Alternative Investments in View

How Will Recent SEC Scrutiny Impact the Viability and Valuation of Special Purpose Acquisition Companies (SPACs)

DUFF & PHELPS

A KROLL BUSINESS

May 19, 2021

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Panellists

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OVERVIEW

David Larsen is a managing director in the Seattle office of Duff & Phelps and part of the Alternative Asset Advisory service line. He has more than 35 years of transaction and accounting experience. He specializes in fair value accounting issues, and specifically in valuation, accounting, and regulatory issues faced by Alternative Asset managers and investors.

David advises leading Private Equity Managers and Institutional Investors and has advised numerous strategic and private equity acquirers in all areas of mergers, acquisitions, joint ventures, divestitures and valuation related maters. He provides valuation policy and process assistance to a number of the world's largest institutional limited partner investors and some of the world's largest alternative Investment managers.

BACKGROUND

David is a member of the International Valuation Standards Council Standards Review Board, an advisor to and has served as Vice Chair of the International Private Equity and Venture Capital Valuations Board (IPEV), which in 2018 released updated International Private Equity Valuation Guidelines and serves as a member of the American Institute of Certified Public Accountants (AICPA) PE/VC Practice Guide Task Force. David has served as a special advisor to the Institutional Limited Partners Association; board member, project manager and technical advisor to the Private Equity Industry Guidelines Group and was instrumental in developing and drafting the Private Equity Industry Guidelines Group's Valuation and Reporting Guidelines; member of the Financial Accounting Standards Board's Valuation Resource Group responsible for providing the Board with input on potential clarifying guidance on issues relating to the application of the principles of FASB ASC Topic 820 (formerly SFAS No. 157), Fair Value Measurements and a member of the AICPA Net Asset Value Task Force.

Prior to joining Duff & Phelps, David was a Partner in KPMG LLP's Transaction Services practice, where he was the segment leader of KPMG's U.S. Institutional Investor practice. He served 13 years in KPMG's Seattle, Düsseldorf and Prague audit practices prior to moving full time to advisory work.

David received his M.S. in accounting from Brigham Young University's Marriott School, his B.S. in accounting from Brigham Young University. He is a certified public accountant licensed in California and Washington. David is also a member of the AICPA and the California and Washington Society of Certified Public Accountants and is a FINRA Series 7, 24 and 63 registered representative.

LOUISA GALBO

Managing Director, Valuation Advisory

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OVERVIEW

Louisa Galbo is the practice leader of the Kroll's Complex Securities practice.

Professional Experience:

- Louisa has significant experience managing consulting projects involving the valuation of financial derivatives and complex securities.
- Engagement highlights include:
  - Valuation of a wide range of over-the-counter derivatives for hedge funds:
    - Interest Rate Swaps
    - Interest Rate Swaptions
    - Currency Options
    - Equity Derivatives
  - Modeling of commodity prices for valuation and advisory consulting purposes.
  - Valuation of fixed income securities and related embedded derivatives for hedge funds, private equity firms and corporate clients.
  - Valuation of hybrid securities, preferred stock, common stock, warrants and options for private equity firms and corporate clients.
  - Valuation of convertible debt securities with complex call/put features for corporations that issued these securities (many are publicly traded development stage biotech companies that commonly rely on convertible debt as the primary source of debt financing)
  - Valuation of warrants with contingent features such as strike price reset, share count top up and triggers from other related instruments
  - Valuation of preferred stock and warrants issued by the top US banks in connection with the TARP program
  - Advised clients on structuring of M&A transactions involving call/put options

BACKGROUND

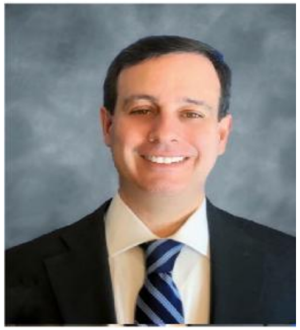
Prior to joining Kroll, Louisa worked in the International Business Development group of BHP, the largest Australian mining company. At BHP, she managed due diligence projects and constructed complex financial models to evaluate the strategic and financial impact of potential acquisitions and joint ventures.

Education & Certifications:

- M.B.A. - University of California at Berkeley
- B.S. - Computer Science, Rutgers University

JON FEINSTEIN

Director, Alternative Asset Advisory



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OVERVIEW

Jon Feinstein is a Director in the New York Office of Duff & Phelps and part of the Alternative Asset Advisory segment. He has over 20 years of valuation experience and focuses on the private equity industry.

