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Il Sole 24 Ore

Three roads lead to SPACs

Invest in an IPO, use an asset management company or invest in equity

by Gabriele Petrucciani

SPACs (special purpose acquisition companies) have found increasingly fertile ground in Italy, after a tentative start. The first Italian SPAC, Made in Italy¹³, was listed on the AIM sub-market in 2011, followed by Sesa, "which was a success," declared Massimo Trapattoni, equity manager for Italy at Kairos. "However, it was just a drop in the ocean." The market then changed and SPACs began to attract growing interest, "particularly given their chief characteristic," continued Trapattoni, "which was to help companies come to the stock exchange. It's a model that has fitted well into a market that has seen the launch of individual savings plans (ISPs, Italian initials PIRs) focusing chiefly on small and medium-sized enterprises (SMEs). Today's SPAC market is blooming." In fact, there are now 26 such vehicles, 13 of which were set up in the last twelve months. And of these, 13 have already fulfilled their purpose, merging with an existing company.

"In Italy, because of the particular fabric of its economy, we have seen a majority of operations involving manufacturing companies," explains Massimiliano Cagliero, CEO of Banor Sim. And what are the returns? "Looking at the sample of SPACs that have already completed a business combination, the average return from the increase in value of the investment, from listing to now, is about 10% per year," answers Cagliero. "Added to this is the extra return from warrants." Taking individual cases, the highest annualised internal rates of return (IRRs) are those of Space, which was listed in December 2013 (+20%), EPS (+18%) and Made in Italy (+17.4%). In general, almost all have produced a positive IRR. The only exceptions are Sprint Italy (-1.8%), which was launched less than a year ago though, and Greenitaly¹ (-4.4%).

How to invest

To invest in SPACs, you can put money directly into the IPO or use an asset management company, where the fund manager chooses the SPAC. "There's another way, as well," explains Cagliero. "You can invest directly in the equity but buying after the business combination. Sometimes, after the merger, the market price drops considerably, which offers an opportunity." Alternative, you can use ad hoc funds, such as the one set up by Azimut: IPO Club. "It's a closed-end fund that has raised about 150 million euros and invests in financial instruments issued mainly by pre-booked companies, investment vehicles that are a spin off from SPACs

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and were set up by IPO Club to channel investors' capital into the purchase of minority shares in top-notch medium-sized Italian companies to be listed on the stock exchange," explains Paolo Martini, CEO of Azimut Capital Management and joint general manager of Azimut Holding.

Benefits and risks

SPACs allow investors to tap into opportunities in the real economy by investing in first-rate Italian SMEs. The risks are really very few, not least because if the business combination doesn't go ahead, you can opt out of the investment and have your capital reimbursed in full. And if you don't agree with the merger that's been selected, you can withdraw from the investment and again get your capital back. There are advantages not only for investors, though. "From the companies' point of view", adds Martini, "SPACs support business owners' development projects by bringing in new capital and during the listing process". As for the risks, the main one is liquidity. It may take from 24 to 30 months before the business combination is achieved. So it's important to invest capital during that period that is not needed elsewhere. "Finally, there's also the market risk, which many disregard", warns Trabattoni. "During the first stage there are no specific risks, but after the business combination is achieved, the SPAC becomes a share and is therefore subject to the law of demand and supply. This concept, unfortunately, is not yet well understood by investors."

Listed vehicles

They are listed on Aim Italia, the sub-market for SMEs. In 2017, 14 SPACs were offered to investors. In total more than 3 billion euros was raised

The main SPACs listed on the Italian stock exchange

Millions of euros.

Name	Listing date	Capital raised	Target purchased
Italy 1	Gen. 2011		150 IVS
Made in Italy 1 spa	Giu. 2011		50 Sesa spa
IPO Challenger*	nd		52 Italian Wine Brands
Space	Dic. 2014		130 Fila spa
Industrial Stars of Italy	Lug. 2013		50 Lu-Ve spa
GreenItaly 1 spa	Dic. 2014		35 Zephyro spa
Space 2**	Lug. 2015		154 Avio spa
Capital for Progress 1 spa	Set. 2015		51 GPI
Glenalta Food	Nov. 2015		80 F.lli Orsero
Industrial Stars of Italy 2	Mag. 2016		50,5 Siit
Innova Italy 1	Ott. 2016		100 nd
IPO Club***	Fondo chiuso		120 nd
Space 3	Apr. 2017		154 Acquafil
Crescita	Apr. 2017		130 Cellular Italia
IPO Challenger 1	nd		20 Pharmanutra
Glenalta 2	Lug. 2017		98 nd
Spint Italy	Lug. 2017		150 nd
EPS	Lug. 2017		150 nd
Capital for Progress 2	Ago. 2017		65 nd
Industrial Star of Italy 3	Ott. 2017		150 nd
Spactiv	Set. 2017		90 nd
IdeaMi	Dic. 2017		250 nd
Space4	Dic. 2017		500 nd
Spaxs	Gen. 2018		600 nd
Alpi	Gen. 2018		100 nd

(*) Since the SPAC evolved into a pre-booking company, it issued bonds refundable as shares + warrants of the potential target when admitted to listing (reserved IPO of target);

(**) Initially 308 million, of which 154 million for BCV Avio and 154 million split off to a Newco, also an SPAC named Space 3, with which the operation involving Acquafil was conducted;

(***) Technically, this is not an SPAC but a closed-end fund, set up by Electa and Azimut to provide 30% of a series of SPACs, fast track pre-booking companies promoted and selected by Electa and Azimut, which will in turn include direct professional investors. The potential total cumulative investment is estimated at over 400 million euros.

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