

## Spotlight on SPACs: Maintaining their value

By Troy Hooper

### **After a dreadful year, SPACs are trading up in 2023**

A Chinese special purpose acquisition company priced its shares on the Nasdaq on Wednesday, and when trading began, their value did not immediately drop. They opened 20 cents higher.

By the end of the day, Distoken Acquisition's [NASDAQ:DIST] share price stood at USD 10.19, or 19 cents above the initial USD 10 pricing. Having raised USD 60m-plus, Distoken is the third largest of the six SPACs to list on a US exchange in 2023. Like the other five, it increased in value in its market debut.

A few months ago, it likely would have been a different story, noted Jon Browne, a senior investment analyst at Chicago-based RiverNorth Capital Management, which operates funds that invest in SPACs.

A smaller supply of SPACs is helping boost demand, he said. "We are seeing price appreciation on day one, whereas five months ago any SPAC that came to market would trade down," Browne said.

Investors dropped SPACs like hot potatoes in 2022 as rising interest rates, the war in Ukraine, and fears of a global recession pushed risky investments out of favor. Blank check companies were hit particularly hard as they underwent intense regulatory scrutiny after becoming a celebrity fad in 2020 and 2021.

Merger terminations flooded the market while most of the investment vehicles posted negative gains in 2022, leading to mass liquidations. More than 100 SPACs dissolved in December, and so far in 2023 there have been at least 31 US-listed SPACs that have liquidated, according to a review of *Dealogic* data.

"Sponsors who shouldn't have come to market to begin with are not going to come back," said Browne. "But a lot of that capital will be reinvested into higher-quality SPACs. We're already starting to see it."

### **'Thinning the herd'**

There are 343 SPACs in the market seeking targets, per *Dealogic*, down from as many as 600 a year ago.

The “thinning of the herd,” Browne said, “is positive from a price perspective.” This year’s crop of SPACs “are trading much closer to their trust values than what we were accustomed to seeing last year.”

Liquidations are far from over, he noted. There are 250 SPACs set to expire by the end of July, according to *Dealogic*. Browne said he expects most of them will refund their trust money back to investors.

More than 100 SPACs have S-1s registered with the US Securities and Exchange Commission, according to *Dealogic*. Only two of those were filed in 2023. The rest of them were filed in 2022 and 2021.

A large number of SPACs on file will never actually list their shares, Browne predicted. But, if market conditions improve, many of them will, he said. They just won’t be merging with flying taxis anytime soon, he noted.

Instead, SPACs are seeking to merge with more established companies that generate cash flow, Browne explained. Carve-outs and public company spinoffs are among the viable targets, he added.

### **Asia coming into focus**

Asian businesses are also drawing strong interest from SPACs listed in the US, and many of them are actively entertaining offers, according to Drew Bernstein, co-chair of Marcum Asia, an independent public accounting firm. “For companies starved for capital, going public through a SPAC is a much quicker route than an IPO, which can take a year,” he said.

Zeekr Intelligent Technology, a China-based electric mobility technology brand of Geely Automobile Holdings [HKG:0175], is considering floating its shares through a SPAC merger, [this news service](#) reported Tuesday. The company is weighing a SPAC deal in tandem with an IPO and it has held talks with a few US-listed SPACs, the report said. Zeekr confidentially filed for a US IPO in December, reportedly aiming to raise more than USD 1bn on a valuation exceeding USD 10bn.

Amid the political tension between the US and China, Southeast Asia is increasingly becoming a breeding ground for SPAC targets, Bernstein noted. Deal sizes in the region fit the profile of SPACs that don’t boast the outsized war chests they did two years ago, he said, and transactions are less complicated than in China. Many businesses in Asia

are entrenched in Western systems and have executives that speak English, Bernstein added.

Singapore, Indonesia, Vietnam, Malaysia, and the Philippines are among the countries receiving attention, he said. US-listed SPACs are buying targets in the region for about USD 500m on average, according to *Dealogic*.

“It’s the very beginning of the game right now,” said Bernstein. “Southeast Asia is not going to replace China, given China’s size, scope and depth, but it is increasingly coming up on the radar.”

*'Spotlight on SPACs' is a monthly column that tracks the latest news, data, and analyses on special purpose acquisition companies, drawing on proprietary intelligence from Mergermarket and Dealreporter, as well as data from Dealogic.*

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