Jon recently joined Duff & Phelps from Credit Suisse where he was a Director in the Valuation Risk and Control Group. In this capacity, he supervised teams in independent price verification reviews and established valuation governance for Asset Management, Global Credit Products, Corporate Bank, and Equities businesses. He performed valuations primarily for private equity and credit instruments.

Jon's responsibilities also included conducting monthly valuation review meetings with senior management in order to substantiate fair values; challenging the Front Office on valuation differences and working to resolve discrepancies; leading reviews of valuations performed by outsourced third party appraisers; and liaising with internal/external auditors, regulators, and the operations risk team on policy and valuation issues.

BACKGROUND

He was previously a Manager in the valuation practices of PricewaterhouseCoopers where he performed valuations for a an array of purposes, including transactions, financial reporting and tax across many industries. Prior to that, he worked on the Business Assurance team with Coopers & Lybrand, where he performed audit work for financial services clients.

Jon received his B.A. in Economics and Psychology from Dartmouth College and his M.B.A. in Finance from Columbia Business School.

GUANNAN LIU, CFA

- Director, Alternative Asset Advisory

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OVERVIEW

Guannan Liu is a director in the San Francisco office of Duff & Phelps and part of the Alternative Asset Advisory service line. She specializes in valuation of equity and debt interest in early stage companies and advises a wide range of clients, including large global private equity, venture capital, and business development corporations.

Guannan has over 10 years of experience performing numerous valuations and financial analyses for a variety of purposes, including financial reporting, tax, fairness opinions and transaction advisory, litigation and strategic planning. Guannan's experience highlights include equity, illiquid debt, and complex derivative valuations throughout the alternative asset investor industry including venture capital, hedge funds, business development corporations and private equity funds covering high-tech; biotech and healthcare; software and hardware; engineering, consulting and entertainment industries.

BACKGROUND

Prior to joining Duff & Phelps, Guannan was a valuation manager at the Economic and Valuation Services Practice of KPMG LLP. At KPMG, Guannan specialized in valuation of complex securities including stock options, convertible debt, warrants, interest rate derivatives and contingent considerations, etc.

Guannan received her Master's degree in Financial Engineering from the Anderson School of Management at University of California, Los Angeles. She is also a CFA Charterholder and a member of the CFA Institute.

MASA NOGGLE, CFA

Director, Alternative Asset Advisory

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OVERVIEW

Masa Noggle is a Director in the San Francisco office of Duff & Phelps where he is part of the Alternative Asset Advisory business unit.

Masa has worked extensively in the alternative asset space performing equity, illiquid debt, and complex derivative valuations for some of the largest private equity firms, public pension funds, venture capital firms, business development companies, and hedge funds. Masa has analyzed early-stage investments across a large number of sectors including the technology, financial services, consumer products, industrial, healthcare, and telecommunication industries.

BACKGROUND

Masa received his Master of Business Administration and Master of Science in Financial Analysis from the University of San Francisco and his Bachelor of Arts in Business Economics at the University of California, Santa Barbara. Masa is also a CFA Charterholder and a CAIA Charterholder.

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About Duff & Phelps, A Kroll Business

DUFF & PHELPS ALTERNATIVE ASSET ADVISORY

*Duff & Phelps assists clients with **design and implementation of best-in-class valuation policies and processes**, including on-going review of valuation procedures and conclusions to ensure best practices.*

Market Leader

- Our client base consists of **400 alternative asset** fund managers and investors in the **U.S. and globally**
- We perform in-depth valuation analyses of all asset types for clients across the spectrum of banks, hedge funds and private equity firms globally:
  - **70% of the top 25** largest Hedge Funds
  - **70% of the top 25** largest Private Equity Funds
  - **50% of the top 25** largest publicly traded Hedge Fund platforms (business development companies or “BDCs”)
  - Our client base includes **20 BDCs**
  - **Private debt funds** and **mid-market private equity funds** are the fastest growing segment of our client base
- We review or value over **10,000 investment positions** on a quarterly basis, including derivatives and structured products

Thought Leader

- We are at the forefront of the industry’s leading committees on valuation processes, guidelines, and regulations:
  - **IPEV** – Special Advisor, Former Board Member
  - **ILPA** – Special Advisor
  - **AICPA PE/VC Valuation Guide Task Force** – Member
  - **FASB Valuation Resource Group** – Member
  - **Managed Funds Association** – Sustaining Member
  - **IVSC Standards Review Board** -- Member
- Leadership on drafting IPEV and PEIGG private equity valuation guidelines
- Development of Duff & Phelps Created Value Attribution Framework.

