ASK THE EXPERTS WEBINAR

Navigating the SPAC Lifecycle Part 1: SPAC Formation & IPO

May 6, 2021

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KEY REMINDERS

- Riveron webcasts – past and upcoming
- 4 polling questions must be answered to obtain CPE
- If you have questions, feel free to ask in Q&A option in Zoom
- Webinar evaluation form & CPE certificate will be emailed to you
- On demand video is not eligible for CPE
- You will receive a follow up email including:
  - Access to this webinar recording and deck
  - The ability to join our Webinars Mailing list to receive future invites
  - Presenter contact info

Polling Question # 1

Is your organization contemplating a transaction with a SPAC in the next…

A. 0 – 3 months

B. 3 – 6 months

C. 6 – 12 months

D. Not at all

KEY ATTRIBUTES OF A SPAC

FORMATION	▸ A SPAC is a "**blank check company**" with the sole purpose of raising capital and identifying a target company to acquire ▸ Formed by a group of sponsors with strong experience in an industry (e.g. private equity firms, venture capitalists, other well-known investors)
CAPITAL STRUCTURE	▸ Founder Shares: The founders of the SPAC (sponsors) will receive shares that equate to a 20% ownership interest post-IPO ▸ **Public and Private Warrants**: Allow investors to purchase common stock at an exercise price after a certain period of time. Public warrants are cash settled and private warrants may be net settled
IPO PROCESS	▸ The SPAC will go through the typical IPO process ▸ Once the IPO has finalized, there is a **two-year window** to identify a target ▸ If a target is not identified, the investors' investment is returned
TARGET IDENTIFICATION	▸ Once a target is identified, a Letter of Intent (LOI) will be signed ▸ Additional funding is typically required, and will be raised through **Private Investment in Public Entity (PIPE)** ▸ Majority shareholder approval of the acquisition must be obtained ▸ Once funding and approval are secured, the acquisition will occur, and the target will be listed on the stock exchange

EXPLORING CAPITAL MARKETS OPTIONS

	SPAC	VS	IPO
	An acquisition-based event in which capital raised from SPAC investors is used to legally acquire or merge with an existing private operating company.	VS	A capital-raising event in which new shares of a private company are offered publicly for proceeds.
TIMING	Must be completed within a defined time (usually 18 or 24 months) or the SPAC investors can redeem their original investment.		Driven by market conditions and organizational readiness. With no defined timing. Going public can last from a few months to many.
MARKETING	No marketing roadshow of the private operating company occurs; the shareholder vote demonstrates marketability.		Underwriters market new shares through testing the waters and pre-trading roadshows to generate investor interest.
COMPLIANCE	More legal reporting obligations and sometimes fewer financial reporting accommodations in the Registration Statement.		Nature and extent of financial reporting obligations varies based on circumstances.
COST	No heavy underwriting or roadshow costs to market the private operating company.		Underwriters and roadshow costs are more burdensome but absorbed by offering proceeds.

For additional insights and thought leadership on SPACs, visit our website.

