mentioned tech sectors, plus fintech companies. The US SPACs are also increasingly looking at Europe as a region for targets, which means that there are very interesting options for European companies with an affinity to capital markets.



Graphic 2 – SPAC-IPOs in the USA



Graphic 3 – de-SPAC-ing companies by sector



The IPO via a SPAC offers distinct advantages compared to the classic IPO.

LESS TIME TO LISTING

The preparation for a traditional IPO usually takes 6-24 months, depending on the so-called „IPO-readiness“ of the IPO candidate. The Business Combination with a SPAC is comparable to an M&A transaction. While the successful de-SPAC-ing in 2019 took an average of 12 months after the SPAC’s IPO, it only took an average of 4.5 months in 2020. We consider a period of 6-8 months to negotiate a Business Combination Agreement and to conclude the processes following the Business Combination Announcement to be realistic.

LOWER RISK THAN CONVENTIONAL IPO

The SPAC’s existing stock exchange listing eliminates an elementary risk of the traditional IPO: the cancellation of the planned IPO due to sudden exogenous events. Also, in contrast to the conventional IPO, the „placement price“ is fixed by the Business Combination Agreement with the SPAC, i.e., you know the valuation of your company. Only the indispensable Business Combination approval of the SPAC shareholders remains a risk. 50% approval is required, as SPAC sponsors typically hold 20% of the shares, so at least 30% of SPAC shareholders need to be convinced.

LOWER COSTS COMPARED TO A CLASSIC IPO

The costs are also comparable to those of an M&A transaction and not to the high costs of an IPO. The average cost of an IPO on a US stock exchange is approx. 9-13% of the IPO proceeds. The cost of a Business Combination with a SPAC is typically significantly less, as you primarily only need a M&A and SPAC experienced advisor and lawyer.

GREATER FLEXIBILITY, PIPE FINANCING AND SPAC SPONSORS

The traditional IPO only allows certain time windows due to the need for audited financial statements - with a de-SPAC-ing, you have complete flexibility in terms of timing.

Increasingly, SPACs have completed PIPE (Private Investment in Public Equity) financings in 2020 to provide more funding for de-SPAC-ings. A PIPE is identical to a capital increase, which the SPAC structures and executes simultaneously to the intended Business Combination.

SPAC sponsors are often experienced „CxO“ managers, investors or bankers whose reputation rubs off on the target company or is „leveraged“ by the target company.



Your path to listing resp. the de-SPAC-ing process and what you need to bear in mind (using the example of a US SPAC).

1. Make sure that your company is prepared for an M&A process (investment story, data room, vendor due diligence, if applicable).
2. Identify the „right“ SPAC for your company with an experienced M&A and SPAC advisor. Not all SPACs are a good fit for you, as some SPACs may not be investing in your specific industry or region. The SPAC's investment focus is specified in its IPO prospectus.
3. Convince the SPAC of your investment story and of your „IPO-readiness“, i.e., you can comply with the rules and regulations of the respective stock exchange (in particular investor relations, reporting, compliance, corporate governance, etc.).
4. Your M&A and SPAC experienced advisor defines your company value taking into account your industry-specific M&A environment. On this basis, your advisors negotiate the Business Combination Agreement („BCA“) with the SPAC. M&A-typical components, such as earn-outs, can be integrated. Another important decision concerns your future status on NYSE or NASDAQ: foreign private issuer vs. domestic issuer.
5. Prior to signing the BCA, an experienced advisor as well as the SPAC will conduct wall-crossing meetings with SPAC shareholders to verify or obtain their support for the General Meeting. If necessary, the findings from these meetings will require an adjustment of the BCA.
6. Upon completion of the BCA, the SPAC must report on it in an ad-hoc announcement and immediately thereafter file the S-4 statement (proxy statement) with the SEC (US Securities and Exchange Commission) for review and approval. This kicks-off the formal de-SPAC-ing process.
7. Together with the SPAC sponsor, you will conduct a roadshow to convince SPAC investors as well as new investors; this is comparable to an IPO roadshow. Your advisor will provide you with comprehensive support in preparing for the roadshow, as well as for the „Analyst Day“ that will take place beforehand.
8. As from a legal point of view, the Business Combination is an acquisition of a company, the roadshow can include future-oriented forecasts in contrast to an IPO roadshow, which makes it easier to convince the old and new shareholders. This also has a positive effect on the valuation of your company.
9. The SPAC team prepares and invites to the SPAC's General Meeting during the roadshow. The (Extraordinary) General Meeting of the SPAC decides on (i) the acquisition or merger with your company, (ii) the change of the SPAC's name to your company name and (iii) the new composition of the non-executive board and the executive board. With these resolutions, your company is listed on the stock exchange.
10. You must file the Super 8-K Statement with the SEC no later than four days after the approval of the Extraordinary