Duff & Phelps’ Portfolio Valuation practice enables alternative investment managers to enhance their valuation process with the *independence* and *objectivity* that investors require.

ABOUT DUFF & PHELPS, A KROLL BUSINESS

For **nearly 100 years**, Duff & Phelps has helped clients make confident decisions in the areas of valuation, real estate, taxation and transfer pricing, disputes, M&A advisory and other corporate transactions.

Kroll is the world's premier provider of services and digital products related to **governance, risk and transparency**. We work with clients across diverse sectors in the areas of valuation, expert services, investigations, cyber security, corporate finance, restructuring, legal and business solutions, data analytics and regulatory compliance.

The firm's nearly **5,000 professionals** are located in **30 countries and territories** around the world.

~5,000

TOTAL PROFESSIONALS GLOBALLY

13,400

CLIENTS INCLUDING NEARLY

48% **OF THE**

S&P 500

THE AMERICAS

2,000+

PROFESSIONALS

EUROPE AND MIDDLE EAST

1,100+

PROFESSIONALS

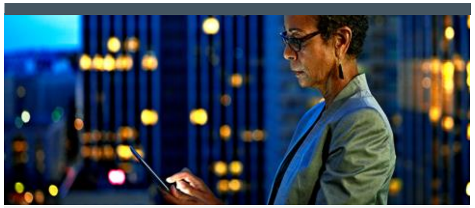
ASIA PACIFIC

850+

PROFESSIONALS

ENHANCING VALUE ACROSS A RANGE OF EXPERTISE

Our service areas



VALUATION ADVISORY

Valuation and consulting for financial reporting, tax, investment and risk management purposes

- Valuation Services
- Alternative Asset Advisory
- Real Estate Advisory
- Tax Services
- Transfer Pricing
- Fixed Asset Management and Insurance Solutions

CORPORATE FINANCE

Objective guidance to management teams and stakeholders throughout restructuring, financing and M&A transactions, including independent fairness and solvency opinions

- M&A Advisory
- Fairness and Solvency Opinions
- Transaction Advisory Services
- ESOP and ERISA Advisory
- Private Equity - Financial Sponsors Group
- Distressed M&A and Special Situations
- Private Capital Markets and Debt Advisory

GOVERNANCE, RISK, INVESTIGATIONS AND DISPUTES

Risk management and mitigation, disputes and other advisory services

- Business Intelligence and Investigations
- Compliance and Regulatory Consulting
- Compliance Risk and Diligence
- Cyber Risk
- Disputes Consulting
- Global Restructuring Advisory
- Legal Management Consulting
- Security Risk Management

BUSINESS SERVICES

Complex legal and business solutions through our proprietary technology and team of experts

- Prime Clerk Restructuring
- Kroll Corporate Actions
- Lucid Issuer Services
- Lucid Agency and Trustee Services
- Kroll Class Action Administration
- Kroll Mass Tort Administration
- Kroll Notice Media Solutions
- Kroll Business Technology
- Kroll Agency Cloud

OUR CREDENTIALS

WE SERVE

61% of Fortune 100 companies

85% of Am Law 100 law firms

72% of the 25 largest Euro STOXX® companies

76% of the 25 largest private equity firms in the PEI 300

52% of the 25 largest hedge funds in the Alpha Hedge Fund 100

WE RANK

One of America's Best Management Consulting Firms 2020[9]

#1 Total Number of U.S. and Global Fairness Opinions Over the Past 10 Years[1]

#5 U.S. Middle-Market Transactions Over The Past 10 Years[2]

Leading patent consulting firm[11]

WE WON

Best Cyber Security Services Provider[4]

Best Compliance Consultancy Firm[5]

Thought Leader in Digital Forensics, Arbitration and Investigations[3]

International Mid-Market M&A Advisory Firm of the Year in Canada – 2020[6]

Thought Leader in Corporate Tax and Digital Forensics[7]

Best Valuations Firm for Hard-to-Value Assets[8]

Kroll recognized as Pacesetter in the ALM Intelligence: Cybersecurity Services 2020

Duff & Phelps and Kroll named **Best Compliance Consultant/Advisor**[10]

