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SPAC: A WINDOW ON THE FUTURE

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1. SPACS AS AN ECONOMIC PHENOMENON - INTRODUCTION CHAPTER

The purpose of the following paper is to analyse the phenomenon of SPACs. SPACs are an acronym for special-purpose acquisition companies.

They find fertile ground in an increasingly dynamic and globalised market, where the economic role of start-ups is becoming more and more central precisely because of this need to adapt to the market in a rapid manner.

The economic and financial crisis of 2008 revealed a series of problems concerning the strong dependence of companies on the banking system, painting a strongly bank-centric market in Europe and worldwide. After the crisis, raising capital has become much more complex, and in a social and economic context characterised by undercapitalised companies, a high presence of non-performing loans and increasingly stringent regulations, it was necessary to find a system that would help companies that have significant added value but are unable to access capital for various reasons.

SPACs fall between two major extremes, the equity private placement and the capital market. These companies combine the advantages of an open capital market with the typical characteristics of private equity, management characterised by high professional standards, full involvement in the initiative and exit strategies typical of the private equity world.

In the light of these premises, the aim of this paper is clear: in the first chapter I will provide an overview of the history of SPACs, the origin of the thesis, and how it has developed over time; I will also provide a detailed definition as well as explain how a SPAC operates. I will conclude the first chapter by analysing the global trends of

SPACs divided by geographical areas.

The second chapter aims to outline the regulatory framework around SPACs, starting from blank check companies and penny stocks, with a consequent regulatory framework in the US market and comparisons with the European and Italian context to assess how the legal context is crucial for an innovation such as this to take hold in a concrete way.

Continuing with the third chapter I will explore the Italian context, going first to retrace the past trends of SPACs, already mentioned in the first chapter, continuing by highlighting what are the strengths and weaknesses of SPACs in the Italian market and concluding with an analysis of how the Italian context could change to adapt to the arrival of this financial innovation.

In the fourth chapter, I will compare SPACs with IPOs, highlighting differences and similarities in order to provide an overview of the advantages and disadvantages of both listing methods.

Finally, the paper concludes with a case study.

The case study will focus on an Italian company that has used SPACs to list itself.

The case study will be analysed critically and analytically, including an analysis of the advantages and disadvantages of this transaction and for which companies this kind of strategy can bring the most benefits.

1.1. DEFINITION OF SPAC

The Special Purpose Acquisition Company, or more commonly SPAC, is a special corporate vehicle created by a number of promoters (or alternatively founders, management team or sponsors) of high professional standing, specialised in specific sectors and supported by operators with extensive experience in the M&A and private equity sector, with the aim of listing, through an IPO, on a regulated market or on a multilateral trading facility, in order to raise capital from investors and to subsequently proceed with the integration with an unlisted company, defined as a target, in a relatively short period of time, usually 18 - 24 months, so that the latter assumes the status of a listed company¹.

Therefore, it is worth briefly highlighting some of the aspects that characterise the process, as well as the functioning, of these companies, which will be discussed in more detail in the course of this chapter.

First, when the SPAC is listed on the market, specific units are placed, consisting of shares and one or more warrants, which are "in the money" from the moment they are placed. They are, as will be seen later, convenient for the investor himself.

Initially, before the transversal affirmation of this financial product, investors were represented by long-only investment funds and HNWI (High Net Worth Individuals) investors, while today, not infrequently, we can also find insurance companies, mutual funds, etc., which however fall within the macro-area of institutional investors. So, this shows the expansion of the phenomenon.²

It is important to specify that not all issues are the exclusive competence of institutional investors or qualified entities; in fact, we can also find retail investors as the experience of Glenalta, an Italian SPAC placed on the EGM market in July 2017, shows.³

After the placement on the market, most of the resources raised are segregated through special mechanisms, represented by trusts (alternatively, escrow accounts or escrow funds) on which interest from so-called risk-less investments

¹ <https://www.investopedia.com/terms/s/spac.asp>

² <https://westwicke.com/2021/05/the-evolution-of-spacs-new-challenges-and-opportunities/>

³ <https://www.glenalta.it/our-peculiarities/?lang=en>

(for example U.S. Treasury Bonds) accrue so as to be unavailable to the promoters and it will only be possible to use them after the business combination.

As mentioned above, the SPAC has a limited time horizon, since within, and no later than, 24 months (except cases where there may be an extension of a further 6 months), the management team must identify the target company and proceed with the so-called business combination, which must be approved with adequate qualified majorities, approximately 75-80%, by the shareholders/investors' meeting⁴.

Otherwise, if the business combination is rejected, the management team has two alternative ways to proceed: either to present a new target or to liquidate the investors; note that the latter path is pursued also in case no business combination is approved, and also in this case the withdrawal by the investors follows, who will be reimbursed with the cash held in the escrow funds while maintaining the ownership of the warrants.

For the sake of completeness, there are four categories through which SPACs can be categorised in their life cycle⁵:

- No target found (NT): the SPAC has not announced its intention to acquire a target company.
- Target found (TF): the SPAC has announced, but not completed, the proposed acquisition.
- Acquisition completed (AC): the SPAC has completed the acquisition of one or more target companies.
- Acquisition withdrawn (AW): the SPAC, after announcing the acquisition, withdraws it.

The last of the focal points concerning the life of the SPAC, but one of the most important in terms of the success of the whole operation, is the way in which the business combination can take place:

⁴ <https://bebeez.it/spac/tropi-recessi-stop-alla-business-combination-la-spac-spactiv-la-maison-betty-blue/#:~:text=Lo%20scorso%20settembre%2C%20infatti%2C%20i,l'annullare%20l'operazione.>

⁵ <https://www.spacanalytics.com/>

- the shares of the target company can be bought by the current shareholders.
- New shares issued by the target company can be subscribed to.
- a direct or reverse merger can take place between the SPAC and the target company.

The most common method used to carry out the transaction is the merger.

It should be noted that there are two schools of thought⁶ regarding the implementation of the business combination:

The first holds that the transaction is a full merger, while a second interpretation holds that it is a reverse merger, a phenomenon strongly characteristic of the US context.

A reverse merger is a particular type of merger involving a listed company that is inactive or has no assets (typically referred to as a shell company); among other things, it is a transaction that, in the US context, enjoys a negative reputation, as it is associated with the back-door listing process. A direct merger, on the other hand, occurs when a company identifies a target and acquires it.

All the accounting implications of the SPAC can be very complex and extensive to analyse, and for the purposes of this paper, we will limit ourselves to analysing only the main aspects, going to highlight which are the reasons that make one case, the direct merger, or the other, i.e. the reverse merger, more likely.

First, it should be specified that the merger can be direct or reverse, depending on whether it is the SPAC that incorporates the target, or vice versa.

