A few more SPAC trades $FIII $TBA $KVSA

A few weeks ago, I said the tide was turning in SPAC-land.

This week, I think it's safe to say that the tide has completely gone out on SPACs.

A few weeks ago, an average SPAC merger announcement would result in a 10% pop. A good SPAC merger announcement (a good deal by a good sponsor) would pop 30% or more, and if the deal was buzzy enough >50% pops were pretty routine. An average SPAC IPO would trade up 5% on their first trade, while SPACs with good sponsors would trade at 10% premiums (or more) on the first day of their IPO. And just about every pre-deal SPAC was trading for a nice premium to trust, while pre-deal SPACs from buzzy sponsors would trade for enormous premiums. For example, IPOD (Chamath's fourth SPAC) peaked at ~$18/share in late January and consistently traded for >$15/share in February.

Things are different today. The SPAC IPO market is basically broken; almost every IPO is "breaking trust" on their first trade (I.e. they're IPO'ing for ~$10/share and their first trade is below that). Corazon Capital (CRZNU) is a perfect example; they priced yesterday at $10/share and their first trade was ~$9.80. Pre-deal SPAC premiums have come in markedly; SPGS, for example, priced in mid-Feb and opened at ~$10.80/share (an 8% premium to their $10 IPO price); today, shares are going for ~$10.10. Even buzzy sponsors have been hit; IPOD is currently trading for ~$11/share versus the

>$15/share they averaged in Feb. Remember, IPOD is a pre-deal SPAC with $10/share in trust and without warrants (the units, which include that warrants, trade under IPOD-U), so in February when it was trading >$15/share investors were so excited about the potential returns from an IPOD deal they were willing to price it at >50% above trust value, implying enormous excitement for value creation in a deal. And deal announcements today are being met with a yawn (or worse!). For example, at the beginning of March, SOAC announced an ESG rare metal / EV battery metal merger with some legitimate PIPE investors backstopping them. A month ago, that combination would have probably resulted in a $20 stock. Today, the stock is trading for $9.90/share, below their $10/share trust value.

So the tide and froth have fully come out of the SPAC market. However, as the tide has come out, the beta and correlation of all of these SPACs has gone directly to 1 (i.e. every SPAC seems to move with the whole sector regardless of "fundamentals" or what deal they've announced). That's resulted in some "baby thrown out with the bathwater" type situations. I've been saying for months that SPACs are an event investors' dream playground. The downside protection given by the $10/share redemption value that SPACs have creates incredible upside / downside. With the SPAC market washing out, I think the risk / reward is better than ever (though, unfortunately, with the SPAC market washed out, the reward is a lot smaller than when every SPAC was moonshooting every day!). So, for investors willing to do the work and dig into the SPACs / separate the wheat from the chafe, I think the current market is better than ever for buying free upside.

I think there are three ways to look to play the current SPAC market. Those are

1. Buy interesting SPACs at close to trust
2. Buy SPACs that have announced a merger at below trust
3. Buy really good SPAC deals that have been demolished in the current SPAC market carnage.

I'm going to spend the rest of this article giving a quick overview of each strategy, why I think it's attractive, and a good example deal (though, before I get there, I'll remind that nothing on here is investing advice; do your own work, read the fine print, and be careful! I'll also note I wrote this right around market close yesterday (March 24), so some of the prices might be slightly stale if you're a super stickler for blog posts getting up to the minute stock price info correct!).

Theme #1: Buy interesting pre-deal SPACs at close to trust

- What is this: The simplest of the SPAC strategies I'll mention today, and one that I touched on with OACB / TREB last week. Just go find a SPAC / sponsor that you like and buy the SPAC. Given how washed out the market is, you're almost certain to be buying them for at or below trust value.
- What's the downside? Not much. If the company announces a deal the market doesn't like, you can always redeem your stock for trust value when the merger is about to complete. So you only lose whatever premium you paid to trust plus the opportunity cost of having tied up your capital here.
- What's the upside? The company announces a killer deal that the market loves and the stock goes to the moon. DKNG, CCIV, SPCE, take your pick: all of those were originally SPACs trading for $10/share, and all of them trade for multiples of that number today.