Recommended Vendor for Security Incident Response in Gartner® Invest Analyst Insight: SRM 2020 and 2019

1. Source: Thomson Reuters' cumulative data 2011-2020
2. Source: Thomson Financial Securities Data (U.S. deals $10M < $150M, including deals without a disclosed value). Full years 2011 through 2020
3. Who's Who Legal 2018-2020: Forensic and Litigation Consulting.
4. HedgeWeek 2018
5. HFM European Quant Awards 2019
6. 2020 Corporate INTL Global Awards
7. Who's Who Legal 2019
8. 11th Annual HFM European Hedge Fund Services Awards in 2019
9. America's Best Management Consulting Firms – Forbes
10. Compliance Week's 2020 Excellence in Compliance Awards
11. *IAM Patent 1000* 2020

VALUATION PROFESSIONAL AFFILIATIONS

Respected across the globe for our expertise

Our managing directors provide input to regulators and standard-setters and actively contribute to the development of valuation industry best practices.

03

SPAC Background

DEFINING SPACS AND SOME KEY TERMS AND FEATURES

What is a SPAC?

- A Special Purpose Acquisition Company (SPAC) is a shell company with no commercial operations that raises capital through an IPO and then acquires a target company to take public via a merger with the SPAC.

- The SPAC's sponsor typically includes a management team that has expertise in a particular industry and/or geographic area from which it selects its target company.

- After the SPAC IPO, the funds raised are held in an interest-bearing trust account strictly for use in the business combination.

- The SPAC typically has two years to identify a target company, which can be extended via a SPAC stockholders vote.

- If no target company is identified, the trust is liquidated and its IPO proceeds are returned to public shareholders on a pro rata basis. The SPAC sponsors lose their initial investment.

- De-SPACing – a process ultimately ending in an IBC, but begins after the execution of the definitive merger agreement.

THE SPACTACULAR BOOM IN 2020 AND BEYOND – LOOK NO FURTHER THAN THE NUMBERS

SPAC FOMO

Peter Atwater, the founder of *Financial Insyghts* said, "If you don't have your own SPAC, you're nobody."

SPAC (Special Purpose Acquisition Companies) market activity and awareness has evolved more in the past 6 to 12 months than during its prior 30-year history.

- SPACs raised $13.5BLN in 2019, $83.0BLN in 2020, $87.0BLN in Q1 2021 and $101BLN YTD as of April 2021.
- More SPAC IPO's in 2020 than the last 10 years combined and nearly double the $ raise of the prior 10 years.
- SPAC proceeds exceeded traditional IPO proceeds which were under $70MM in 2020.
- Approximately 430 SPACs were searching for targets through Q1 2021.
- There were approximately 4 to 5 SPAC IPO's per business day in Q1 2021.
- Going Global – Europe and in Asia are well behind the U.S. with only a handful of SPAC IPO's and mergers to date, but the global appetite for SPACs is increasing.

THE SPACTACULAR BOOM IN 2020 AND BEYOND – LOOK NO FURTHER THAN THE NUMBERS (CONT'D)

SPAC IPO Transactions: Summary by Year

Through May7, 2021

Year	IPO Count	Gross Proceeds ($MM)	Average IPO Size($MM)
2021	315	101,574.5	322.5
2020	248	83,346.7	336.1
2019	59	13,600.3	230.5
2018	46	10,751.9	233.7
2017	34	10,048.5	295.5
2016	13	3,499.2	269.2
2015	20	3,902.4	195.1
2014	12	1,749.8	145.8
2013	10	1,455.3	145.5
2012	9	490.5	54.5
2011	15	1,081.5	72.1
2010	7	502.6	71.8
2009	1	36.0	36.0

SPAC Status by Year of IPO

Year	Filed for IPO	Searching	Announced	Completed	Liqui dated	Total SPACs
2021	273	307	8	NA	---	**588**
2020	5	114	103	31	---	**253**
2019	---	5	20	33	1	**59**
2018	---	---	2	43	1	**46**
2017	---	---	2	29	3	**34**
2016	---	---	---	11	2	**13**
2015	---	---	---	17	3	**20**
2014	---	---	---	8	4	**12**
2013	---	---	---	8	2	**10**
2012	---	---	---	6	3	**9**
2011	---	---	---	12	3	**15**
2010	---	---	---	3	4	**7**
2009	---	---	---	1	---	**1**
Total	**278**	**426**	**135**	**202**	**26**	**1067**

Source: SPAC Insider

SPACS PROVIDE REWARDS AND OPPORTUNITIES…

SPACs have become widely popular for their constituents as a financing alternative to traditional IPO's.

