WHAT KIND OF FORWARD-LOOKING STATEMENTS ARE COMMUNICATED BY SPACS AND HOW DO THEY MATCH WITH EXPECTED FUTURE PERFORMANCE ?

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The IPO (Initial Public Offering) process can be arduous. First, it can be costly. Most investment banks providing underwriting services to companies, typically take a hefty fee of 3.5% to 7% of gross proceeds based on deal size (Bellin and Thomson 2021)[1]. Additionally, there are also significant legal fees, all in all, the costs of going public can range from several millions to over $100m. Second, the IPO process is also lengthy. Assuming a smooth IPO process, the procedure can still take up to six months. The preparations necessary, in the 24 months, leading up to the formal process is also crucial to enable a smooth process (Dissanayake and Gates 2016)[2]. On average an IPO will take anywhere from 12 to 18 months (Lambert and Malik 2021)[3].

By contrast, SPACs (Special Purpose Acquisition Company) are essentially shell companies with no business activities, whose goal is to find a private company to merge with, typically within a two-year period. As these SPACs typically do not have any operating activities, they can go through the IPO process in a much more cost effective and rapid manner. Without having their core business activities go through much scrutiny and due diligence, as they effectively do not have any. A private company can then merge with this shell company, a process known as a de-SPAC, to become a listed company. As with anything, there are pros and cons to SPACs, for example the SPAC process can take as little three months (Bellin, Watson, and Jones 2022)[4]. Some proponents of SPACs also claim that

[1] Bellin, Mike, and Derek Thomson. 2021. "Considering an IPO? First, Understand the Costs." PwC. 2021. https://www.pwc.com/us/en/services/deals/library/cost-of-an-ipo.html.

[2] Dissanayake, Mohana, and Heather Gates. 2016. "Private Company IPOs: Is Timing Everything?" Deloitte. 2016. https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/us-audit-private-company-ipos-is-timing-everything.pdf.

[3] Lambert, John, and Sarmed Malik. 2021. "Why so Many Companies Are Choosing SPACs over IPOs." Advisory.kpmg.us. January 2021. https://advisory.kpmg.us/articles/2021/why-choosing-spac-over-ipo.html.

[4] Bellin, Mike, Eric Watson, and Alan Stephen Jones. 2022. "How Special Purpose Acquisition Companies (SPACs) Work." PwC. 2022. https://www.pwc.com/us/en/services/trust-solutions/accounting-advisory/spac-merger.html.

they offer a new way to raise capital, which compete with latter stage venture capital, private equity, direct listings and, of course, IPOs (Bazerman and Patel 2021)[5]. However, the crucial distinction investigated in this article is the difference in how Forward-Looking Statements (FLS) are treated.

Although this is simply a tool, like many others it is open to abuse. The SPAC process is just one more way, out of many others, for a company to go public. The last two years have seen a dramatic increase in the number of SPACs and is often dubbed the SPAC boom period. A concern that has been raised is the cause of this increase, which may have been due to the discovery of the safe harbour of the PSLRA (Private Securities Litigation Reform Act) in the United States. Simply put, IPOs are inherently risky in nature and therefore have more restrictions on the information they are allowed to communicate to investors. However, as SPACs are not IPOs despite it being used for the same purpose, going public, they are not subject to these restrictions put in place by the PSLRA. It is important to investigate the communications put out by SPACs to determine whether there has been an abuse of and a deliberate attempt to mislead investors. As this is a relatively recent phenomenon, the expected future performance is the focus rather than the actual performance, which is not yet available for most transactions. To research this question, data was collected from investor presentations, the information which was communicated in the de-SPAC process. The scope was expanded versus prior academic research by expanding the scope of FLS investigated beyond revenue and EBITDA but also looking into harder to predict, but equally important, metrics such as free cash flow and capital expenditure.

I investigated two main hypotheses. Hypothesis 1 "SPACs will project FLS growth higher than would be reasonably expected." As the current literature and the current prevailing theory suggests the recent SPAC booms was due to them circumventing the restrictions put in place on IPOs. I hypothesized that they would project growth rates which were considered beyond reasonable expectations. The FLS can considerably push the envelope with what they can claim as there is no historical data to benchmark their figures. This is one of the reasons for the PSLRAs restriction on IPOs in the first place. The words "reasonably expected" are used in Hypothesis 1, this is because there are no actual figures to compare the FLS to, yet. Which is why the OECD's definition of high growth was used; "All enterprises with average annualised growth greater than 20% per annum, over a three-year period should be considered as high-growth enterprises" (OECD 2007)[6]. The definition was slightly adjusted, instead of the average of a three-year period, the average over all years for which forecasts are given was used. This is then compared to a benchmark on how many IPOs can expect to reach this high growth status. The benchmark is based on the three-year average returns of post-IPO performance of "traditional IPOs from 2010 through 2020" (Mackintosh 2021)[7]. The S&P 500's average annual performance during that time is 11.5%. Based on these two pieces of information, and by being generous with our assumptions, we can say that no more than 30% of traditional IPOs had a growth of over 20% three years after the IPO. Although this growth is for share price, this will be used as a benchmark for all FLS.