CAPITAL MARKET'S HOTTEST TREND

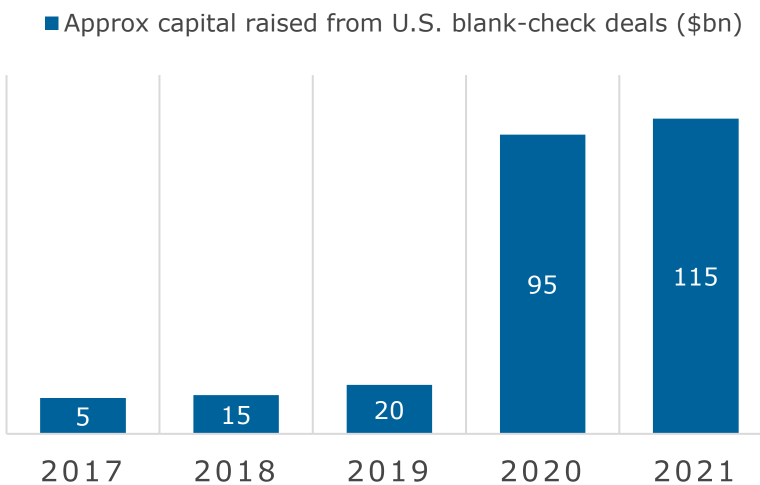
The Rise of SPACs

Companies have turned to SPACs as an attractive alternative to access capital markets. The popularity of the vehicle has reduced the perceived risk profile for these transactions and made them more inviting. However, companies still need to be prepared and aware of the complexities and potential pitfalls before choosing this route.

Accounting advisors with in-depth experience across the SPAC transaction lifecycle and perspective on the end-to-end process can guide companies through this capital markets event.

2020	2021
$95 Billion Approx amount raised by 276 SPACs in 2020	**$115 Billion** Approx amount raised by 329 SPACs in 2021
58% Percentage of 2020 IPOs that were SPACs	**72%** Percentage of 2021 IPOs that are SPACs

2021 SPACS ALREADY OUTPACE RECORD 2020



2021 Riveron-led SPAC projects

60+	15+	20+
SPAC formations	SPAC mergers	Partnerships with top legal and audit firms

Source: PitchBook, Nasdaq.com, Stock Analysis

GUIDING COMPANIES THROUGH THE FULL SPAC LIFECYCLE

Accounting advisors can guide companies throughout the entire SPAC process, from navigating the options to guidance and support during the transaction, through post close and being public.

SPAC LIFECYCLE

Formation financial reporting and IPO support

Guiding companies through the complex accounting and reporting matters including preparation of first-time financial statements, audit support, S-1 filing, and related SEC comment letter support.

Diligence and organizational readiness for post-close merger success

Vetting potential targets through integrated diligence and readiness assessments increases the likelihood of close and ensures alignment to investment strategy.

Preparing for SEC audit & required merger filings

Navigating a SPAC merger requires expertise and resources to collaborate with third party advisors and lay the groundwork for SEC-compliance once public.

Operating as a public company and SEC registrant

Achieving sustainable operations to support public company requirements across the close-to-report cycle requires a holistic approach.