- **Investors**
  - SPAC investors can exercise a redemption right at $10 per share plus interest if they don't like the SPAC proposed target or if the SPAC has to liquidate because it has not identified a target during the required 2-year search period.
  - Experience and track record of the sponsors.

- **Sponsors**
  - Significant potential paydays for sponsors even if the combined company does not perform well.
    - Promote - allows them to generate significant returns on their original investment.
  - Successful SPAC establishes a track record and brings on more investors for future SPACs or funds.

- **Target Companies**
  - SPACs offer the opportunity to go public much more quickly than traditional IPOs.
  - The traditional IPO route is more difficult for many small companies with minimal to no revenues and/or are unprofitable.
  - SPACS are allowed to use forward looking projections in their marketing process.

… AND RISKS

SPACs present significant risks, particularly to the investors.

- **Opportunity Cost** – If no target is identified and SPAC is dissolved, then earning minimal return for 2 years.
- **Historical results** – Returns have had a spotty record with a few winners, but many have been flat or struggling.
- **Dilution** due to expiring post-merger lock-up periods and the 20% promote
- **Perverse incentives** from Sponsor promote / fees to complete a transaction that may be less favorable.
- **Bubble** that overvalues companies with no revenues or measures of performance. If it bursts, it could leave a few insiders as winners while public investors who got in later could have big losses.
- **Lack of preparedness** of the target company's for being a public company with regulatory filing requirements and additional scrutiny around controls and operations.

Recent concerns have manifested themselves only during the last few months

- **SEC regulation** and scrutiny – the latest requirement to review warrants as liabilities and potentially restate earnings.
- **Competition** - the number of sponsors searching for quality targets has increased multifold.
- **Short selling** – significant increases in short interest in Q1 for SPACs that have merged with beliefs that certain SPAC IBC's were misrepresenting sales, orders, production, other measures, or they were simply overvalued.
- **Rising bond yields** – as the economy heats up, similar to NASDAQ companies, the SPAC stocks have manifested sensitivity and volatility whenever rates rise since bonds become a safer investment alternative to risky growth stocks.

THE STAGES OF A SPAC

There are two significant stages of SPACs Pre-Merger and Post-merger each with sub-stages.

1) Pre-Merger Stage

A. Initial SPAC IPO

- A SPAC holding company is created and it then goes through the standard IPO process of filing a registration statement with the SEC on form S-1.
    - Ticker is based on the SPAC name.
    - Simple registration statement with minimum due diligence required since it is just a shell company with no operating business, no assets except cash or detailed financial statements, no disclosures and minimal business risk.
- There is a roadshow between SPAC management team and potential investors.
- When buying a unit of a SPAC, investors typically get a share of common stock, plus a fraction of a warrant – a further incentive to buy into the SPAC.
- After the IPO, the proceeds are placed into the trust, with a small percentage being used for fees.

THE STAGES OF A SPAC (CONT'D)

2) **Pre-Merger Stage (Cont'd)**

B. Instruments created in a SPAC

- **Public Units**
  - Public investors typically get a unit consisting of a share of Class A common stock at $10 plus a fraction of a warrant.
  - Shortly after the IPO (typically 52 days), the units become separable so the public can trade units, shares, or whole warrants.
- **Public Common Shares**
  - Class A. Distinguished by the right to redeem the initial investment at $10 per share and the right to vote.
- **Founder Shares**
  - Class B. Prior to the SPAC filing for the IPO, the sponsor will pay a nominal amount for a number of founder shares which gives them 20% of the total shares outstanding after completion of the IPO.
- **Public Warrants**
  - In the Public Unit, the warrants typically are a fraction of a share, usually 1/5, 1/4, 1/3 or 1/2 warrant and have a strike price of $11.50.
  - Typically, warrants can be exercisable for at least 5 years from the time of the IBC date.
  - Many agreements have a make-whole redemption clause in which the company can redeem the public shares when the underlying price is $18 per share.
- **Private Placement Warrants**
  - Depending on the warrant agreement, there is often make whole exclusion language which exempts the private warrants from being redeemed by the company at the $18 per share level.