Hypothesis 2a "FLS by SPACs during the SPAC boom and involving a US party will all grow exponentially." The belief was that since the PSLRA is a US law and the SPAC boom is theorized to have been caused by the popularization of the loophole within the PSLRA, the SPACs in this time period from the US will have the most egregious FLS. Hypothesis 2b "FLS by SPACs during the SPAC boom and involving a US party will only communicate positive growth rates." If these SPACs were not communicating exponential growth, the belief was that they would at least not communicate negative growth rates.

Moving on to the sample used for this research. First, I went through the Refinitiv platform to gather all SPAC deals completed in the last decade. Then removed any deals smaller than 1m USD. I filtered for the industries "High Technology", "Media and Entertainment" and "Telecommunications". I then began collecting information on the FLS disclosed in the de-SPAC process. At which point I had to remove an additional 44 deals due to lack of information, three due to unreliable information and eight due to aggregation of deals. Giving a final sample size of 87 SPACs with 1,386 observations on FLS. These 87 SPACs had communicated data on the following FLS: revenue, gross profit, EBITDA, net income, FCF, Capex

[5] Bazerman, Max H., and Paresh Patel. 2021. "SPACs: What You Need to Know." Harvard Business Review. July 1, 2021. https://hbr.org/2021/07/spacs-what-you-need-to-know.

[6] OECD. 2007. "Eurostat-OECD Manual on Business Demography Statistics." OECD. 2007. https://www.oecd.org/sdd/39974460.pdf.

[7] Mackintosh, Author Phil. 2021. "What Happens to IPOs over the Long Run?" Www.nasdaq.com. April 15, 2021. https://www.nasdaq.com/articles/what-happens-to-ipos-over-the-long-run-2021-04-15.

and customer base. There was not a single FLS that every SPAC had communicated forecasts of. Furthermore, it is important to note that some FLS are not easily comparable. For example, EBITDA is not a GAAP measure and FCF was calculated differently by different firms.

After conducting a descriptive statistical and correlation analysis we find that, 74% of all SPACs investigated had forecasted an annualized revenue growth which would fall under the "high-growth" definition by the OECD. However, what is peculiar is that of the SPACs that were completed before, the SPAC boom period of 2020-2021, 54% still had forecasts falling under this definition. As well as 71% of SPACs that did not involve a US target or acquirer. This would suggest that the excessive growth rate in revenue is something that has already been part of SPAC forecasting prior to the popularization of the safe harbour provision of the US PSLRA law. We can see that 81% of SPACs that involved at least one US party and was completed during the SPAC boom had an annualized average revenue growth rate of over 20%.

For the other FLS, of ones considered high-growth, we do not see a big difference between ex-US and the whole. However, seven SPACs had neither a US target nor acquirer in the sample. Therefore, the focus was put on SPACs completed during the SPAC boom versus the prior period. Using 30% as the benchmark for the number of SPACs reasonably expected to achieve high-growth status, we can see that gross profit is a FLS that had the biggest movement, going from 17% to 64%. A substantial increase of nearly four times and over double the expected given the benchmark. Although not nearly as great, all other FLS also had more SPACs as a percentage that had forecasted high growths during the SPAC boom. With the exception of net income which had on average, only a high growth for SPACs prior to the SPAC boom.

TABLE 1: BREAKDOWN OF SPACS BY "HIGH-GROWTH" FLS

FLS	> 20% p.a. of total	Of the SPACs pre-2020	Of the SPACs ex-US	Of neither
Revenue	74%	54%	71%	81%
Gross profit	52%	17%	43%	64%
EBITDA	62%	50%	57%	63%
Net Income	17%	21%	29%	17%
FCF	20%	17%	29%	19%
Customer Base	13%	4%	0%	17%
N	87	24	7	59

Overall, during the SPAC boom, of the SPACs that have communicated FLS on revenue, gross profit, and EBITDA their expectation for growth is unlikely to be realized and is not aligned with historically achieved growth rates for traditional IPOs. On the other hand, it is important to note that some SPACs did not forecast any FLS figures in their investor presentations.

TABLE 2: GROWTH OVER FORECASTED PERIODS BY FLS

FLS	N+1	N+2	N+3	N+4	N+5	N+6	N+7	N+8	N+9	N+10	average
Revenue	48%	85%	85%	97%	89%	86%	45%				69%
Gross profit	103%	105%	112%	154%	105%	94%	34%				104%
EBITDA	29%	19%	74%	164%	160%	177%	63%	28%	14%	17%	72%
Net Income	27%	62%	113%	72%	98%	259%					76%
FCF	-20%	-15%	37%	96%	88%	108%	54%	27%	23%	17%	39%