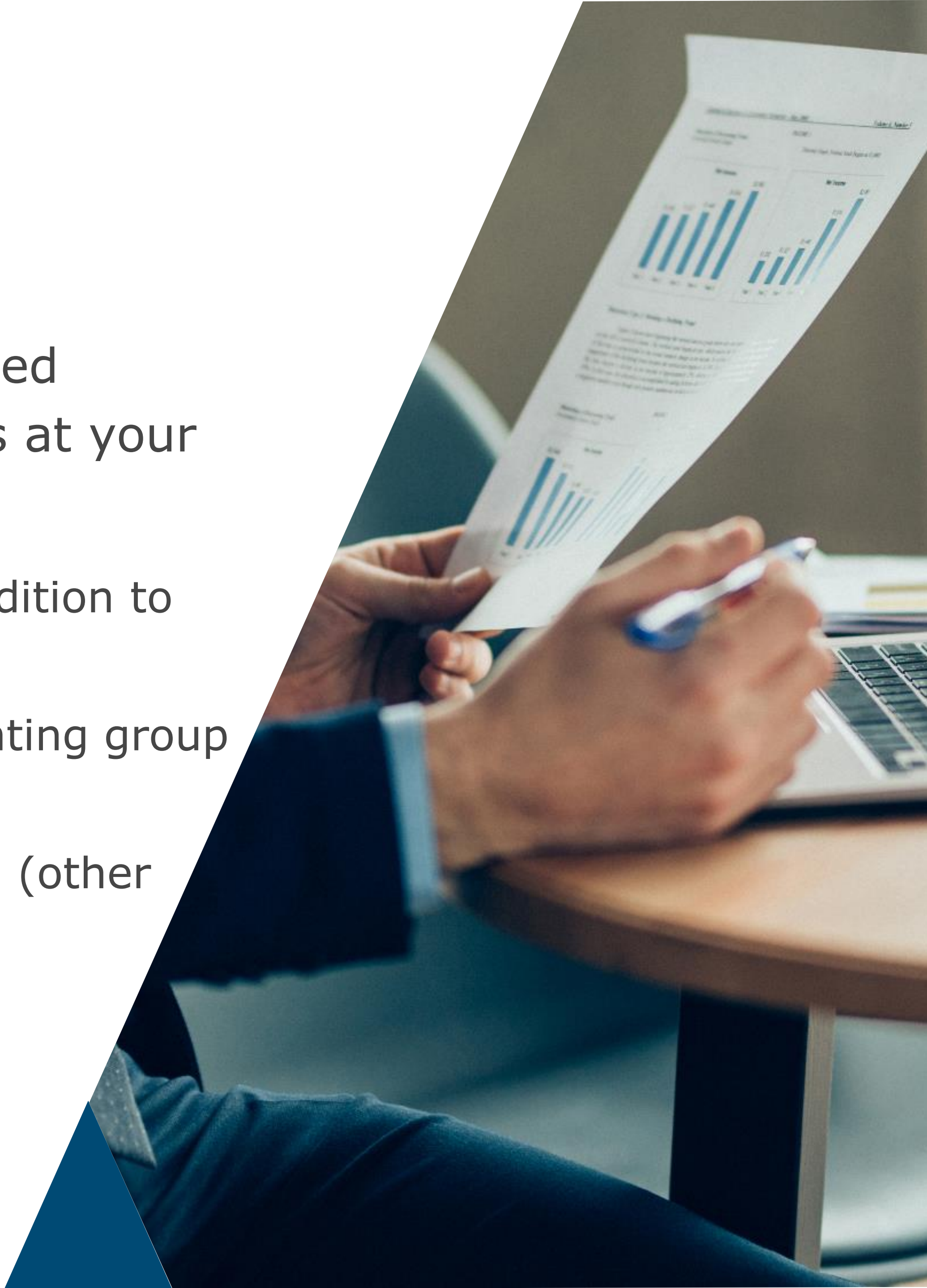
Polling Question # 2

Who has historically addressed technical accounting matters at your company?