THE STAGES OF A SPAC (CONT'D)

C. Merger agreed and Announcement made (merger has not happened yet).

- Beginning of the de-Spacing process in which the SPAC prepares for and ultimately completes its business combination.

- The shareholders in the SPAC vote on the proposed merger with several outcomes.

- Acquisition agreement is signed and the financing commitments are lined up.
    - Prior to the agreement, the SPAC will often arrange committed debt or equity financing, such as a PIPE commitment, including outside investors.

- It could be several months between the announcement and the close when the shares of the combined company are floated publicly.

- If the market likes the potential transaction, the price per share can appreciate several points beyond the $10 per unit and occasionally to above $20 per unit.

THE STAGES OF A SPAC CONT'D

2). **Merger Stage**

A. Closing – Initial Business Combination ("IBC")

- The newly combined company trades at the new ticker resembling the private company name and not the SPAC ticker.

B. Lock-ups end

- Depending on the type of security and the particular merger agreement, they are typically 30 days to 1 year.
- Once the lock-up period ends, the stocks and warrants are standard publicly traded securities.

THE PIPES ARE SMOKING

As SPAC mergers explode in popularity, the prominence of PIPEs (Private Investments in Public Equity) have as well.

- In 2020, PIPES provided $12.4 BLN in 46 SPAC deals.
- Possibility of over $100Bln of PIPEs committed over the next 2 years.
- Since PIPE financings lag SPAC IPO's, and many SPACs have only recently IPO'd in late 2020, the PIPE market is expected to really take off in 2021/22.
- The benefit of PIPEs
  - The PIPE funding is essentially used to bridge that difference between SPAC IPO funding and target company valuation.
    - Typically the target purchase price is 2 to 5X the size of the SPAC funding so additional funding is necessary.
  - PIPE investor incentives include that they are privy to details material before the announcement of the merger and they are given restricted shares at a discount.
- The downside of PIPEs include the following:
  - Dilution of investor's equity stake. Pressure on the equity price once the lockup period ends.
  - Asymmetric information that PIPE holders have vs. retail investors.

04

SEC Concerns

RECENT SEC SPAC RELATED STATEMENTS

March 31, 2021: Staff Statement on Select Issues Pertaining to Special Purpose Acquisition Companies:

- Shell Company Restrictions
- Books and Records and Internal Controls Requirements
- Initial Listing Standards of National Securities Exchanges

April 8, 2021: SPACs, IPOs and Liability Risk under the Securities Laws:

- Unprecedented Surge in SPAC popularity over past 6 months
- Division of Corporation Finance seek clear disclosures about the SPAC and its private company target – allowing public investors to make informed investment and voting decisions
- Is appropriate due diligence being performed ?
- The Private Securities Litigation Reform Act (PSLRA) may not provide the protection some SPAC sponsors think

April 12, 2021: Staff Statement Staff Statement on Accounting and Reporting Considerations for Warrants Issued by SPACs:

- Warrants included in SPAC transactions may more appropriately be classified as a liability rather than equity.
- Consideration as to errors in previously-filed financial statements

05

Valuing Investments in SPACs

VALUING INVESTMENTS IN SPACS

- Alternative Investment Funds are required by FASB ASC Topic 946 to measure and report all investments at "fair value" as defined by FASB ASC Topic 820.
- FASB ASC Topic 820 defines fair value as: ***the price that would be received TO SELL an asset or paid to transfer a liability in an ORDERLY transaction between market participants at the measurement date.***
- The fair value of actively traded securities (sufficient volume and frequency to determine a price) is the publicly traded price
- The fair value of private (non-actively traded) investments is estimated using informed judgment and various valuation techniques to determine what a market participant would pay for the investment at the measurement date

ALTERNATIVE ASSET FUND/MANAGER VALUATION QUESTIONS

Valuation of Class A (publicly traded) SPAC Units, Shares, Warrants – From an Asset or Investment perspective

- When SPACs IPO, they list units at a typical purchase price of $10.00 per unit
- A unit is comprised of Class A ordinary shares plus a fractional warrant
- After a certain period of time (e.g., typically 45 or 52 days after IPO), the warrant and share split or detach, and trade separately on an exchange under different ticker symbols
- Valuation of SPAC units, shares, and warrants depend on the various stages within the SPAC life cycle
  - ➢ At IPO and reporting periods until detachment;
  - ➢ Post-IPO split but before De-SPAC; and
  - ➢ De-SPAC
- Depending on what stage the SPAC, at any given measurement date, the appropriate fair value determination is P*Q:
  - Prior to detachment, the unit of account is a Unit—fair value is the publicly traded unit price
  - Post detachment, there are two units of account—a share and a warrant – fair value is the publicly traded price for each security