The main consequence will be that, in the first hypothesis, there will be a continuum in terms of listing on the reference market, otherwise, in the second case, a second listing process will be necessary, since it would be an unlisted company acquiring a listed one.

The first hypothesis is the one most frequently used. It is also the case that we will deal with in the paper.

Talking about the SPAC acquiring the target company, Fumagalli⁷ points out that, in this regard, there is no accounting unicum concerning the SPAC, also because on the one hand it is not possible to fully use the concept of direct merger and on the other hand it cannot be assimilated to the reverse merger either. Now that

⁶ <http://www.rivistadirittosocietario.com/Special-Purpose-Acquisition-Companies-SPAC>

⁷ <https://books.google.it/books?id=ThDcCgAAQBAJ&printsec=copyright#v=onepage&q&f=false>

we have had a brief overview of the issues in the debate, we can go into more detail by going to see what the main points of contention are.

It is not possible to limit the discussion to a national level, so the literature to be considered is international. Nevertheless, I found my thoughts completely in line with those expressed by Matteo Fumagalli in "Lo Sviluppo della SPAC (Special Purpose Acquisition Company)" where he argues that the process of business combination takes place through the classic merger. As mentioned in the first paragraph of the article, Fumagalli points out that the reverse merger is a prerogative of shell-companies, which are typically non-operational and without assets. On the contrary, the SPAC is a corporate product that was born from the ashes of blank check companies. The two companies are similar, but with differences that, although they may not be immediately significant, are crucial to Fumagalli's argument.⁸

"Shell companies and blank checks are fundamentally similar. A start-up that has a plan to produce or supply "something", but currently has no assets/operations, would qualify, once listed, as a shell company, precisely because it has nominal/minimal assets and operations. But it would not qualify as a blank cheque company, because it has a real business plan. On the other hand, a dormant company that had transactions, but now has a good deal of assets (patents, third-party claims, and perhaps even a significant net loss) might qualify as a blank check company (because of its real intention to merge), but not as a shell company (because it has more than nominal/minimal assets). A start-up company that has such transactions in place cannot qualify as a shell company. However, it would still be subject to the disclosure requirements on any reverse merger transaction where it still retains nominal assets and transactions."

Essentially this is an alternative way of listing a company, but there are other implications to consider. Instead of using an underwriter to place and trade shares on the market through the traditional IPO process, a private operating company works with a promoter to identify a target with which to proceed with the business combination.

In the process, the operating company is merged with the SPAC, or with a specially created subsidiary of the latter. During the merger, the shareholders of the operating company receive a majority stake in the SPAC in exchange for their shares in the operating company. Thus, in the post-merger phase, the shell company will contain assets and liabilities of the operating company and is controlled by the latter's shareholders. The name of the shell company will be changed to that of the operating company, as well as the human capital linked to

⁸ Marco Fumagalli, Lo sviluppo della SPAC, pagina n.11, 2014

senior roles in the operating company, and the shares will continue to be traded on the same market on which the shell company was listed before the business combination. Thus, at the end of the process, the business of the operating company will still be controlled by the same group of shareholders and managers, but, unlike the pre-merger scenario, formally contained in a listed company. SPACs are mostly pushed as substitutes for the traditional IPO, they provide an infusion of capital and increase the degree of liquidity of the stock, so they are in fact like the IPO.⁹

The SPAC is usually seen as a faster and cheaper method of listing than the traditional IPO.

This may be true, but the comparison between the two methods is misleading and even irrelevant for many companies. The reason this comparison is misleading is that IPOs and SPACs are not essentially equivalent. In the case of an IPO, the company turns to an underwriter to first manage the sale of millions of dollars of newly issued shares to the public. Next, the underwriter helps the company develop a secondary market that ensures some liquidity for the shares by facilitating the placement of the shares on the stock exchange, creating a market for the shares, and issuing analyst reports and recommendations to investors. Thus, once the market is created, investors and any pre-IPO insiders can cash out some or all their holdings by selling the shares on the market, and the company can use the proceeds for future acquisitions or other transactions. In contrast, a SPAC is not a capital raising transaction, as no shares are sold for cash in the transaction, rather: the shareholders of the operating company receive shares in the SPAC in exchange for the shares they have in the operating company.

As for the shareholders of the SPAC, they keep the shares they already owned. The only money that changes hands in the deal is the commission paid by the operating company to the promoters, lawyers, and accountants to set up the basis of the deal.

To be sure of the outcome of the transaction, in many cases the SPAC is accompanied by so-called PIPE financing, which stands for "Private Investment In Public Equity". PIPE financing consists of the purchase of shares in a company by a private investor, a mutual fund, or any other qualified investor at a discount to the current market value to raise capital.¹⁰

It is divided into two different categories: the traditional one, where ordinary or preference shares are issued at a fixed price to raise capital, and the structured one, where debt convertible into ordinary or preference shares is issued. This

⁹ Marco Fumagalli, *Lo sviluppo della SPAC*, pagina n.11, 2014

¹⁰ <https://www.menabytes.com/spac-pipe/>

financing technique is more efficient than secondary offerings, due to fewer regulatory constraints with the SEC, and is excellent for small and medium-sized listed companies that may have difficulty accessing conventional forms of financing. These forms of financing have emerged as a vital tool for small, listed companies, since for many of them PIPE financing is the only instrument available. Thus, if a private company has already exhausted all available forms of financing, it can list itself through a SPAC and access this instrument which, on the contrary, can be very expensive. In light of this, it is obvious that, at the end of the whole SPAC process, the operating company will be listed on the OTC Bulletin Board or the Pink Sheets, but, unlike the case of a traditional IPO, in this circumstance we will not have an underwriter developing a secondary market to support the stock in the post-listing phase, and the shares themselves will be traded at a lower value than in the case of a traditional IPO¹¹.

The popularity of a listing market often influences the value of a security, in fact, as we will see in the chapter on SPACs in Italy, many SPACs, after having carried out the business combination, change market to move towards more popular markets where there are more investors, and more trades take place daily.

The conclusion is obvious: the SPAC instrument is usually a prerogative of those companies that, firstly, are judged to be of low quality and, secondly, do not have high standing financing instruments at their disposal. Although, as we will see later, over time, this view is changing and SPACs, in addition to being seen as an alternative instrument for companies that are judged to be of low quality, are seen as a financial instrument that can benefit all parties involved¹².

The main consideration with respect to the SPAC is that: undoubtedly, it represents a method of listing that can be faster and less expensive than a traditional IPO, but, at the same time, it is an insignificant comparison, because, as will be seen in more detail in chapter 4, each of these instruments conforms to different companies and comparing them, without taking into account the characteristics of the company concerned, may lead to erroneous conclusions.

1.2. HISTORY OF SPACs

The main form of today's SPACs originated in the United States in the 1980s, under the name of the Blank Check Company (BCC). Initially, this investment vehicle was used to engage in market manipulation and abuse, even though the amounts involved were small.