A. The accounting team, in addition to their close process roles

B. A separate technical accounting group or individual

C. An external accounting firm (other than our auditor)

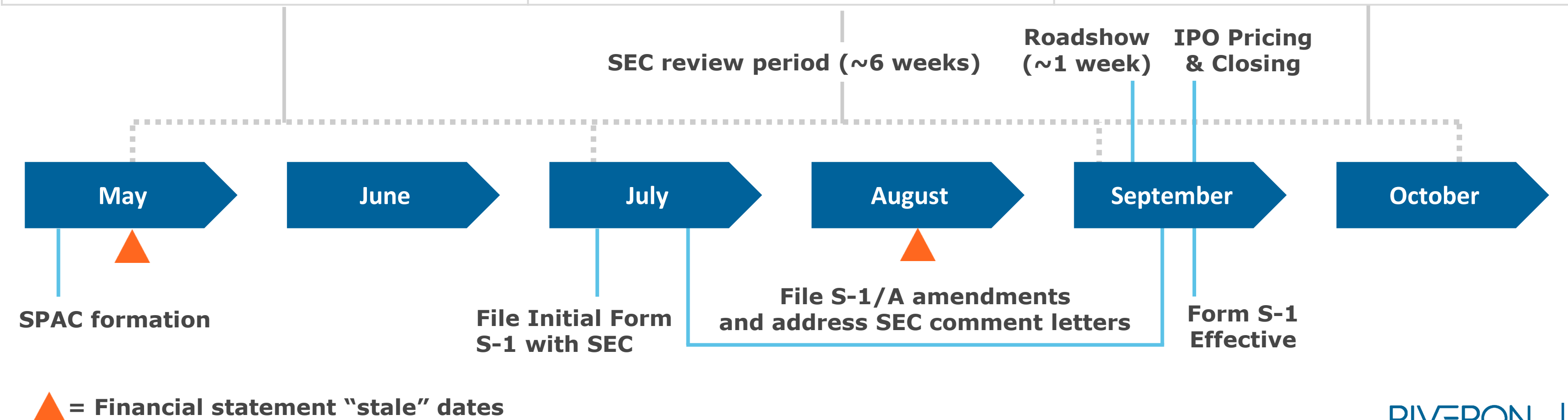


SPAC FORMATION THROUGH IPO

Management teams will navigate many complex accounting and reporting matters during the SPAC formation process, which may occur over the course of three to four months.

Illustrative Financial Reporting Timeline

SPAC FORMATION TO INITIAL FORM S-1 FILING	AMENDED FORM S-1/A FILINGS	POST-IPO
▸ Financial statements and accounting policies ▸ Auditor independence and PCAOB procedures ▸ MD&A ▸ Capitalization and dilution tables ▸ Coordination with legal team on Form S-1	▸ Auditor updated reviews and representation letters ▸ SEC comment letters ▸ IPO roadshow ▸ Auditor comfort letter ▸ Pricing supplement ▸ 424b4 at closing	▸ Annual and quarterly filings ▸ 302/906 certifications ▸ Organizational readiness and finance effectiveness planning



SPAC FORMATION READINESS
ACCOUNTING & REPORTING CONSIDERATIONS

A SPAC IPO is a complex process for many reasons. Factors that should be addressed by management early on are:

1. SPAC formation accounting and reporting:
   a. Sponsor seed investment treatment – e.g. class B shares, warrants, debt versus equity classification
   b. Directly attributable formation cost tracking and expense treatment
   c. Cash versus non-cash nature of formation costs for statement of cash flows
2. SPAC offering accounting and reporting:
   a. Directly attributable offering cost tracking and deferral to offset against IPO proceeds
   b. Article 11 pro forma presentation or capitalization table
   c. Sponsor loans (if applicable) – documentation, treatment and related party disclosures
   d. Public and private placement warrant programs – classification and related documentation
3. Auditor selection and PCAOB independence clearance and auditor upgrade procedures from AICPA to PCAOB standards
4. SEC preclearance matters on basis of presentation, if applicable
5. Earning per share reporting on the two-class method
6. MD&A structure and preparation as well as consistency with other IPO marketing materials, investor presentations, etc.
7. Coordination with company legal counsel, underwriter legal counsel, management and auditor

SPAC REGISTRATION STATEMENT ON FORM S-1
INDICATIVE ROLES AND RESPONSIBILITIES

ITEM	COMPONENT	RESPONSIBLE PARTIES
1	Prospectus Summary	MNGT, CC, BR, UC, AA
2	Risk Factors	MNGT, CC, UC
3	Use of Proceeds	MNGT, CC, BR, AA
4	Dividend policy	MNGT, BR
5	Capitalization	MNGT, CC, BR, UC, AA
6	Dilution	MNGT, CC, AA
7	Selected historical financial information	MNGT, CC, BR, AA
8	Management's discussion & analysis	MNGT, CC, AA
9	Proposed Business	MNGT, CC, BR, UC
10	Management	MNGT, CC
11	Principal Shareholders	MNGT, CC
12	Certain Relationships and Related Party Transactions	MNGT, CC

ITEM	COMPONENT	RESPONSIBLE PARTIES
13	Description of Securities	MNGT, CC
14	Taxation	MNGT, CC
15	Underwriting	BR, UC
16	Legal Matters	MNGT, CC
17	Experts	MNGT, CC, A
18	Unaudited pro forma condensed combined financial statements	MNGT, CC, AA
19	Historical audited financial statements	MNGT, CC, AA, A
20	Exhibits	MNGT, CC, A

LEGEND	
AA = Accounting Advisor	A = External auditor
MNGT = Management	CC = Company counsel
BR = Bookrunners	UC = Underwriter counsel