ALTERNATIVE ASSET FUND/MANAGER VALUATION QUESTIONS

Valuation of Class B SPAC Founder Shares and Private Placement Warrants – from an Asset Perspective

- In many cases, the SPAC founder pays no consideration for the Class B Shares—the cost basis is zero
  - The amount that a market participant would pay in an orderly transaction for Class B shares would depend on individual facts and circumstances, but include:
    - The trading price of Class A shares
    - The probability of the SPAC completing a successful business combination
    - The time to an expected business combination plus the contractual lockup period (if any) after conversion of B shares to A shares (making them freely tradeable)
- The fair value determination for private warrants would follow a similar thought process as Class B shares, using the publicly traded warrant price rather than the traded share price as a key valuation input.
- At various stages of the SPAC progression, the assessed probability of success will differ (generally increases as the business combination becomes more likely).

ALTERNATIVE ASSET FUND/MANAGER VALUATION QUESTIONS

Valuation of PIPE Investments – from an Asset Perspective

- Many PIPE investments are structured in the form of a financing commitment with a pre-determined contractual purchase price.
- These financial contracts can be subject to fair value adjustments when there are fluctuations in the public SPAC share price in the period between the PIPE commitment date and the PIPE funding date.
  - ➢ Consider the contractual features of the PIPE shares that are different from the listed equity shares
    - ➢ Right to redeem
    - ➢ Restrictions on transfers or other barriers to liquidity
- PIPE instruments can be highly negotiated between the parties, and the terms can vary on a case-by-case basis.

FAIR VALUE ESTIMATION OF OTHER SPAC INVESTMENTS

Valuation of Working Capital Loans and Forward Purchase Agreements – from an Asset Perspective

- Working Capital Loans are funds that sponsors loan to the SPAC for working capital or other purposes.
  - ➢ Valuation of the working capital loans involves consideration of their potential outcomes / returns and associated probabilities:
    - ➢ If De-SPAC is successful:
      - o the principal amount of the loan are repayable upon the completion of the transaction.
      - o The sponsors may opt to convert the loan to shares in order to receive the upside.
    - ➢ If De-SPAC fails, there is no guaranteed recovery of the loan.
- Forward Purchase Agreements are commitments from the investors to purchase units / shares at a pre-determined contractual purchase price upon the completion of the business combination. Valuation of a Forward Purchase Agreements considers:
  - ➢ Difference between the unit / share price today, and the forward purchase price in the agreement.
  - ➢ The probability of success.
  - ➢ Nuances in contract.

FAIR VALUE ESTIMATION OF TARGET COMPANIES – PREACQUISITION

Your Underlying Portfolio Company Investment becomes a target of a SPAC

- Does that change the approach to estimating fair value?
  - ➢ Timeline of a SPAC transaction:
    - o Rumors of SPAC acquisition
    - o Press release announcing the proposed acquisition
    - o S-4 filing
    - o Closing of the transaction
- How should the publicly traded share price be considered?
  - ➢ Consider the difference between the private shares of the target company and the publicly traded SPAC shares
    - o Conversion ratio
    - o Right to redeem
    - o Restrictions to transfer
    - o Dilution factor

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Valuing SPAC Warrant Liabilities

SPAC WARRANTS: LIABILITY VS EQUITY?

Why are SPAC Warrants deemed to be Liabilities?

- On April 12, 2021, the SEC issued a statement that companies should be reclassifying their warrants at fair value on the balance sheet as liabilities rather than equities.
- There are two primary accounting standards that are addressed in this statement.
  - ASC 480 – the starting point for determining whether an instrument can be classified as a liability.
    - One liability classification under ASC 480 is "instruments other than equity shares that include an obligation of the issuer to repurchase its equity shares. Examples include written put options and warrants to issue redeemable equity securities."
  - ASC 815-401 - addresses whether an equity-linked contract (such as a warrant on an entity's own equity shares) qualifies as equity in the financial statements.
    - Only a contract or embedded feature that is considered indexed to an entity's own equity and meets certain other conditions qualifies as equity.
- The liability classification results from the company having to make a cash outlay if they have to make a tender offer to shareholders.
- Since liabilities have to be marked to market, those SPACs that were close to doing an Initial Business Combination had to perform a warrant valuation for all prior reporting periods since the SPAC IPO before they could proceed with the deal.
- If the liability valuation resulted in a material misstatement, the financials in the prior 10-K and/or 10-Q's would have to be restated.