¹¹ <https://www.pecunia.com/it/blog/quotarsi-in-borsa-con-una-spac-un-alternativa-all-ipo/>

¹² <https://www.wallstreetitalia.com/spac-rischi/>

Because of this financial misconduct, the US legislator had to intervene by placing restrictions on the spread of this phenomenon. In 1990, the US Congress, through the Stock Reform Act, therefore mandated the Securities and Exchange Commission to identify restrictive measures for Blank Check Companies. This was done through Rule 419 of 1992. The scope of this rule is limited only to BCCs whose securities are identified as penny stocks, low value/speculative securities.

These measures were necessary to provide greater protection to investors who had lost confidence in BCCs because of previous frauds.

With the aim of renewing confidence in the investments made by BCCs, the first examples of so-called 'hybrid' BCCs or SPACs came to light in the early 2000s. To achieve this objective, the founder of this new operating model, David Nussbaum, thought of creating a new form of BCC that was not linked to penny stocks and, therefore, unrelated to previous investment experiences. In addition, to better protect investors, it operated in compliance with the precautionary measures of Rule 419¹³. The restrictive measures complied with included:

- the setting aside in unavailable trust funds of the monetary resources raised by the IPO, net of ordinary management expenses, until the execution of the business combination.
- the right of opposition of the individual subscriber, at the time of the approval of the business combination proposal and the right to liquidation of his share.

The first SPAC launched on the market by David Nussbaum was NationsHealth Incorporation, in August 2003. Since this renewal, Nussbaum has launched thirteen SPACs. Of these, twelve have successfully completed acquisitions, thus confirming SPACs as a viable financial model capable of restoring investor confidence¹⁴. To gain public acceptance, these first SPACs (as well as most modern SPACs) were equipped with a management team experienced in stock market operations and a sector or geographical area in which to choose the target company was identified from the outset. Initially, this instrument was only used to acquire companies in particular sectors, such as banking, shipping, mining, healthcare, technology, and marketing.

Following their popularity with the investing public, SPACs attracted the attention of the private equity industry, which found them suitable for further

¹³ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3832710

¹⁴ <https://www.bloomberg.com/press-releases/2006-01-30/icr-to-host-conference-call-to-discuss-special-purpose>

development. The use of SPACs in the private equity industry has allowed them to expand their reach to any industry sector.

After regaining the trust and interest of the market, the number of SPACs began to increase, accounting for about 25 per cent of all IPOs in the US¹⁵.

During this period, which began around 2003 of development, the original model evolved, giving rise to a new "generation" of SPACs, those managed by large financial groups and not by small investment banks, like the previous ones. It is precisely these large industrial groups that have been the promoters of the strong development of SPACs since 2007, driven by the possibility of obtaining significant profits during the life of the company. A further development of the SPAC phenomenon occurred when many large markets opened their listing doors to these entities as well¹⁶. Until then, they had to be listed on over-the-counter markets. This change proved to be the most important breakthrough in terms of transparency in the relationship between SPACs and investors, providing an additional safeguard for subscribers.

Today, SPACs are a widely used means of business development in the United States. Over the years, SPACs have developed considerably, and today they fall into two main categories: SPACs that continue to voluntarily comply with the restrictive measures of Rule 419 and those that do not.

Unlike the United States, Europe has only known this category of entities since October 2005, with the listing of International Metal Enterprises Incorporated on the London Stock Exchange EGM Market.

Although the phenomenon has been well received, it has met with strong resistance from the markets, perhaps due to the lower risk appetite that has always characterised our institutional investors compared to those in the US¹⁷.

However, the differences between the markets will be discussed in more detail in the following chapters.

1.3. HOW A SPAC WORKS

In the first part of this first chapter we had the opportunity to address the important issue of defining the SPAC, specifically with regard to their position within the category of direct or reverse mergers, clarifying that according to the point of view of Dr. Fumagalli in his paper, and according to mine, the SPAC is a

¹⁵ <https://www.cbinsights.com/research/report/what-is-a-spac/>

¹⁶ <https://www.spacanalytics.com/>

¹⁷ <https://www.bancaditalia.it/pubblicazioni/temi-discussione/2004/2004-0501/index.html>

direct merger, with obviously some points of difference compared to the classic merger operation, but assimilable without doubt to the above category. In the course of the paper, we will come back to this theme, especially when we will highlight the strengths and weaknesses of SPACs and IPOs.

In addition to this, we have defined SPACs, although we will go into more detail on this in the second chapter, and finally we have seen how SPACs came into being and the history behind them.

In the second part of the chapter, we will deal with two main themes:

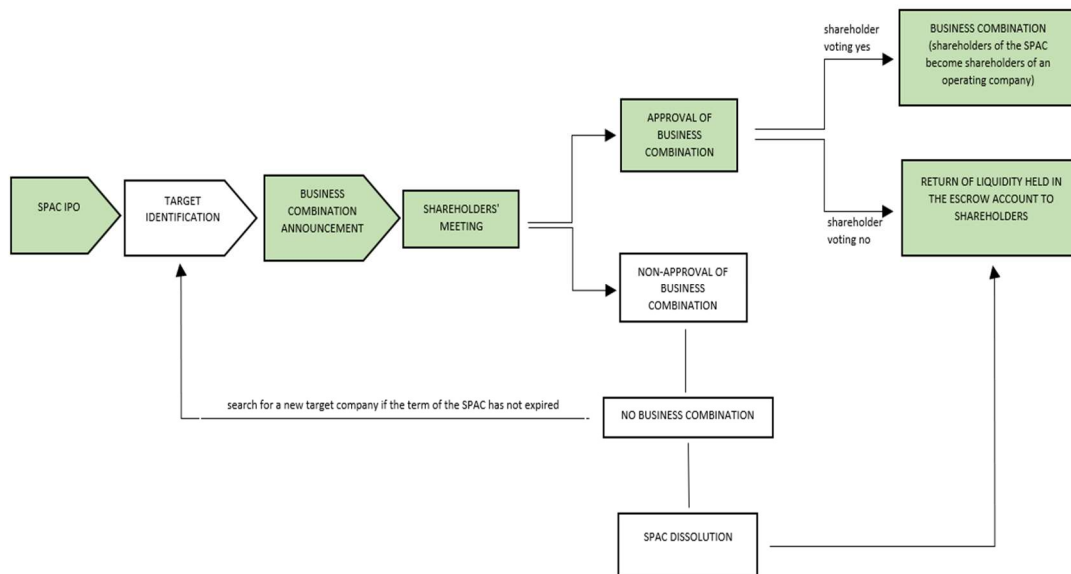
The first one will be how a SPAC works at an operational level: we will explain first of all how to set up a SPAC and the roles of the various actors involved, then we will deal with the listing process from a financial point of view by highlighting another of the key steps, namely the information asymmetry, going to evaluate it as the needle of the balance between SPAC and IPO. We will conclude with the choice of the target and the business combination as well as an in-depth explanation of the shares and warrants typical of SPACs.