Polling Question # 3

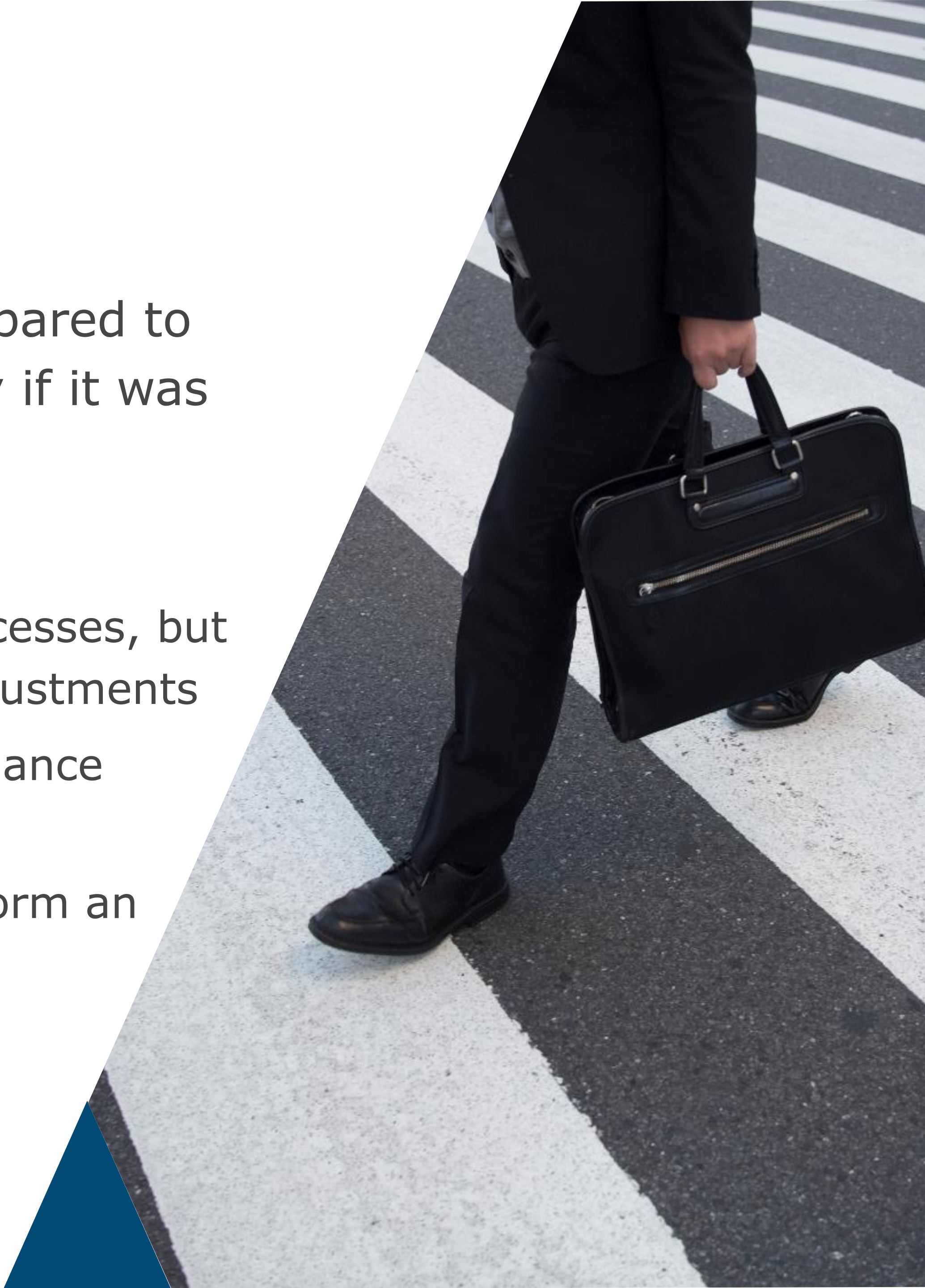
Would your company be prepared to operate as a public company if it was acquired by a SPAC?

