SPAC in Italy: a growing phenomenon

The phenomenon of **Special Purpose Acquisition Companies** in Italy has grown in the past few years. As of 2011, more than 27 SPACs have been listed in Italy, 7 of which have been admitted to trading in 2018. In total, SPACs have raised approximately €3.7 billion and invested around €1 billion in target companies.

A Special Purpose Acquisition Company (SPAC) is a financial vehicle established by a group of "sponsors" in the form of a joint stock company (*società per azioni*) to raise funds from financial experienced investors (through an initial public offer) with a view to acquiring an unlisted company, typically of a small-medium size ("target").

The incorporation of a SPAC is generally promoted by sophisticated investors with a large network of contacts, recognized business management skills and a track record in M&A, private equity or hedge funds. The founding shareholders provide the initial capital needed for the SPAC's growth until its listing. Following the incorporation of the SPAC, the sponsors then resolve upon a capital increase for the purposes of its listing and aimed at providing the SPAC with the resources needed to subsequently make an investment into a target.

After having selected the target, the transaction ("business combination") is submitted to the approval of the shareholders' meeting of the SPAC so that investors can assess and control how the managers of the SPAC intend to use the funds, thus mitigating one of the main risks related to the investment given the lack of past performance of the company. Also, a right of withdrawal is afforded to those shareholders in disagreement with the proposed business combination.

Should no business combination be completed, the SPAC is liquidated and investors face a potential loss of part of their initial investment – which may vary depending on the percentage of IPO proceeds deposited into the escrow account – given that the paid-up capital is returned, pro-quota, but net of all the expenses. Furthermore, since the sponsors of a SPAC do not receive any predetermined remuneration or management fee – whilst they are remunerated only at the time of the business combination through warrants enabling them to subscribe shares at advantageous conditions – should the business combination fail no remuneration is granted to them.

The investment in the target can be made in various ways although the market practice in Italy has shown that usually, the target (i) merges with and into the SPAC and (ii) becomes a "listed company". As an alternative should rather be the SPAC merging with and into the target, the shareholders of the SPAC would receive, in exchange, shares of the target which – in the meantime – shall have completed the listing process.

Regarding the possible listing market venues, after the introduction in Italy of (i) a multilateral trading facility named "Alternative Investment Market" (AIM Italy) and (ii) a dedicated regulated market segment named "Market for Investment Vehicles" (MIV), it has been indeed possible to list a shell company in the form of a SPAC.

The decision to list the SPAC on the regulated market (MIV) rather than on the unregulated AIM Italy would essentially depend on the size and the main characteristics of the SPAC itself, it being however understood that – so far – the listing on AIM Italy represents the more frequent option, due also to the easier access to AIM Italy vs. MIV in terms of timing and underlying costs (e.g., the listing of a SPAC on AIM Italy can be even completed in a couple of months or so).

The success of SPACs in Italy is, therefore, due also to the appeal that this model has been recognized by investors and targets' entrepreneurs.

As far as investors are concerned, the low risk of the investment, the right of withdrawal and the acquisition of the target carried out at a discount, if compared with the relevant market values, are all factors particularly appreciated.

On the other hand, from the targets' entrepreneurs perspective, the SPAC has the twofold advantage of (i) accelerating the listing process of the target and (ii) mitigating the risk that, at the time of the determination of the IPO price, market adverse conditions may devalue the target. By means of the SPAC model, in fact, the value of the target is agreed between the parties regardless of market conditions.

In conclusion, the SPAC scheme may well represent a potential alternative to the traditional model of private equity investment and, therefore, become an important channel of growth for the Italian economy. Likewise, Italian companies have also started being considered as possible targets of non-Italian SPACs, that is by SPACs incorporated and listed on markets outside Italy, including SPACs listed in the USA.

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For any further clarification or research please contact:

Fabio Ilacqua
Partner

GOP USA, LLC
One Rockefeller Plaza, Suite 1610
New York, NY 10020
Tel.: +1 212 957 9600
Fax: +1 212 957 9608
E-mail: newyork@gop.it

Edoardo Brillante
Associate

Piazza Belgioioso, 2
20121 Milan

Tel.: +39 02 763741
Fax: +39 02 76009628
E-mail: ebrillante@gop.it

gop.it