The second topic will be about the trends of SPACs in the markets, dividing them by geographical area, to understand how important they are in each market.

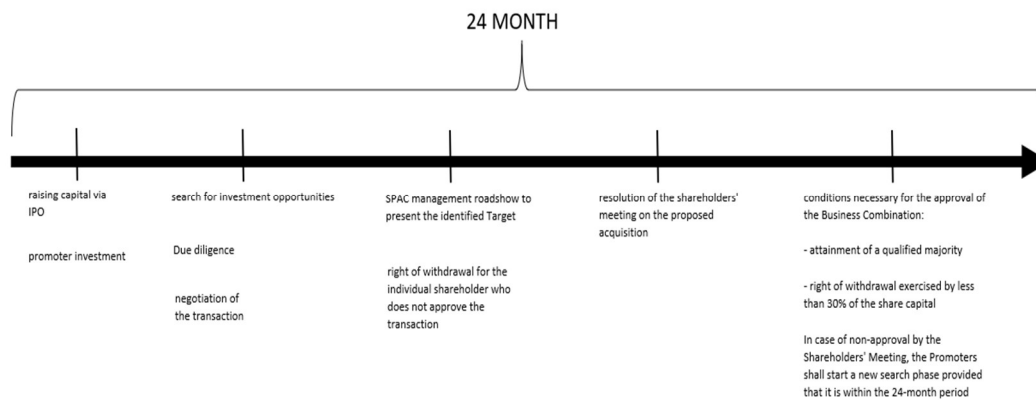
The topic of trends will be discussed in more detail in later chapters.

As a preliminary, before proceeding to the in-depth analysis of the topical moments relating to the functioning of a SPAC, with subsequent focus on the actors involved, a diagram is presented¹⁸ which, graphically, tries to simplify as much as possible, in the eyes of the reader, what is the life cycle of this particular investment vehicle.

¹⁸ <https://www.agendadigitale.eu/mercati-digitali/spac-cosa-sono-e-come-funzionano-tutti-i-vantaggi-per-imprese-e-investitori/>



Graph.1¹⁹



Graph.2²⁰

¹⁹ own re-elaboration on data on the Borsa Italiana website: <https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021

²⁰ own re-elaboration on data on the Borsa Italiana website: <https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021

1.3.1. COSTITUTION AND PROMOTERS OF SPACs

As already mentioned, SPACs are set up by promoters with the sole purpose of proceeding to a corporate integration, after acquisition or merger, using the resources previously raised through IPOs.

Formally, the process begins when the subscribers, on behalf of the management team, file a prospectus (in Italy with CONSOB, in the USA with the SEC), in which an IPO at a future date is announced.

This document is characterised by being very substantial as it explains in detail the process of transformation of the newly established company, with a minimum investment, which will change according to country and market, by the promoters into a new listed company, which would be seeking an acquisition of a target company within a period established ex-ante.

The prospectus describes the financing needs of the new company. The prospectus varies from market to market and country to country, but usually has some common features such as the nature of the securities issued, discloses the entire underwriting agreement, any conflicts of interest that may arise between the promoters and the investors, elaborates on the proposed business and, most importantly, discusses the background of the management team. In addition, it usually provides details on how it will be used if the target acquisition takes place and, in the opposite case, if the SPAC is unable to execute the acquisition and therefore must proceed with the liquidation phase.

Once the filed document has been approved by the relevant authority (SEC in the US, CONSOB in Italy), the management team and the underwriters complete a series of preparatory steps to proceed with the listing of the SPAC.

The founders of a SPAC are usually former or current executives of high professional standing from different sectors, who practice calls indistinctly SPAC promoters, SPAC managers, or SPAC sponsors. In general, from the prospectuses filed, we can see that the origin of the sponsors is rather heterogeneous, and above all we can see that some of them had already had experience in blank check companies in the period before 2003, the year dominated by the "new generation"²¹ Special Purpose Acquisition Companies.

²¹ The term 'new generation' will be dealt with in detail in Chapter II of the paper.

In most cases, we note that the founders of SPACs are from investment companies, private equity funds and hedge funds.

In the prospectus, the founders usually highlight their intention to devote only a few hours of work per week to the SPAC and warn potential investors of the potential risk of conflict of interest posed by their involvement in competing companies and the high uncertainty surrounding the success of the merger.²²

They sell about 80% of their entire shareholding via IPO and keep the remaining 20% for themselves in case of a successful business combination.

In addition to the equity investment, the founders can also engage in the early purchase of warrants.

About warrants, an explanation is necessary in order to make the paper easier to read and understand.

Warrants are financial instruments whose value depends on other financial instruments or real assets. Therefore, by virtue of this definition, they fall within the category of derivative instruments. Their main characteristic, not only of warrants but also of all other derivative instruments such as futures and swaps, is that they can be purchased by persons who have no connection with the underlying securities.

Specifically, warrants are financial instruments that give their holders the right, but not the obligation, to buy or sell, depending on whether they are put warrants or call warrants, at a pre-determined date, an underlying asset at a given price.

They are essential instruments in the SPAC theme because having the SPAC a defined time horizon, the purchase of the warrants at a certain guaranteed price can clearly offer substantial gains to those to whom they are offered. I have provided a more detailed explanation on this topic towards the end of the following chapter.

In general, in the US experience, sponsors participate in the SPAC in the following ways:

- 1) through the equity sponsor, which is represented by 20% of the post IPO capital and which is purchased for a token fee. The equity sponsor is essentially the person who oversees orchestrating the transactions in order to realise the business combination. The person or persons in this role often also have the burden of being source of capital raising and a source of advice for the company.²³

²² <https://www.afm.nl/en/professionals/veelgestelde-vragen/spacs/prospectus>

²³ <https://www.netinbag.com/it/finance/what-is-a-financial-sponsor.html>

- 2) through sponsor warrants, which represent between 1.5-4% of the capital. They do not, in most cases, offer services to the company, do not offer advice and do not create value. Their function is to give cash to the company through the purchase of shares of common stock to be issued to sponsors in a private placement immediately before the IPO²⁴. This role, although apparently superficial, is essential because the cash contribution is often fundamental for a successful business combination.²⁵

- 3) Through the co-investment sponsor, these are shares acquired after the listing of the SPAC, usually in time periods close to the shareholders' meeting. The shares purchased by the co-investment sponsors are subject to the same clauses as the shares purchased previously, some or all of the sponsor's shares are subject to a lock-up clause. This type of sponsor is usually a minority investment made by investors alongside a private equity fund manager or venture capital firm. This investment then allows other investors to participate in potentially very profitable investments. The possibility of making this kind of investment, however, should be specified that it is only given to large institutional investors who already have an existing relationship with the manager of the private equity fund or in this case of the SPAC.²⁶

It should be noted, for the purposes of measuring the sponsors' participation in the SPAC, that the sponsor's warrants represent the "risk capital" that is lost in the event of a negative outcome of the entire initiative; whereas the equity sponsor does not participate in the distribution of funds in the event of liquidation, but receives a rather significant increase in the value of its stake in the event of success of the business combination, with regard of the subsequent performance of the shares.