CASE STUDIES





CASE STUDY 01



European CleanTech I - Second SPAC listed in Germany



Sven-Roger von Schilling founded the Luxembourg-based company European CleanTech I S.E. („ECT“) in August 2010, which successfully completed its IPO on the Prime Standard of the Frankfurt stock exchange in October 2010. ECT was the second SPAC listed in Germany after Helikos. Sven and his two SPAC partners raised EUR 115 mn in the IPO. ECT’s target focus was set in the renewable energy sector due to the experience of the three SPAC sponsors. The SPAC sponsors looked back on more than 40 years of cumulative experience in the renewable energy sector, six successful IPOs as CEO, CFO and/or shareholder - three of them with cleantech companies - as well as numerous M&A transactions with medium-sized companies. This combination of SPAC essential experience convinced the IPO underwriters.

Sven, as founder, was also the CEO of ECT. The screening for potential de-SPAC-ing targets initially included more than 300 cleantech companies, which were either headquartered in or had the majority of their business activities in Europe. The extensive analysis of the de-SPAC-ing target companies led relatively quickly to a reduction to initially just under 100 companies and finally to approx. 10 realistic de-SPAC-ing target companies. The decisive criteria were company size and capital market affinity.

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Initial Business Combination discussions were held with approx. 80 companies, ultimately with only two de-SPAC-ing partners, both IPPs (Independent Power Producers). A BCA was negotiated with the Belgian company Electrawinds, a project developer and operator of wind and solar parks as well as waste-to-energy plants (waste, biodiesel) at the beginning of 2012. Feedback from the first wall-crossing meetings with shareholders suggested that the required majority for the Business Combination resolution would not be reached at the already convened EGM, so ECT cancelled the EGM. The de-SPAC-ing structure was modified in some respects and the joint ECT-Electrawinds team went on a second, much larger roadshow. In addition to SPAC shareholders, targeted institutional investors with an explicit interest in cleantech companies were now visited. At the same time, CSSF reviewed and approved the merger documents submitted.

In September 2012, the EGM approved the Business Combination. At the same EGM, the change of the company name and the changes to the Supervisory Board and the Management Board were approved. Electrawinds was thus listed on the stock exchange.



CASE STUDY 02



VIA optronics' successful IPO on NYSE



VIA optronics ("VIA") is a German medium-sized technology company founded in 2005. VIA develops, produces and sells holistic,

interactive display solutions and systems to international customers in the automotive, industry and consumer electronics sectors.

From 2015 to 2019, VIA grew by an average of more than 40% p.a. due to its strong international expansion. To further strengthen and finance its international ambitions, the management team decided to launch an IPO. A Kloepfel Corporate Finance team, led by Dr. Heiko Frank, was commissioned with the preparation, coordination, and implementation of this process, which was unfamiliar and complex to the management team.

The first important decision of the VIA Board of Directors concerned the selection of the optimal stock exchange for VIA. Due to the more attractive valuations for technology companies in the USA as well as due to the proximity to their customers, the New York Stock Exchange (NYSE) was finally selected as the stock exchange.

Heiko and his team also structured the entire IPO process. The tasks initially included putting together the bank consortium consisting of several investment banks as well as selecting the lawyers, auditors and other advisors accompanying the IPO process. In the further course of the IPO process, KCF supported the VIA management board in particular by coordinating the preparation of the IPO prospectus and the marketing documents as well as the preparation of the „testing-the-water“ meetings with investors and the subsequent roadshow.



The focus of Heiko and his team throughout the project was primarily to relieve the VIA board in order to allow it to concentrate on the operational business and to safeguard the interests of the board, supervisory board and existing shareholders against the sometimes-diverging interests of the other parties involved in this project.

Initial Public Offering at NYSE (New York)
Post-Money Valuation of USD 380 mil.
Proceeds of USD 94 mil.

KCF acted as exclusive advisor to the issuer.



“Conducting an IPO is certainly one of the most challenging projects a company can undertake. Even more so if you choose the NYSE as your target stock exchange! Kloepfel Corporate Finance supported us in this process as corporate finance advisor in an excellent way. Thanks to the very high level of commitment and the understanding of all the necessary steps and processes by Heiko Frank and his team, we were able to complete this project, which is unique for a company, with great success. We would like to thank our colleagues at KCF for their more than outstanding performance and support!”

Daniel Jürgens, CFO - VIA optronics AG



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