A. Yes – with minimal uplift

B. Maybe – we have good processes, but will need to make some adjustments

C. No – our accounting and finance teams is very lean

D. Not sure – we need to perform an assessment



WARRANTS – ACCOUNTING TREATMENT AND IMPACT

The SEC recently issued a statement suggesting that most warrants issued by SPACs should be accounted for as liabilities, rather than equity

- Public and private warrant programs issued in SPAC IPOs have historically been accounted for as equity instruments under ASC 815
- The SEC points to two main provisions that trigger accounting as a liability under ASC 480 for public and private warrants:
  - **Indexation**: Variability in the settlement provisions if less than 70% of the consideration is in the form of listed shares and if the warrants are exercised within 30 days of public disclosure
  - **Tender Offer Provisions**: Potential settlement of warrants (which could include a cash settlement) under terms that may be different than the settlement with each of the holders of common stock

CURRENT IMPACT	FUTURE IMPACT
▶ An analysis must be performed for all SPACs that hold warrants ▶ If liability accounting is determined, a valuation must be performed ▶ Delays are likely for SPAC IPOs currently in the pipeline ▶ 10Ks previously filed by SPACs that are already public need to be reviewed to determine if a restatement or revision is required	▶ GAAP valuation will be required to determine fair value at each reporting period in certain instances

WARRANTS – VALUATION
VALUATION APPROACHES THROUGHOUT SPAC LIFECYCLE

Valuation approach differs depending on if there is a call option related to the Private Warrants. If no call option:

	At IPO and Reporting Periods Until SPAC Unit Split	Post-IPO Split, Pre-Acquisition	Post-Acquisition
Public Warrants	Monte Carlo Simulation ▶ Simulate the stock price to determine if call feature, based on achieving a certain share price for a certain number of days, is met. ▶ The value is based on either achieving the call threshold or value at the end of the period if not achieved. ▶ Process is repeated such that the value of the share and fractional warrant equals the $10 issue price	Level 1 Input is likely available ▶ If there is an active market, the publicly traded price could be used ▶ If not, revert to Monte Carlo Simulation	Utilize publicly traded price
Private Warrants	Utilize Black Scholes Model ▶ Time to Expiration ▶ Volatility ▶ Share Price – based on share price from Public Warrant analysis ▶ Strike Price ▶ Risk Free Rate	Continue to utilize Modified Black Scholes Model	Utilize Black Scholes Model ▶ Time ▶ Volatility ▶ Share Price ▶ Strike Price ▶ Risk Free Rate

CURRENT SPAC HOT TOPICS

As SPAC activity continues to increase, various concerns are gaining attention:

ALLOCATION OF OFFERING COSTS	▶ Offering costs will need to be allocated between warrants and equity
LIABILITY PROVISIONS	▶ Securities law liability is questioned as less stringent than for traditional IPOs ▶ Private Securities Litigation Reform Act (PSLRA) – safe harbor for forward looking statements utilized in a de-SPAC transaction
FORECASTS	▶ Forecasts are utilized in all transactions to assess the Target's viability, as well as its potential success under new ownership, when integrated with the Buyer and/or with certain operational modifications. ▶ Traditional IPOs required forward-looking statements, which are scrutinized by the SEC. ▶ SPACs can apply Private Securities Litigation Reform Act (PSLRA) – safe harbor for forward looking statements

SPAC STATS

As the number of SPACs continues to grow, these stats are gaining attention:

$200+ BILLION RAISED	▶ Median SPAC size: $250M ▶ Q1-2021 activity surpassed total 2020 by almost 20% ▶ 605 SPAC IPOs in 2020 / 1Q-21
SPACS NEED TARGETS	▶ 118 SPACs have closed de-SPAC transactions since beginning of 2020 ▶ De-SPAC transactions in 2020/2021 = $120B in invested capital ▶ Pace of new SPAC IPOs > de-SPAC transactions
$$ BILLIONS TO INVEST	▶ As the SPAC IPO count continues to rise, the pool of raised capital is growing as well ▶ Ratio between SPAC IPO size and Target valuation: median 3.9x ▶ $250M SPAC = $1B+ private company

WHAT DOES THIS ALL MEAN?