A final element to be analysed with respect to the figure of the promoters is that related to reputation. Generally, SPACs try to signal to the market the goodness of the deal through the figure of their promoters; although, the high track record in private equity / hedge funds in the role of investment manager may be important,

²⁴ <https://www.lawinsider.com/dictionary/sponsors-warrants>

²⁵ <https://www.borsaitaliana.it/notizie/sotto-la-lente/warrant.htm>

²⁶ <https://www.investopedia.com/terms/e/equity-coinvestment.asp>

it may not be sufficient, and especially not sufficient to solve the moral hazard issue.

In the article by Chatterje, Chidambaran and Goswami²⁷ an interesting twist is given. The authors point out that the most controversial issue is how the reputation of a sponsor of a SPAC is established.

Unlike an investment bank that enters into deals with a defined base of investors or a private equity fund that often works with the same investors, most SPACs are independent one-shot deals and it is indeed infrequent to find more than one SPAC from the same founder; the second evidence the authors point out is how the success or failure of the deal does not impact the reputation of the sponsor in terms of investment manager and the possible reputational loss due to a failure may not be high.

They argue that it is not easy to establish the success or failure of the SPAC, because if the SPAC is liquidated without having successfully completed the business integration, the same promoter could successfully claim that it did not complete a bad deal. Third, the empirical evidence on hedge funds and private equity funds may not be sufficiently transparent for outside investors to measure their reputation.

Like Chatterje, Chidambaran and Goswami, Rodrigues and Stegemoller²⁸ address the issue of sponsor reputation through the concept of 'skin in the game', pointing out that while this mechanism is discussed in private equity, it is vital for SPACs. It consists in the fact that an investment in the company one works for, by top managers, in this case the sponsors, is a sign of good faith or trust, and is seen as a positive sign by external investors. In fact, the logic is as follows: if the sponsors have invested their money in the investment vehicle, then potential and existing investors will translate this move to mean that the investment is stable and have greater confidence that the company will always do its best to generate returns for its investors. The idea behind sponsors putting their skin in the game is to ensure that companies are run by individuals who share the same interest in the company. They can talk all they want, but the best vote of confidence is to put their own money in the game just like outside investors.

²⁷ Paper by Chatterje, Chidambaran and Goswami: <https://www.gabelliconnect.com/faculty/spac-finance-chatterjee/>

²⁸ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3906196

1.3.2. LISTING, UNDERWRITERS AND INVESTORS

Typically, the listing of SPACs involves the placing on the market of units, which usually correspond to one ordinary share and one or more warrants, allowing the investor to be able to purchase shares of the same company at a discount in the future. The use of the funds obtained through the IPO is regulated by the prospectus.

Specifically, about 5% of the capital raised is used to pay the upfront fees of the underwriters, administrative and legal fees, office expenses, securities registration fees and employee salaries. The remaining 95% of the funds are deposited in special guarantee funds, opened at a depository institution, to be invested in high quality risk-free securities, usually government bonds.

The establishment of a guarantee fund is an essential aspect of this process, as it demonstrates to potential investors a willingness to assure them that most of the funds raised are retained regardless of the success of the business combination.

Regarding warrants, Lakicevic and Vulcanovic²⁹ point out that it is necessary to wait until the completion of the business combination to exercise them (on average, this occurs about 7-8 months after the date of filing of the documents evidencing the intention to raise resources on the market).

In the United States, such instruments, in the period 2003-2005, were mainly traded on the illiquid OTC markets, and only later the AMEX/NYSE and the NASDAQ.

Indeed, since 2005, the AMEX has allowed the listing of SPACs, subject to regulation of minimum capital requirements, governance, compliance with the Sarbanes Oxley Act and minimum price quotas, and since 2008 trading has also been permitted on the NASDAQ and NYSE. (NASDAQ remains the first choice, in terms of market, on which to list a SPAC).

Considering the whole operation, we can highlight that the underwriters are not limited to the listing but also play the role of advisor. In fact, in support of this evidence, it is shown that in 47% of operations³⁰, the function of the underwriters is not only to accompany the company on the stock exchange, but also to assist it throughout its life cycle. For all their involvement, they receive a commission of around 7% of the listing proceeds.

²⁹ A Story on SPACs Managerial Finance, Vol.39, Issue 4, March 2013

³⁰ <https://www.lw.com/thoughtLeadership/lw-us-ipo-guide>

Typically, the average syndicate of underwriters is composed of four members, particularly small, highly specialised investment banks. This evidence is confirmed by Cumming, Haß and Schweizer's³¹ analysis of the profile of underwriters. The authors analyse how there can be more than one underwriter and how they agree with the company on a unique and rather peculiar fee structure, whereby a part is paid to them after the IPO process and a second part is kept in the guarantee fund, next to the investors' capital, and paid after the acquisition of the target company.

As mentioned above, an interesting element that emerges from the studies in question is how the profile of the underwriter was, in the past, represented by niche players in the sector, however, with the growth of the market, which has been witnessed in recent years, it is not uncommon to find a few large investment banks among the underwriters, indeed some evidence shows that, especially in recent times, SPACs have become of interest to many investment banks³².

The reason why the big players in the sector have struggled to enter the field has been due to the way in which fees are paid:

instead of being split in two different moments, these players were more oriented towards an immediate payment after the IPO.

SPACs were unattractive to investment banks as they were seen as significantly smaller instruments than companies going public through IPOs, and the higher returns they could achieve were mainly linked to the success of the SPAC, and this aspect went to reinforce the thesis for which they initially turned to niche advisors.

The analysis in the article by Cumming, Haß and Schweizer thus demonstrates that stock market positioning was the prerogative of niche players, but, to understand how the market has evolved, it is worthy of interest what was published by "Spac Insider"³³, regarding the ranking for, in order, the following periods: Q1 2019, Q1 2020, all subsequent to the document written by Cumming, Haß and Schweizer, regarding the underwriters who took part in transactions involving SPACs.

