RECENT TRENDS IN EUROPEAN SPAC IPOS AS OF APRIL 2022

SPAC IPOs with listings on European exchanges had a record year in 2021, but the number of listings has slowed in 2022

Key issues

- European SPAC IPOs continued at a steady pace in the second half of 2021, but the number of deals has decreased in the first months of 2022
- Key deal terms have changed in Europe in line with US SPAC deal structure changes, including shorter maturities, overfunding structures, and a stronger alignment of the promote schedules with SPAC investor interests
- Depending on market and regulatory environments, we expect to continue to see SPAC IPOs launch in Europe in 2022 albeit in a more measured way

INTRODUCTION

SPACs are companies without their own business operations that offer so-called "units" to the public and then use the proceeds of their IPO to facilitate a business combination (referred to as a "de-SPAC transaction") with a target company or business not yet identified at the time of the SPAC's IPO.

Units in European SPAC IPOs are nearly universally offered at €10 per unit or £10 per unit. The units typically comprise shares as well as fractions of warrants that entitle their holders to acquire additional shares at a premium to the IPO offering price (often €11.50 per share or £11.50 per share, respectively). The founders of the SPAC are in most cases experienced managers with specific industry or private equity experience.

This client briefing sets out a summary of European SPAC IPOs since July 2021 up to April 2022 and focuses on structural trends in the key commercial terms of European SPAC IPOs.

DEVELOPMENTS IN EUROPEAN SPAC IPOS IN LATE 2021 AND EARLY 2022

The number of SPACs which completed an IPO with a listing in Europe ("European SPACs") is considerably lower than the number of SPACs currently listed in the United States ("US SPACs"). In 2021, the number of SPAC IPOs in the United States reached over 600, more than double the number of successful SPAC IPOs in the United Sates in 2020.[1] In contrast, SPAC IPOs with European listings in 2021 only numbered around 35.

The momentum has slowed in the first months of 2022, because of an expectation of rising interest rates, due to concerns relating to regulatory considerations, and in the wake of the Russian invasion of Ukraine. However, despite the invasion, New Energy One Acquisition SPAC, backed by Italian oil and gas group Eni SpA, successfully completed its listing in London in March 2022 and Financials Acquisitions Corp in London in April 2022.

The following table provides an overview of European SPACs which closed IPOs from July 2021 to April 15, 2022:

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[1] SPAC 2021 Year-End Review and 2022 Preview: Tailwinds, Headwinds, and Regulatory Landscape, January 7, 2022, https://www.jdsupra.com/legalnews/spac-2021-year-end-review-and-2022-6792705/.

