Quickie idea: two SPACulations $TREB $OACB

This post is another in a series I do on an irregular basis. A "quickie" idea is an investment specific idea that I've been mulling over and find interesting, but haven't dove fully into yet. The hope is to provide the jumping off point for a discussion of an idea I find extremely interesting right now, as I suspect the opportunity could be fleeting.

Regular readers know I've been obsessed with SPACs recently. Half of my predictions for 2021 involved SPACs, they featured prominently in my 2021 state of the markets, and last summer I called them the most ludicrous bubble we'll ever see. But I think that history undersells my SPAC-obsession a little; I'm so obsessed with SPACs that I flat copy and pasted the first half of this paragraph from last week's post on the SPAC bubble (potentially) popping and it fit in perfectly.

So I've been more than a little obsessed with SPACs recently. But there's a reason for that obsession: I think the structure of SPACs has created incredible risk/rewards for investors willing to think a little creatively and maybe take some controlled speculation.

Today, I want to (quickly) dive into two different SPACs, because they're relatively simple cases that I think do a nice job of showing why I'm so interested in SPACs right now.

The two SPACs I want to discuss are Trebia (TREB; prospectus here) and Oaktree II (OACB; prospectus here). As I write this, each of those SPACs is trading for ~$10.15, and neither has announced a deal.

That's actually the crux of this thesis: each of these SPACs is pre-deal and trading for just over trust value ($10/share). I like the downside protected nature of this bet; if either SPAC announces a deal the market loves, your upside is effectively unlimited. If the market hates the deal, your downside is limited to the small premium to trust you paid plus the opportunity cost (the time you had capital tied up in the SPAC), as you'll just be able to redeem your shares for cash when the deal comes up for a vote.

Still, after the recent washout in SPACs, there are plenty of SPACs that are trading around trust value. What is it about TREB and OACB that warranted a special call out?

Well, first, each is backed by credible sponsors who have done SPAC deals in the past that the market loves. TREB is backed by Cannae (CNNE); CNNE has sponsored two other SPACs that have already announced deals. Those SPACs are BFT and WPF; as I write this, BFT is trading for ~$16.60/share and WPF is trading for ~$10.45/share. Both of those SPACs have $10/share in trust, so the market clearly loves the BFT deal and is "meh" on the WPF deal. It's obviously a small sample size, but CNNE is batting ~50% in terms of announcing deals that the market goes parabolic for. CNNE is also run by Bill Foley of FNF fame, who has a long track record of value creation through M&A. So in TREB you have a sponsor with a history of value creation in both SPAC M&A and merger M&A.

OACB is a similar story; this is Oaktree's second SPAC. Their first SPAC merged with HIMS and is currently trading for $16.50/share; again, small sample size, but this is a team that has shown they can announce a SPAC deal that the market will love. Also, similarly to FNF, Oaktree clearly has a history of value creating M&A, so you're getting a team with a history of value creation both in the SPAC world and in just general M&A.

Second, each of these SPACs is a little more seasoned; Trebia IPO'd in June 2020, and OACB IPO'd September 2020. A lot of the SPACs trading for around trust are SPACs that just IPO'd in the past month or so. The fact TREB and OACB have been around a little longer increases the odds they announce a deal in the near term, which means your potential catalyst (a deal "pop") and your IRR is likely to be better.

In fact, we know with TREB that a deal could be imminent. Again, TREB is sponsored by CNNE, a publicly traded company, and on their Q4'20 earnings call at the end of February they had this to say about Trebia,

> "*the Trebia SPAC is fairly far along with the -- in negotiating and concluding that transaction. And we expect that to be announced sometime in the next 45 days or so.*"

Obviously, things can change quickly in M&A. Maybe the Trebia deal hit a snag or fell apart. But I don't think Foley is the type to go onto a conference call and outright lie about a deal; if he said they expect to announce a deal in the next 45 days, I would expect that a deal was in fairly late stage negotiations and there was an extremely good chance the deal would cross the finish line and get announced. Again, that means the potential catalyst (a deal announcement / pop) is in the very near future for Trebia.

The third thing I like about each of these SPACs is that they are backed by deep pocketed sponsors. Now that the SPAC market has washed out a bit, I think potential sellers are going to pay a lot more attention to "likelihood of closing" when negotiating deals. Given Oaktree and Cannae's track records and reputations, I think sellers are going to gravitate much more to selling to them than some fly by night SPAC where shareholders might vote a deal down. If sellers are really demanding closing certainty, Oaktree and Cannae each have deep enough pockets to write big PIPE checks to ensure a deal gets through no matter how shareholders vote (Cannae actually has a $75m forward purchase agreement to fund a PIPE on any deal TREB announces, but I'm sure that could be increased if they announced a big deal or if a seller really needed closing certainty).

The fourth and final thing I like about these SPACs is the underwriting banks. These SPACs were underwritten by big, reputable banks (Deutsche and Citi for Oaktree; Credit Suisse, BoA, and Moelis for Trebia). When the SPAC market was absolutely en feugo, it didn't really matter what bank underwrote which SPAC. But now that the market has come out, I think having had top tier-ish banks underwriting your SPAC is another competitive advantage just because it opens a few extra doors for financing deals, getting access to sales processes, getting post-deal coverage, etc. Again, this isn't the biggest issue, but in a market as awash as the current one is in with SPACs at trust, if you're going to "speculate" a little on a SPAC why not chose the SPACs backed by the best management teams and underwriters?

So, to wrap this up, the idea here is simple. TREB and OACB are trading close to trust. They've got management teams with a history of creating M&A value. If they announce a deal the market loves, you win. If the SPAC market catches fire again, you win. If they announce a crappy deal the market hates, you lose.... but you only lose the premium to trust and a little bit of time value and opportunity cost.

Is it a speculation? Sure. But it's a controlled speculation with almost no downside risk and big potential upside.

I like those odds.