What can be seen is that today, with the growth of the market, and with the SPAC phenomenon no longer as niche as it might have been a few years ago, even the large merchant banks are entering the market, without forgetting those

³¹ Cumming, Haß e Schweizer, "The Fast Track IPO – Success Factors for Taking Firms Public with SPACs", 2014

³² <https://www.morningstar.com/articles/1065381/will-the-spac-boom-benefit-investment-banks>

³³ spac insider: <https://spacinsider.com/>

specialised operators who have nevertheless played the role of pioneers in the SPAC market³⁴:

RANKING 2019:

Rank	Underwriter	Volume (\$mm)	Volume % Mkt Share	Volume Sold (\$mm)	Volume Sold % Mkt Share	Deal Count	Average Deal Size
1	Deutsche Bank	1,210.0	19.2%	712.8	25.4%	4	302.5
2	Goldman Sachs	933.0	14.8%	345.0	12.3%	3	311.0
3	Cantor	641.7	10.2%	385.3	13.7%	4	160.4
4	BTIG	641.7	10.2%	193.6	6.9%	3	213.9
5	Stifel	530.2	8.4%	111.9	4.0%	2	265.1
6	Credit Suisse	400.0	6.3%	131.3	4.7%	1	400.0
7	Nomura	300.2	4.8%	159.5	5.7%	1	300.2
8	Cowen	280.5	4.4%	190.0	6.8%	2	140.3
9	Chardan	280.0	4.4%	128.1	4.6%	3	93.3
10	Earlybird	276.0	4.4%	175.0	6.2%	1	276.0
11	BofA	250.0	4.0%	109.1	3.9%	1	250.0
12	UBS	233.0	3.7%	33.8	1.2%	1	233.0
13	Barclays	233.0	3.7%	101.3	3.6%	1	233.0
14	Craig-Hallum	108.0	1.7%	30.0	1.1%	1	108.0

Source: SPACinsider, Ranked by volume

RANKING 2020:

Rank	Underwriter	Volume (\$mm)	Volume % Mkt Share	Volume Sold (\$mm)	Volume Sold % Mkt Share	Deal Count	Average Deal Size
1	Goldman Sachs	2,020.0	29.6%	884.0	27.2%	3	673.3
2	Deutsche Bank	1,345.0	19.7%	603.0	18.6%	3	448.3
3	Citigroup	1,100.0	16.1%	630.0	19.4%	1	1,100.0
4	Credit Suisse	506.0	7.4%	440.0	13.5%	2	253.0
5	UBS	460.0	6.7%	81.0	2.5%	2	230.0
6	Morgan Stanley	425.0	6.2%	100.0	3.1%	1	425.0
7	Earlybird	241.5	3.5%	100.0	3.1%	1	241.5
8	Jefferies	230.0	3.4%	66.0	2.0%	1	230.0
9	Imperial Capital	172.5	2.5%	120.0	3.7%	1	172.5
10	I-Bankers	138.0	2.0%	56.5	1.7%	1	138.0
11	Chardan	123.1	1.8%	109.5	3.4%	2	61.6
12	Maxim Group	69.0	1.0%	60.0	1.8%	1	69.0

Source: SPACinsider, Ranked by volume

It is interesting to note that both Q1 2019 and Q1 2020 also include investment banks belonging to the "League Tables" macro-area, demonstrating that since the first contributions on SPACs emerged, the market is growing strongly and even high standing players have decided to enter, occupying among other things the top positions, in terms of: number of deals, average size (in mln), and % market share.

³⁴ <https://www.spacanalytics.com/>

So, to sum up, we have been able to observe, with authoritative data and research, how the market is undergoing a trend reversal. In fact, from a market reserved for small, highly specialised niche players, we are noticing a trend that is bringing this innovative financial instrument under the attention of large international players. This, in my opinion, is the most important demonstration of how the market has evolved and how it is still evolving.

Regarding the IPO process, a key feature is the under-pricing phenomenon that characterises both traditional IPOs and IPOs of investment vehicles such as SPACs.

After listing, the main objective of a SPAC is to integrate with an unlisted private company, which indirectly assumes the status of a listed company, and as Chatterje, Chidambaran and Goswami³⁵ argue, it is interesting to ask whether the valuation of the target will be under-priced, as is the case with traditional IPOs.

It is also possible to see how theoretical models emphasise the role, as well as the use, of investor information in explaining the phenomenon of under-pricing in an IPO, echoing the evidence of Beatty and Ritter³⁶ who show that companies characterised by high information asymmetry tend to have, on average, a higher level of under-pricing.

Michaely and Shaw³⁷ show that investment banks with higher standing are associated with less risky IPOs resulting lower initial yields but, with subsequent significant increases.

Both the relationship between under-pricing and information asymmetry risk and the link between high standing investment banks and less risky issues are essential to assess the role of SPACs as an unconventional way of raising resources in the market, considering that under-pricing represents a cost for the issuer.

³⁵ Chatterje, Chidambaran e Goswami, "Security Design for a Non – Standard IPO: The Case of SPACs", 2016

³⁶ Beatty and Ritter, 1986, "Investment banking, reputation, and the underpricing of initial public offerings." *Journal of Financial Economics* 15(1-2):
<https://deepblue.lib.umich.edu/handle/2027.42/26376>

³⁷ Michaely and Shaw, 1994, "The Pricing of Initial Public Offerings: Tests of Adverse-Selection and Signaling Theories":
https://econpapers.repec.org/article/ouprfinst/v_3a7_3ay_3a1994_3ai_3a2_3ap_3a279-319.htm

From the point of view of the under-pricing phenomenon, it is interesting to note the contribution of Chatterje, Chidambaran and Goswami³⁸, who attempt to define a predetermined level of under-pricing, based on the following consideration:

companies that want to list through traditional mechanisms, having to face a number of costs, (where it is convenient, after careful analysis) may choose to list through SPACs if, in any case, the level of under-pricing implied by these corporate vehicles is economically advantageous for the listing process; in light of what has been defined, the under-pricing level of the target company is constituted by the value of the equity held by the founders, shares and warrants, plus operating expenses net of the initial investment of the former.

The intuition behind this evidence is as follows:

the total amount needed to pay the target company is equal to the IPO proceeds and the amount invested by the founders through warrants minus the operating expenses of the SPAC. Since the founders get an equity share, post corporate integration, of around 20%³⁹, and do not contribute to the value of the target company, we see that the total amount needed to pay the target company, to complete the corporate integration, is less than an amount equal to the amount held by the founders.

Suppose there is SPAC alpha and TARGET company called beta.

SPAC alpha has raised 100 million via IPO. This 100 million plus the amount that the founders of the SPAC have added, which we assume to be 20 million, make up the equity of the SPAC.

The target, Beta, has an equity of 40 million.

During the listing, development and research phase of the target, the SPAC used 10 million.

The value of the equity that the SPAC will bring into the target will therefore be 110 million. At this point, after the business combination, the equity of the target company will be 110 million + 40 million, therefore 150 million.

The founders post business combination get 20%⁴⁰ of the total equity, so 30 million $(150/20)*100=30$

³⁸ Chatterje, Chidambaran e Goswami, "Security Design for a Non – Standard IPO: The Case of SPACs", 2016

³⁹ https://econpapers.repec.org/article/ouprfirst/v_3a7_3ay_3a1994_3ai_3a2_3ap_3a279-319.htm

⁴⁰ https://econpapers.repec.org/article/ouprfirst/v_3a7_3ay_3a1994_3ai_3a2_3ap_3a279-319.htm

This figure is higher than the amount spent to complete the business combination.

