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Written by:
Allan Brown

Latin America and the SPAC boom

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The popularity of special purpose acquisition companies, or SPACs as they are better known, has climbed in recent years.

A SPAC, which has no commercial operations, is formed to raise capital from a group of investors, for the purpose of investing this at a later date in a business opportunity.

They have been around for decades and are seen as having both advantages and disadvantages when compared with conventional IPOs.

Among the players involved in the SPAC space is global law firm Greenberg Traurig, which advised clients on a record US$41.7bn in SPAC transactions in 2021, more than twice the volume of such transactions the firm handled in the previous year.

To find out more about SPACs and what attracts them to Latin America, BNamericas spoke with two Greenberg Traurig SPAC specialists based in Miami: Alan Annex, shareholder and co-chair of the firm's global corporate practice (pictured left), and Antonio Peña, co-chair of the firm's Latin America practice and shareholder (right).

BNamericas: What are some of the reasons that the popularity of SPACs has grown in recent years?

Annex: One of the main reasons that a company may go public through a merger with a SPAC as opposed to a traditional IPO is that under the strict liability rules in the United States, you can't make any forward-looking statements or projections about your business future when you are marketing a traditional IPO.

In a de-SPAC with a target company based in the US, the transaction falls under the Securities and Exchange Commission's M&A rules where you're obliged to show the public everything the board of the SPAC looked at when approving the business combination. That's what allows you to provide forward-looking information, forecasts, business prospects, etc. It's particularly helpful when you're trying to tell a growth story.

BNamericas: What are some of the risks of SPACs compared with traditional IPOs?

Annex: Before I get to the risks, one of the other benefits is that you can set the valuation for the target company upfront in a merger with a SPAC. In a traditional IPO, you don't set the value until after you've cleared SEC comments and you're out on the road selling your offering.

One of the biggest risks is that a SPAC is obligated to provide a redemption offer to its original shareholders if they don't like the business combination. They can get back the original US$10-per share that they paid for their SPAC shares. Another potential risk is how much capital is available for the target company at the close of the transaction.

BNamericas: Greenberg Traurig is a leader in SPAC transactions in Latin America and Europe, pairing investors with high-growth target companies looking for capital to fuel their continued development. In this context, what attracts SPACs to Latin America?

Peña: The timing of the SPAC boom in 2021 and the increasing sophistication of investors in the Latin American market, helped create the surge in SPAC-related transactions we saw in the region. When the SPAC boom hit, we immediately got a lot of interest from target companies looking for a good way to access the capital markets. We also saw interest from increasingly sophisticated investors in Latin America, who now understand and are willing to invest in a target company that's merging with a SPAC via a PIPE [private investment in public equity].

BNamericas: What trends have you seen in recent years regarding the types of companies targeted in Latin America by SPACS?

Peña: Like everyone else, the focus is on high-growth companies. For example, there are many opportunities in the fintech industry in Latin America because there still remains a significant segment of the population that has few banking options and relies heavily on cash. New payment systems that can offer access to the financial markets to various segments of the population would provide significant growth opportunities for investors. Energy and technology are sectors where we have also seen a lot of interest because of the business fundamentals in the region.

Annex: Yes, there is definitely increased interest in energy, technology, gaming and electric vehicles to name a few.

You're not going to see, for example, a business that grows bananas attract interest from a SPAC. It's a great business and you can make a lot of money selling bananas. But you're not going to see the growth that you can expect from companies developing an electric vehicle or a lidar for use in robotics or autonomous vehicles.

A lot of de-SPAC deals are focused on companies where people see the future.

BNamericas: Do you envisage this trend continuing?

Annex: I do. You have over 500 SPACs in the US looking for targets. And there aren't enough targets in the US for them to only look at domestic companies.

There are actually more candidates that offer attractive valuations outside of the US than within the US. Also remember US companies have other options, such as private equity investments or strategic partnerships that can offer an alternative to going public through a merger with a SPAC.

BNamericas: Have you seen any trends in the types of investors who invest in SPACS focused on Latin America? For example, are there new types of investors getting in on the game?

Annex: This is where it gets complicated. The investor who invests in the SPAC is frequently looking for a place to park cash and have an option on the deal if the deal goes well and trades well.

For a de-SPAC, you have to gather investors who are interested in that business and see an opportunity to benefit from the long-term growth potential of the target company.

We have been successful with de-SPAC transactions involving LatAm companies because we have found strategic, long-term investors, such as a family office or a private equity fund focused on Latin America, who are willing to take a significant investment position. They are not going to flip these shares on day 1 when the new company's stock begins trading. They're there to be long-term holders. That's the best mix.

Peña: In several Latin American transactions, having an initial group of sponsors who are knowledgeable in the region has helped attract additional, new investors to support a deal. That allows us to go beyond just a few private equity funds.

BNamericas: Finally, what's the outlook for SPACs in Latin America? Continued growth? Holding steady?

Annex: We have seen a decline of new SPAC IPOs since the beginning of the year. But remember that we have a backlog of around 500 SPACs that need to find deals in the next 18 months. That's part of a natural trend.

We'll definitely see a lot of targeted businesses married to appropriate SPACs in the coming year. And as these SPACs roll off, then we're likely to start seeing a new wave of [SPAC] IPOs.

But in the future, SPAC IPOs are more likely to be limited to repeat SPAC sponsors who have successfully demonstrated that they know how to utilize the vehicle. You're not going to see a lot of new groups, waking up one morning and saying "Hey, I should sponsor a SPAC."

And the targets need to be at the right stage of their business development, such as a family business ready to take on outside capital for either internal planning or growth.

Peña: A lot of target companies are likely to be regional companies in Latin America, which have the requisite size to support the dilution of a SPAC business combination. Brazil and Mexico may have stand-alone companies with the requisite size but generally we see in Latin America a number of regional companies that have grown through consolidation and M&A, and are now large enough to access the capital markets to finance future growth.

Annex: One of the things I think we'll start seeing this year is more companies considering a merger with a SPAC as they are planning an acquisition. Such a transaction would give them access to capital which they might not be able to raise on their own to fund an acquisition.

BNamericas: Any final comments?

Annex: A lot of people have asked why did the SPAC market take off as it did in these last couple of years. One thing that you realize as you study capital markets is that there's a significant imbalance in the dollars available to invest in public equities and the number of public companies to invest in.

In 1999, there were about 8,000-9,000 publicly listed companies in America, now you have less than 5,000. So, you have a real decrease over time as private equity has bought all those businesses. This natural cycle has left a lot of cash sitting on the sidelines, looking for good investments. These macro-trends have been good for the growth of SPACs in Latin America and around the world.

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Phone: +56 (2) 2232 0302

Account manager: Ricardo Lillo (ricardo.lillo@bnamericas.com)