Date of IPO	Listing	Name of SPAC	Size of SPAC	Ratio of warrants	Initial Maturity	Cash in trust	Promote schedule
Jul 2021	Amsterdam	Odyssey Acquisition B.V.	€300m	1/3 per 1 share	24 months	100.0%	1/3 at BC, 1/3 at €12 and 1/3 at €14
Jul 2021	Paris	I2PO SA	€275m	1/3 per 1 share	24 months	100.0%	1/3 at BC, 1/3 at €12 and 1/3 at €14
Jul 2021	Amsterdam	Energy Transition Partners B.V.	€175m	1/3 per 1 share	24 months	100.0%	½ at BC, ½ at €12
Jul 2021	Amsterdam	VAM Investments SPAC B.V.	€210m	1/2 per 1 share	24 months	100.0%	1/3 at BC, 1/3 at €12 and 1/3 at €13
Oct 2021	Helsinki	Lifeline SPAC I	€170m	1/3 per 1 share	24 months	100.0%	16% at BC, 42% at €12 and 42% at €14
Oct 2021	Amsterdam	Disruptive Capital Acquisition Company	£125m	1/2 per 1 share	15 months	102.5%	50% at BC and 50% at £13
Oct 2021	Frankfurt	GFJ ESG Acquisition I SE	€150m	1/2 per 1 share	15 months	102.0%	1/3 after lock-up (none at BC), 1/3 at €12 and 1/3 at €13
Nov 2021	Amsterdam	SPEAR Investment I BV	€175m	1/2 per 1 share	15 months	102.0%	50% at BC, 25% at €12 and 25% at €14
Nov 2021	Amsterdam	European Healthcare Investment BV	€200m	1/3 per 1 share	24 months	100.0%	25% at BC, 25% at €12, 25% at €15 and 25% at €20
Nov 2021	London	Hambro Perks Acquisition Company	£140m	1/2 per 1 share	15 months	102.5%	40% at BC, 30% at £12 and 30% at £14
Dec 2021	Amsterdam	EPIC Acquisition Corp	€150m	1/2 per 1 share	17 months	102.0%	50% at BC, 25% at €11.5 and 25% at €13
Dec 2021	Zurich	VT5 Acquisition Company	CHF200m	1/3 per 1 share	24 months	100.0%	100% at BC
Dec 2021	Amsterdam	Pegasus Entrepreneurial	€210m	1/3 per 1 share	18 months	100.0%	50% at BC, 25% at €11.5 and 25% at €13
Dec 2021	Amsterdam	Brigade-M3 European Acquisition Corp	$250m	1/2 per 1 share	18 months	102.0%	100% at BC
Jan 2022	Frankfurt	468 SPAC II	€210m	1/3 per 1 share	18 months	100.0%	5% at BC, 28% at €10, 1/3 at €12 and 1/3 at €14
Feb 2022	London	Hiro Metaverse Acquisitions I SA	£115m	1/2 per 1 share	15 months	103.0%	50% at BC, 25% at £12 and 25% at £13
Feb 2022	Amsterdam	GP Bullhound Acquisition I SE	€200m	1/2 per 1 share	15 months	102.5%**	40% at BC, 20% at €15, 20% at €20 and 20% at €25
Mar 2022	London	New Energy One Acquisition Corporation Plc	£175m	1/2 per 1 share	15 months	103.25%	40% at BC, 30% at £12 and 30% at £14
Apr 2022	London	Financials Acquisition Corp	£150m	1/2 per 1 share	15 months	100.0%	50% at BC, 25% at £11.50 and 25% at £13

* BC = Business Combination ** In case of extension resolution(s) to extend the deadline for a de-SPAC transaction, the redemption value is increase to 103.0% and then 103.5%

TRENDS IN DEAL STRUCTURE

Listing Location

European SPACs have listed on various stock exchanges in the EU. By far the most prominent stock exchange choice in the second half of 2021 has been

Euronext Amsterdam, with about half of all SPAC listings, while London has been the most prominent stock exchange choice in 2022 so far. The other listing locations have been Frankfurt, Paris, Helsinki and Zurich. The VT5 Acquisition Company listing in Zurich was the first SPAC listing in Swiss Francs and listed on the Swiss SIX Exchange.

Amsterdam has been popular as a listing venue for SPACs in 2021, continuing the trend of the initial wave of SPAC IPOs in Europe. However, the four SPACs which listed in London (Hambro Perks Acquisition Company, Hiro Metaverse Acquisitions I SA, New Energy One Acquisition Corporation Plc and Financials Acquisition Corp) indicate a trend that, following the introduction of a new listing regime for SPACs in the UK in August 2021[2], SPAC sponsors are also opting for London as a listing venue. This is noteworthy, because UK companies have accounted for the relative majority of de-SPAC transaction targets in 2021 in Europe, with many of the UK targets merging with US listed SPACs. London listed SPACs provide an alternative route for a de-SPAC for UK (and other European or emerging markets) companies to list through a SPAC transaction.

The listing location and jurisdiction of incorporation of SPACs is important (i) for the ease of regulatory review for a SPAC IPO when setting up a SPAC and for obtaining regulatory approval for the SPAC's securities prospectus, (ii) because the target company that the SPAC merges with will be listed on the stock exchange where the SPAC is listed following a de-SPAC transaction, and (iii) for marketing purposes during the SPAC IPO towards potential SPAC investors and in relation to negotiations with potential target companies.