THE PRESSURE IS ON

The 18-24 month timeframe to complete a transaction applies significant pressure on sponsors to close.

- SPACs are aggressively finding deals
- SPAC IPO to de-SPAC timeline in 2020: median 7.5 months
- Timeline expected to shorten significantly in 2021

Growing concern/critique: Does this pressure disincentivize sponsors to complete adequate due diligence on Targets?

TARGETING A CLOSE

SELECTING A TARGET

- Targeted industry or niche
- Desired size or market cap
- Leadership / management team
- Goal for Target (growth, platform, etc.)
- Internal diligence to narrow field of potential targets

LETTER OF INTENT

BUY-SIDE DUE DILIGENCE

- Financial
- Tax
- Legal
- IT

Followed by:

- Representation & Warranty insurance
- Purchase agreement

DUE DILIGENCE NEEDS
COMMON BUY-SIDE DILIGENCE FOCUS AREAS

FINANCIAL

- Financial reporting & accounting processes
- Quality of Earnings
- Working capital and performance analysis
- Operating free cash flow

TAX

- Legal entity and tax structuring
- Tax risks related to successor liability
- Opportunity identification related to tax basis and savings

NEGOTIATION DRIVERS & RISK MITIGATION STRATEGIES

IT

- Organization and strategy
- Systems and business applications
- Infrastructure and scalability
- Risks and controls

LEGAL*

- Customer and vendor contract review
- Transaction structuring
- Purchase agreement drafting
- Coordination of legal documents to close

**Not a Riveron service offering*

BUY-SIDE DUE DILIGENCE GOALS

- Key takeaways from financial due diligence are a quality of earnings (normalized EBITDA analysis), assessment of the Target company's financial position (balance sheet analysis) and adjusted working capital trends (cash conversion performance).
- Assessment of the Target's accounting processes, financial reporting and the quality of information available, which should assist SPACs in understanding potential concerns with future public company reporting requirements.
- Debt-like items, tax-related concerns and other potential risk areas.
- Successful completion of Reps and Warranties Insurance evaluation.

Common issues identified in financial and tax due diligence:

Unsophisticated or underdeveloped accounting and financial reporting processes and capabilities

Inaccurate financial information

Impacts to EBITDA resulting from historical non-operational, out-of-period, erroneous reporting, non-cash, or non-recurring activities

Tax structure issues that may impact tax basis or the company's liability post-close

Significant successor liabilities related to sales/use and employment tax, escheatment & others

Significant capex needs, or other impacts to operating free cash flow

Working capital volatility, seasonality, or anomalies

On or off-balance sheet debt-like items

Concentration or risks with customers or vendors

Polling Question # 4

Does your company have valuations performed by third parties?

A. Yes - annually
B. Yes – as needed
C. No – we calculate fair value in house
D. N/A

Q & A

UPCOMING SEGMENTS IN THIS SERIES

Part 2: de-SPAC Merger Process & Organizational Readiness Phase	Thursday, May 20th @ 12pm EST
Part 3: Post-Close & Being a Public Company	Thursday, June 10th @ 12pm EST

OUR THOUGHT LEADERSHIP

- SPAC Phases: Ensuring Successful Financial Reporting
- SEC Revisits SPAC Accounting
- SPACs, DPOs, and Other Trends Shaping Capital Markets
- Q3 2020 Capital Markets Update
- Webinar: SPACS are Back: Financial Reporting and Organizational Readiness Insights
- Key Takeaways from the 2020 SPAC Conference
- SPAC Mergers: Navigating the Latest Trend in the Capital Markets
- Exploring Capital Markets Options: SPACs vs IPOs
- Webinar: Exploring Capital Markets Options in the Energy Sector
- Three Ways to Hit Your IPO Pricing Window

CONTACT US - Request to speak with one of our experts