This difference of 20 million represents the underpricing.

This evidence is essential to understand the underlying economics of the whole SPAC transaction.

In short, the founders' shares have to be considered as a compensation due to an informed investor who produces information, which implicitly gives positive signals to the market, about a company that is about to go public; there is therefore an ex-ante commitment to allocate part of the target's equity to the founders, who have a strong position in the whole architecture of the project, especially in the light of the incentives to give certain signals to the market and to choose projects capable of creating high value while minimising the risk of the whole operation.

So to sum up, under-pricing is the compensation the founder receives for the additional information he or she enjoys. Clearly, in this context, SPACs are wrongly assimilated to IPOs, although this is only for explanatory purposes because clearly another reason that drives towards SPACs is the monetisation of the investment.

Finally, a final aspect that deserves attention is linked to the figure of the investors and the role they play in the whole SPAC process; in particular, this analysis must contextually consider the figure of the promoters as a term of comparison. As a preliminary point, it goes without saying that the decision to list implies the presence of two types of investors: the informed ones, the founders, who know the real value of the company, and who are typically individuals with a significant track-record in private equity or hedge funds, in the role of investment manager, and the occasional, and therefore uninformed, investor.

The relationship between these two classes can be traced back to the principal-agent relationship as far as the issue of moral hazard⁴¹ is concerned, which will be discussed in depth in the second chapter.

Daniele D'Alvia⁴² points out that moral hazard is very high both during and after the IPO. He qualifies uninformed investors as the principal and the management

⁴¹ Moral hazard: <https://www.investopedia.com/terms/m/moralhazard.asp>

⁴² Daniele D'Alvia, "SPAC: a comparative study under US, Asia and Italian corporate framework. Soft law vs. Hard law.", 2014

team as the agent. He also identifies what may be a number of remedies to this information asymmetry, such as warrants and incentives available to the management team. In particular, he points out that issuing warrants during the IPO is a way to avoid agency and moral hazard costs, as they can only be exercised after the IPO has been completed, and in the case of the SPAC only after the completion of the business integration. In other words, the warrant holder will be able to acquire shares in the company in the future in relation to the cash flows generated by the company as a result of the IPO, or in the case of the SPAC as a result of the Business Combination. At the same time, the management team will not have the immediate availability of these economic resources derived from the redemption of the warrants, which will be available only after the possible exercise by the shareholders.

In short, the issuance of warrants represents a sort of controlled financing, directly linked to the corporate integration operation and allows to avoid opportunistic behaviour by the promoters, and at the same time a monitoring of the management team by the shareholders.

Basically, the warrants act as a connection point as they link the remuneration of the promoters and of all the subjects directly involved in the realisation of the business combination, guaranteeing, despite the inevitable information asymmetry, a common objective.

Finally, a further way to avoid such information asymmetries is to guarantee monetary incentives to the management team of the target company, equal to about 20%⁴³ of the equity in the post-business combination phase. This option will make the search process easier and much more streamlined, first, and then the integration into the company aligning the interests, the objective will become common and consequently everyone will have advantages in making the operation successful.

1.3.3. BUSINESS COMBINATION AND TARGET COMPANY

Typically, the IPO date represents the first day of the SPAC's life on the market, but, paradoxically, it can also be the last, unlike traditional listed companies.

The reason for this is as follows: if the management team is unable to realise a business combination within a certain period, the SPAC dissolves and existing investors will be entitled to receive what they hold in the guarantee fund, in proportion to the shares held.

⁴³ https://econpapers.repec.org/article/ouprfirst/v_3a7_3ay_3a1994_3ai_3a2_3ap_3a279-319.htm

Theoretically, the management team has between 18 and 24 months to complete the acquisition process, but in practice, this timeframe can be extended by a further 6 months to a maximum of 30 months⁴⁴. In the early years, when SPACs were only traded on OTC markets, these guarantees regarding liquidation terms were much weaker if not absent, with sponsors and underwriters themselves imposing a liquidation term of 24 months.

In 2008, however, when both the NASDAQ and the NYSE announced the admission of SPACs to trading, there was a further extension of the liquidation period to 36 months (in Italy, a maximum of 30)⁴⁵.

In the prospectuses that are filed with the competent authorities, SPAC founders usually specify the sector or country of the target to be acquired. They are also required to submit regular quarterly and annual financial documentation.

SPACs usually use a specific document (in the US the so-called "8-K Form" or the "425 Form") to announce the business combination. In the document announcing the business combination, the management team explains the structure of the proposed transaction and reveals the name of the target.

In addition, the management team states that the completion of the business combination is subject to the approval of a minimum percentage of shareholders as specified in the listing prospectus.

After the announcement of the business combination and the concomitant approval of the final document by the competent authority, the most urgent task for the management team is to have the support of the shareholders for the proposed business combination on the voting date, bearing in mind that all shareholders are entitled to participate in the vote on the merger project, and for the deal to be approved it is necessary that the shareholders' meeting does not have a certain percentage of votes against, the threshold of which is specified in the prospectus filed at the time of the IPO.

In the period from 2003 to 2006, typically the non-voting threshold was 20% of the total votes, whereas after 2006 it was around 30% on average⁴⁶, which means that if more than 20% of the shareholders vote against the proposed business combination, the merger process must be suspended, and the SPAC liquidated. When the liquidation of the company is announced, the shareholders are entitled to a distribution of the resources held in the guarantee fund, in

⁴⁴ <https://www.pearlmeyer.com/blog/timing-considerations-for-spac-equity-grants>

⁴⁵ <https://www.pearlmeyer.com/blog/timing-considerations-for-spac-equity-grants>

⁴⁶ <https://www.spactiv.com/che-cose-una-spac/>

proportion to the shares held. If the shareholders approve the business combination, the management team, together with the underwriters, and the lawyers proceed to define a new structure, resulting from the implementation of the merger and notify the issuance of new securities instrumental to the completion of the business combination. Once the transaction is approved, all funds held in the guarantee fund are available to the SPAC management team to be used for the newly created company. As far as the target company, the object of the acquisition, is concerned, it must be an unlisted private company, and on this point, there are cultural differences between the US and Italian experience with SPACs⁴⁷.

In the US it is usual to focus on companies in need of restructuring or that are not in good health, while in Italy the profile of the company to be acquired is represented by small to medium-sized companies with high potential. As Sjostrom⁴⁸ points out, the private companies acquired by the SPAC are brought to market without having to provide all the financial documentation, including additions, that a traditional listing process requires. As a result, target companies see the SPAC as an attractive way to enter the market without having to go through the lengthy and expensive listing process.