SPAC VALUATION QUESTIONS

Private Placement Warrant Liabilities

- **Structural Difference between public and private placement warrants:**
  - Public warrants always have a $18 redemption trigger: the company can force the warrant holder to exercise when the stock price reaches $18 for 20 out of 30 trading days.
  - Some public warrants also have a cashless exercise "make-whole" table which has a similar impact as the $18 redemption trigger. This table provides the company the right to force the holder to cashless exercise and receive a fraction of a share.
  - Private warrants usually do not have any redemption features. However, some are also subject to the "make-whole" table.
- **Valuation Approaches:**
  - Monte Carlo Simulation
  - Black-Scholes
  - Both approaches are based on option pricing theory. They differ by their ability to capture complex features such as the $18 redemption trigger.

THE WARRANT LIABILITY QUESTION

Warrant Liability Valuation Considerations:

- **Volatility considerations:**
  - ➢ Comparable SPACs (Post-Merger Announcement)
  - ➢ Observed or implied volatility of the company's own public warrants
  - ➢ Publicly traded comparable companies – such as companies in an index
- **Expected Time to IBC**
- **Probability of Success**
  - ➢ SPAC warrants are subject to forfeiture if an initial business combination ("IBC") is not completed. Therefore, the calculated value of a SPAC warrant should also be conditioned on the probability of a successful IBC
  - ➢ Probability of success should be considered when valuing SPAC warrants prior to IBC. If post detachment, this probability imbedded in the actively traded price of the public warrants.
- **Forward agreements and Working Capital Loans.**

WHAT HAVE WE LEARNED SINCE APRIL 12, 2021

Selected data from public filings:

- In 2021 to date, more than 170 SPACs have restated their financial Statements
- Restatements have ranged from under $ 1,000,000 to $ 150,000,000 or more
- Disclosed valuation methods:
  - Black-Scholes Model
  - Monte-Carlo Simulation Model
  - Binomial Lattice Model
  - Barrier Option Model
  - Undisclosed
- Do restatements have an impact on SPACs' publicly traded prices?

NOTE DISCLOSURE EXAMPLES – AFTER APRIL 12, 2021

- **Note 2 — Restatement of Financial Statements**
  In April 2021, the Company concluded that, because of a misapplication of the accounting guidance related to its Public and Private Placement warrants the Company issued in November 2019, the Company's previously issued financial statements for the Affected Periods should no longer be relied upon. As such, the Company is restating its financial statements for the Affected Periods included in this Annual Report.
- On April 12, 2021, the staff of the Securities and Exchange Commission (the "SEC Staff") issued a public statement entitled "Staff Statement on Accounting and Reporting Considerations for Warrants issued by Special Purpose Acquisition Companies ("SPACs")" (the "SEC Staff Statement"). In the SEC Staff Statement, the SEC Staff expressed its view that certain terms and conditions common to SPAC warrants may require the warrants to be classified as liabilities on the SPAC's financial statements as opposed to equity. Since issuance on November 2019, the Company's warrants were accounted for as equity within the Company's previously reported financial statements, and after discussion and evaluation, including with the Company's independent auditors, management concluded that the warrants should be presented as liabilities as of the IPO date reported at fair value with subsequent fair value remeasurement at each reporting period.

- **Note 9 — Fair Value Measurement**
  The Company follows the guidance in ASC 820 for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities).

  As of December 31, 2020 and 2019, the estimated fair value of Private Placement Warrants was determined using a Black-Scholes valuation model using Level 3 inputs. Significant inputs to the valuation are as follows:

DIFFERENCES BETWEEN VALUING THE SAME INSTRUMENT AS AN ASSET OR AS A LIABILITY

ASC topic 820:

- 820-10-05-1C When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. <u>As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.</u>

- 820-10-35-16B When a quoted price for the transfer of an identical or a similar liability … is not available and the identical item is held by another party as an asset, a reporting entity shall measure the fair value of the liability … from the perspective of a market participant that holds the identical item as an asset at the measurement date.

- Do market participant perspectives differ?
- How does prudence impact judgement?

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The Future of SPACs

Questions?

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