SPAC IPO size

When the US SPAC boom carried over to Europe in early 2021, the European IPO market saw several SPAC IPOs with very large offering volumes including the €483 million SPAC IPO of Pegasus Acquisition Co Europe BV in April 2021, the €382 million IPO of European FinTech IPO Co 1 BV and the €441 million IPO of Hedosophia European Growth (all listings in Amsterdam). All of the SPAC IPOs in the first half of 2021 in Europe until early June 2021 were issued with a volume at or above €200 million.

Offering volumes have generally declined since June 2021 to approximately €200 million (or the equivalent) and often below this size. This trend reflects (i) the more mature SPAC market with many SPACs already listed and competing for targets, and (ii) a rising interest rate environment, which means investors are less willing to "park" large sums in SPAC trusts / escrow accounts for an extended period of time.

Maturity of SPACs

One of the clearest signs of the rising interest rate environment and investor expectations of more speedy processes for SPAC transactions after the IPO has been the reduction of stated initial maturities for SPACs (i.e. the initial period that a SPAC sponsor team has to find a target and negotiate a merger), both in the US and in Europe. While most of the European SPACs had initial maturities of 24 months from the IPO date (including extension options) until October 2021, maturities in SPAC IPOs after that date have been significantly

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[2] For more information on the changes to the listing rules for SPACs following recommendations form Lord Hill in his UK Listing Review report, see our Clifford Chance client briefing from 4 August 2021 https://www.cliffordchance.com/briefings/2021/08/fca-publishes-its-final-rules-for-spacs.html.

reduced with all four of the most recent European SPAC IPOs in 2022 incorporating a 15-month initial maturity profile.

To further mitigate the potential exposure of investors to investments in a SPAC, extensions are (both in the US and Europe) now generally either excluded or only included when the SPAC shareholders approve an extension by a shareholder vote. GP Bullhound Acquisition I SE added an additional protection for investors, by increasing the redemption amount to investors for each three-month extension of its initial 15 months period, a concept that had already been used by Hambro Perks Acquisition Company before.

Overfunding the trust/escrow account

Up until the early fall of 2021, the standard for European SPAC IPOs was to offer investors a redemption amount for their invested capital at 100% of their investment. This meant that if a SPAC did not find a target for a merger or if a SPAC investor opted to redeem its investment at the business combination, a SPAC investor would receive its investment back, but without any return above the initial investment. Due to the rising interest rate environment and in order to make SPAC IPOs more attractive to investors, most European SPACs since the fall of 2021 have now added an overfunding amount (provided by the SPAC sponsors) which means investors receive 102% or more back in case of a redemption event with such overfunded percentage increasing in case the maturity period is extended.

Warrant Ratio

Warrants are issued as part of a SPAC IPO to provide an additional return to investors in case the share price of the SPAC following its merger rises. For a full warrant, an investor is entitled to receive one additional share at a stated exercise price (typically €11.50 or £11.50), which provides an additional upside for SPAC IPO investors if the share price rises above €11.50 or £11.50. SPAC investors can hold on to their warrants, even if they opt to redeem their initial investment at business combination (or sell their shares in the SPAC before a de-SPAC transaction) or otherwise monetize their warrants through the market.

The European SPAC market has seen a shift towards structures that include 1 warrant per 2 shares or 1 warrant per 3 shares to investors at the SPAC IPO. In contrast, in the first half of 2021, most SPAC IPOs in Europe provided 1 warrant per 3 shares with two SPACs even opting for either 1 warrant per 4 shares or 1 warrant per 5 share, with no SPAC IPOs offering 1 warrant per 2 shares.

Promote Schedule

To help market a SPAC IPO, the SPAC sponsors have to clearly align their own interests in the potential de-SPAC transaction with SPAC IPO investors. One way to achieve this is that, as part of the promote schedule, SPAC sponsors receive shares in the target company depending on the share price of the company the SPAC completes a business combination with.