- Can you give me an example? Sure! Consider KVSA. KVSA IPO'd earlier this month for $10/share and they have $10/share in trust; they're currently trading at ~$10.15/share so you're paying <2% above trust. This is an absolutely incredible team; the founder is #353 on the Forbes 400 list and the firm was early into mammoth homeruns like Square, Affirm, Doordash, and a bunch of others. Seriously, go check out the S-1; the firm has hit some mammoth homeruns. This is a great team to bet on, and you're doing it for barely more than trust value. The set up here is interesting too; Kholsa took a little less promote up front (unlike typical sponsors, they will get 15% of the merged firm in a completed deal versus 20%) in exchange for increasing their upside exposure (they get 5m Class K shares that only vest if the stock hits $30-50/share in the ten years after a deal goes through; all in, they'll get 30% of the equity if they hit a grandslam in the merger). And KVSA was such an in-demand IPO that they didn't have to give IPO buyers warrants; that's good when considering just buying the stock on the open market (which we are), since it means we don't have to share any upside in a good deal with warrants.
    - TL;DR: KVSA is backed by an incredible sponsor, they're trading just above trust, and their structure is much better than average and leaves more upside to accrue to the stockholders.
    - Bonus example: KVSA is a great team trading slightly above trust; if you want you can find plenty of good SPAC teams that are currently trading below trust value. Consider FMIVU. This is Forum's fourth SPAC. Their first SPAC was ConvergeOne, which was eventually acquired for $12.50/share (25% premium to initial trust). Their second SPAC was Tattooed Chef, which is not without controversy but currently trades for ~$20/share (double initial trust). Their third

SPAC, Forum III (FIII), is in the process of merging with an EV company and trades around trust (we'll talk more FIII later). So you've got a sponsor that has a reasonable history of creating value through SPAC deals, and their latest SPAC IPO'd and instantly traded below trust. I'd say there are a lot worse places to park cash than FMIVU below trust value (and remember; FMIVU is the units so it includes the warrants)!

Theme #2: Buy SPACs with an announced merger for below trust

- What is this: Buy a SPAC that has announced but not completed a merger for less than trust value. If the market gets excited for the SPAC deal between now and merger close, you'll profit. If the market doesn't, redeem your shares at merger close and capture the spread between the price you paid and trust value.
- What's the downside: Opportunity cost and user error if you forget to redeem the stock.
- What's the upside: Pretty substantial! A lot of these SPACs were trading for huge premiums to trust just a few weeks ago; if the market suddenly gets excited about them again (either because the market gets excited for all SPACs, or because the market gets excited for that specific SPAC), they could go up significantly.
- Can you give an example? Of course. Let's turn our eyes back to Forum III (FIII). They have $10/share in trust value and are currently trading for $10. They're merging with Electric Last Mile (ELMS); the meeting date hasn't been set but I would expect the merger to close in the next month or two. Initially, the market was very excited about this deal; shares traded for ~$13/share for most of this year. However, when the SPAC sell off started, FIII shares were not spared, and they've traded

straight down for the past few weeks until they hit today's share price. So the trade here is pretty simple: buy FIII now, and hope the market gets excited about them again in the next few weeks. If they do, great; sell the shares for a profit! If they don't, no worries: just redeem for trust value and you've broken even on the trade.

- TL;DR: buy FIII today for ~trust value, and hope the market gets excited about FIII again before the meeting date. If not, redeem and break even.
- Bonus example: Consider FUSE. They're merging with Moneylion. Shares are trading for ~$9.94/share versus a $10/share trust value; the deal should close in the next few months. Like FIII, the market initially loved the FUSE / Moneylion deal, trading shares up to $11-12/share, but the stock has been hammered as the air has come out of the SPAC trade. The trade is simple: buy FUSE now. If the market gets excited again, you can sell for a premium. If not, you can redeem for trust value and you'll actually make a small amount of money!
- Bonus bonus example: SVAC could give you a lot of leverage to the upside. The stock has a tontine like structure where shareholders who do not redeem their stock are given extra warrants in the company (see p. 18). The stock is currently at ~$9.90/share and trust is $10/share, creating a really interesting arb. If the market gets excited for the deal between now and close, the stock is going to shoot up because both the stock and that embedded tontine warrant are going to be worth more. If the market doesn't, you can just redeem for trust. I think there are a lot of issues with the SVAC / Cyxtera deal (the petition covered them well), but Starboard and the PIPE group here are very credible investors. Buying the stock now for a free look at the upside seems pretty

    interesting!
    - Bonus bonus bonus example: I have done almost no work on this deal, but BSPE is trading right around trust and they just announced a shareholder discount for their wines. There just has to be some type of wild arbitrage going long the stock and buying the wine at a discount, right? I'm not sure exactly what it is, but I plan on diving deep into due diligence on it....