TABLE 3: CHANGE IN GROWTH OVER FORECASTED PERIODS BY FLS

FLS	Delta N+1	Delta N+2	Delta N+3	Delta N+4	Delta N+5	Delta N+6	Delta N+7	Delta N+8	Delta N+9
Revenue	37%	0%	13%	-9%	-3%	-41%			
Gross profit	2%	7%	42%	-49%	-11%	-60%			
EBITDA	-10%	54%	90%	-4%	18%	-114%	-35%	-15%	3%
Net Income	35%	51%	-41%	26%	161%				
FCF	5%	52%	58%	-7%	19%	-53%	-27%	-5%	-6%

Table 2 shows the average growth rates by year for the relevant FLS. If the hypothesis of exponential growth were true, there would be no negative delta between each year (Table 3). Only in the first three years, both revenue and gross profit have an increasing in growth rates. Perhaps to temper expectations and because an exponentially growing growth rate is unsustainable, particularly at the levels forecasted. I had anticipated a smaller growth rate and a smaller delta between years but with growth rates continuing to grow for a longer period.

TABLE 4: PROPORTION OF SPACS WITH POSITIVE GROWTH RATES BY FLS

FLS	Negative growth	Positive growth	N
Revenue	3 (2%)	187 (98%)	190
Gross profit	3 (2%)	139 (98%)	142
EBITDA	36 (21%)	134 (79%)	170
Net Income	10 (24%)	32 (76%)	42
FCF	22 (31%)	49 (69%)	71
Customer Base	1 (3%)	33 (97%)	34

However, most forecasted FLS had exclusively positive growth rates. Particularly revenue, gross profit and customer base. As can be seen in the table above, all had over 97% of growth rates being positive, for SPACs during the SPAC boom and involving a US party. All in all, SPACs have forecasted considerable growth rates and are expecting to achieve these in almost all years for most FLS.

In conclusion, although Chapman et al. 2021 suggests that SPACs are not using overinflated FLS to deceive potential investors it remains to be seen whether these SPACs will achieve the colossal growth rates seen in the SPACs investigated (Chapman et al. 2021)[8]. To add to this, Akazoo was specifically called out by Quintessential Capital Management (QCM) for overstating revenues, and "egregiously deceiving investors" (Quintessential Capital Management 2020)[9]. It is worth pointing out that, at the time the report was released, QCM was short on this SPAC. Famous short only hedge funds such as Muddy Waters Research are also short multiple SPACs (Muddy Waters Research 2010)[10].

[8] Chapman, Kimball, Richard Frankel, and Xiumin Martin. 2021. "SPACs and Forward-Looking Disclosure: Hype or Information? SPACs and Forward-Looking Disclosure: Hype or Information?"

[9] Quintessential Capital Management. 2020. "Akazoo S.A.: You Only Live Twice!" Quintessential Capital Management. https://www.qcmfunds.com/wp-content/uploads/2020/04/Quintessential-Akazoo-Report.pdf.

[10] Muddy Waters Research. 2010. "Research." Muddy Waters Research. June 28, 2010. https://www.muddywatersresearch.com/research/.

Blankespoor et al. 2022 observed that SPACs that have successfully gone public would reduce the quantity of FLS to meet industry standards (Blankespoor et al. 2022)[11]. This is supported by the fact that during data collection most investor relations pages of the resulting public company would not have the original investor presentation of the SPAC. Furthermore, this information was often only available in the SEC EDGAR archives. Even more damming is that some had investor presentations available on their website but not the ones submitted to the SEC EDGAR archives and dated to after the announcement date of the SPAC. These new presentations often had less or no FLS compared to the ones submitted.

There is still a need for further research. Expanding the scope to include additional industries and a comparison between each segment. This is especially relevant as most SPACs investigated were under the "high technology" macro industry. This industry has historically had immense growth within the last decade and therefore a look at how SPACs from other industries differ would be of importance. Furthermore, forecasts figures and growths of SPACs that were never completed could also be relevant to further deep dive into. There is also a need to investigate future performance of these firms once they become public and see whether they match with the given forecasts. Whether these SPACs maintain the high-growth status as defined by the OECD. However, this would have been and still is challenging to conduct as most SPAC deals were completed in the last two years. This means that there is not yet enough data to compare with the forecasts, some FLS were forecasted for a decade in the future. Additionally, the performance of these SPACs in the future relative to the comparable companies that the SPACs themselves had listed in their investor presentations for the sake of valuation. There already is evidence that a positive correlation exists between FLS of non-SPAC firms and their future performance (Waweru, Memba, and Njeru 2016)[12]. We need further research to support or disprove that this is the case for SPACs.

[11] Blankespoor, Elizabeth, Bradley E. Hendricks, Gregory S. Miller, and Douglas R. Stockbridge. 2022. "A Hard Look at SPAC Projections." Management Science, March. https://doi.org/10.1287/mnsc.2022.4385.

[12] Waweru, Fredrick Warui, Florence Sigara Memba, and Agnes Njeru. 2016. "Relationship between Forward-Looking Information Disclosure and Financial Performance of Non-Financial Firms Listed in Nairobi Securities Exchange, Kenya." International Journal of Academic Research in Business and Social Sciences 6 (11). https://doi.org/10.6007/ijarbss/v6-i11/2449.