In the first half of 2021, several European SPACs marketed their IPO with a promote schedule more favorable to the SPAC sponsors which provided the SPAC sponsors with a 100% conversion of their shares into shares of the merged target at business combination. Other promote schedules in the first half of 2021 have included staggered thresholds, with the highest trigger to vest shares of SPAC sponsors / founders at €14 per share, but also several promote schedules with the highest trigger at only €12 per share.

Towards the end of 2021 and in the early 2022 European SPAC IPOs, several promote schedules have been set with higher target share prices. Most notably, European Healthcare Investment BV, which completed its IPO in November 2021, included a promote schedule of 25% at each of the business combination and when the trading price of the enlarged entity reaches €12, €15 and €20 per share. GP Bullhound Acquisition I SE has been likewise more restrictive with their promote targets at 40% at business combination, 20% when the trading price per share reaches €15, 20% when the trading price reaches €20 and 20% when the trading price reaches €25.

EUROPEAN REGULATORY ENVIRONMENT

The European regulatory environment for SPAC IPOs has generally been settled following the initial review of SPAC structures by regulators in late 2020 and early 2021 (with the exception of the UK, see below for further details). Initially, several regulators struggled with this new instrument. In particular, the EU Alternative Investment Fund Managers Directive and national legislation implementing it was deemed an obstacle to SPAC IPOs. The directive prohibits the management of an alternative investment fund ("AIF") or marketing shares or units in an AIF without having the relevant management or marketing authorization. To avoid being considered as an AIF, SPACs can be structured to fall within exemptions provided for operating companies outside the financial sector or holding companies.[3]

Several regulators have reviewed their SPAC rules and listing framework over the course of 2021, including most notably the UK FCA, to facilitate SPAC IPOs. In the UK, this led to new rules for SPACs being introduced in August 2021 which has opened the UK as a credible and viable SPAC listing venue.

Outside Europe, the US Securities and Exchange Commission (SEC) has recently proposed dramatic changes to the rules applicable to US SPAC IPOs, which may have consequences on the market and/or regulatory environment in Europe.[4] Though the impact remains uncertain, the US rules could, for example, entice sponsors of SPACs with an international target focus to look towards a European SPAC listing as an alternative to a US SPAC IPO.

CONCLUSION

While SPAC IPOs with listings in Europe have not seen the same level of activity as in the US, there is now a firmly established route to market for SPACs in Europe. Euronext Amsterdam has been the dominant listing venue with other stock exchanges such as London, Frankfurt and Paris also attracting SPAC listings. The number of completed SPAC IPOs did not significantly slow in the second half of 2021 compared to the first half but there has been a significant slowdown in the first months of 2022 with just five SPAC IPOs successfully completed through April 2022.

Due to changes in inflation, a rising interest rate environment and changed investor expectations for SPAC IPOs, the terms for successful offerings have changed in recent months and generally become more investor friendly.

Given the large number of US SPAC IPOs and growing number of European SPAC IPOs, there is a considerable backlog of potential de-SPAC

[3] For more information on the AIF point, see the Clifford Chance client briefing at https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2021/02/spacs-in-europe.pdf

[4] For a detailed discussion of the proposed enhanced protections for SEC investors, see the Clifford Chance client briefing at https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2022/04/SEC%20Proposes%20To%20Enhance%20Protections%20For%20SPAC%20Investors.pdf

transactions in both the US and Europe. European SPACs will likely face competition from US listed SPACs throughout 2022 and beyond, given the large number of US SPACs currently searching for suitable targets.[5] In addition, other jurisdictions such as the UAE have also recently put frameworks for SPAC IPOs in place, which could have an impact on the overall SPAC market dynamic.[6]

[5] See our Clifford Chance client briefing on de-SPAC transactions of European targets with US listed SPACs https://www.cliffordchance.com/briefings/2022/03/de-spacs-between-european-targets-and-us-listed-spacs.html

[6] See our Clifford Chance client briefing on the SPAC regime in the UAE https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2022/02/SPAC-regime-arrives-in-the-uae.pdf

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