Buy really good SPAC deals (whether before or after their deSPACing merger has gone through) that have been demolished in the current SPAC market carnage.

- What is this: buy companies that have gone public (or are in the process of going public) through SPAC deals that have been unfairly sold off in the current environment.
- What's the downside: If you're buying the SPAC before the deSPAC merger completes, you can still always redeem for trust. But if you're buying it after the SPAC merger, the downside is zero, just like it is for any stock.
- What's the upside: effectively unlimited. You're buying a normal stock at this point. It can triple or get cut in half at any time.
- Can you give an example: Much like beauty, fundamental valuation is in the eye of the beholder, so it's tough to give as concrete of an example in this category as in the other categories. That said, I've noted this a few times on Twitter, but the TBA / Ironwood deal is about the best possible outcome for a SPAC. It's a sponsor team with an unbelievable track record buying into a market leading hyper growth company at a relatively reasonable multiple. On top of the sponsor putting in

more money in the PIPE, you've got a very credible PIPE group putting in tons of money (the PIPE is bigger than the SPAC), and the majority of the current equity group are rolling their shares. Again, beauty is in the eye of the beholder, but this was one of the first SPAC deals I saw where I said, "damn, that looks interesting," and if this SPAC deal had been announced in a better market I think it would be trading at >$15. None of that means anything going forward, but I tend to think this company / deal will outperform most SPACs going forward.

- TL;DR: If you're willing to do fundamental work, you can probably find babies tossed out with the SPAC bathwater. TBA might be an example; I think it's far, far better than the average SPAC deal.
- Two Bonus Ideas: Two more that could be interesting along these lines (though their price is low enough they would fall somewhere between this category and the second "trading at trust" category): RTP, which is Reid Hoffman's SPAC. They announced a deal in late Feb with PIPEs from Uber, Baupost, and Baillie Gifford and structured the with a long term lock on the founders' shares (which should better align incentives with minority shareholders). Shares traded at $15/share before the SPAC carnage and are currently trading right around trust; it's a huge moonshot type of bet but the upside is enormous and the team and backers are certainly right for this type of opportunity. The second idea is SAII; shares are trading below trust, and Edwin Dorsey from the Bear Cave has taken a huge swing at them and will be coming on the podcast next week (for the second time; here's his first appearance!) to discuss the stock / company. Both of those companies are more start up / growthy than I normally go after, but (again) you're buying them around trust so you're getting a reasonably free look at how the market

treats them from now until deal close.

This list is not meant to be all inclusive; I could honestly list dozens of other interesting situations in SPAC land right now, but almost all of them fit into one of these three themes in some way. I think buying SPACs for less trust value is one of the best risk-rewards anyone will ever see (tails, you just redeem and get your cash back; heads, SPAC market goes parabolic again for some reason and you can make substantially more), so you could probably just throw darts at a SPAC board and make out decently from these levels. Still, with a little work and thought, I think you can create / find even more interesting plays, and I think all of the examples above certainly qualify.

PS- one last thing while I'm here. I mentioned this a little in last week's TREB post, but I think the SPAC market wash out is really good in the long run for credible sponsors and larger SPACs. If you were a ~$10B company looking to do a PIPE in Feb, literally every SPAC could come to you and credibly say, "merge with us, we have hundreds of people trying to get in our PIPE group, we can get a deal of any size done." Today, the PIPE market is dry, and I suspect a lot of SPAC deals are going to fail their vote. Having a credible sponsor who can say, "we can get this deal done without a PIPE, and our investors trust us enough to vote for a deal," will become a big edge in negotiations.