In addition, a further advantage for the target's owners is that they obtain liquidity in the form of a cash payment, as well as the expertise of the management team and the structure of the SPAC itself, which significantly reduces the threat of regulatory or legislative interference during the acquisition process.

SPACs have a strong appeal for several reasons: firstly, for cash-starved companies, because they have significant cash resources, but also because, in the eyes of private equity funds, they represent a potential exit vehicle for their portfolio companies, considering that a significant number of professionals working in SPACs are current or former managers of these funds.

Most SPACs are focused on acquiring target companies from specific sectors (transport, healthcare, financial services, consumer goods, telecommunications, manufacturing) or precise geographic areas (including China, India, Israel) where management has significant knowledge. It is important to note that in acquiring the target, the SPAC must use at least 80% of the resources earmarked in the escrow account,⁴⁹ otherwise it will be liquidated, which entails the pro-rata return of what has been deposited in the fund to the investors net of the SPAC's costs. It

⁴⁷ GIMEDE GIGANTE , ANDREA CONSO , ENRICO MARIA BOCCHINO **SPAC FROM THE US TO ITALY**

⁴⁸ The Truth About Reverse Mergers Entrepreneurial Business Law Journal, Vol. 2, 2008

⁴⁹ <https://dealflower.it/spac-la-sec-taglia-le-gambe-alla-speculazione-ma-il-mercato-ce-e-restera/>

is possible, although quite rare, to find situations where the SPAC acquires several target companies and not just one. On the other hand, it is common to find the circumstance where the potential target has not yet been identified at the time of the IPO, and consequently is not able to provide detailed information to investors prior to listing on the market.

1.3.4. SHARES AND WARRENTS

The shares of the SPAC possess, from a structural point of view, unique and interesting properties which differ significantly from those possessed by ordinary shares⁵⁰.

Indeed, the investor is as if he were investing in a risk-free asset in the first phase of the SPAC's life cycle, before the business combination, and at the same time in a call option on a security which is unknown to him, but which is characterised by systemic risk.

In addition, such shares are characterised by an expiration date and a series of rights that are far greater than those typically provided by ordinary shares. If, on the other hand, the business combination does not take place, the investor is entitled to receive part of the cash held in the fund in proportion to the shares held.

It is important to underline that, from a theoretical point of view, it should never happen that the share price falls below the current value (which, by way of example, we could identify with the term floor) of the amount of the cash itself considered at the company's maturity date.

In purely financial terms, the share price normally reacts at two specific moments: at the moment when the business combination is announced (in detail, at the moment when the letter of intent is signed with the target company) and at the date when the decision is taken (typically the date when the shareholders' meeting is called or the date when it is ascertained that the level of withdrawing shareholders is below the floor)⁵¹.

The market may consider the integration project as positive, in which case the stock will appreciate because it is believed that the project will create value, or it may consider it as negative, in which case the stock will fall to the floor value. Not only that, but the stock may also react to market rumours prior to a potential agreement with the target, in which case it is difficult to justify a positive vote for the business integration project without the stock appreciating after the announcement by a rational investor. On the contrary, the idea that a possible

⁵⁰ <https://www.dlapiper.com/en/us/insights/publications/2021/04/sec-focus-on-spacs-key-takeaways-from-recent-sec-statements-and-enforcement-activity/>

⁵¹ <https://www.dlapiper.com/en/us/insights/publications/2021/04/sec-focus-on-spacs-key-takeaways-from-recent-sec-statements-and-enforcement-activity/>

appreciation of the market is instrumental to a positive vote for the business combination is common, and in this case the conclusion is that the market can read in advance the quality of the deal, in contrast to the numerous evidence showing its inefficiency.

The complexity of the SPAC is partly due to its financial architecture. Indeed, in addition to shares, there are also warrants; and in this respect, there are two types of warrants in SPACs: sponsor warrants, which are subscribed by the promoters, and market warrants, which are offered free of charge to the public along with the shares. Moreover, it is important to underline how the presence of warrants makes any share placement much more attractive, not only limited to SPACs, firstly to put the subscriber in a privileged position, being able to exercise his right when the value of the shares appreciates, but above all to be able to split the investment into two different types of securities: shares and warrants which are characterised by two different risk and return profiles.

The main characteristics of warrants are as follows

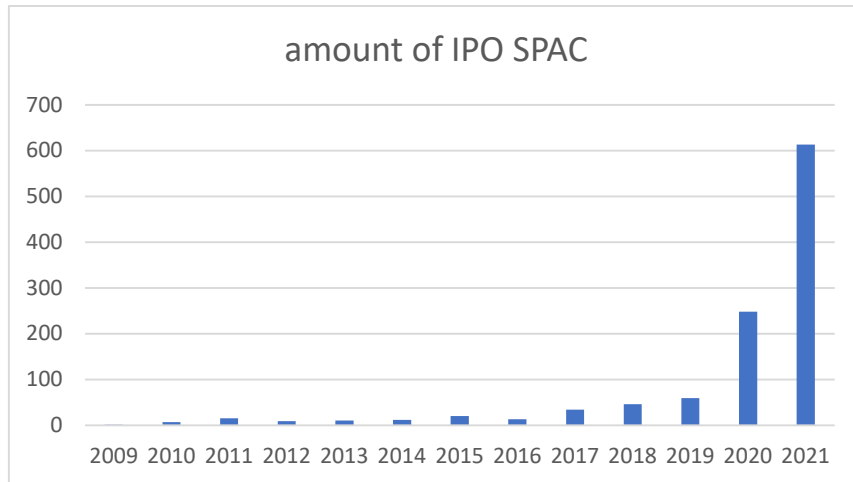
- the exercise price, at the time of issue, is "in the money".
- the option contained in the warrant is American-style, it can be exercised at any time before expiry. There are two moments of exercise: either after the IPO, or deferred, at the time of the company integration.
- their exercise can take place without the bearer paying any monetary consideration. This mode of exercise is called cashless.
- When the share price exceeds a certain threshold, the company redeems the warrants for a symbolic amount, forcing holders to convert in order not to lose what they have earned.⁵²

1.4. GLOBAL PERFORMANCES OF SPACs

SPACs have had fluctuating performances over the years.

Particularly in recent years, the global trend has been strong, as can be seen in the graph below.

⁵² <https://www.borsaitaliana.it/notizie/sotto-la-lente/warrant.htm>



GR.3⁵³

It is precisely this sudden rise that prompted the SEC to warn US investors, especially after SPACs began to attract well-known faces from US show business, such as former Los Angeles Lakers champion Shaquille O'Neal or rapper Jay-Z⁵⁴.

A first explanation for the recent success of SPACs can be found in the fact that SPACs fill a value gap between the most promising industrial stocks for the future and the artificially high values of listed companies due to the overabundance of liquidity in the market. In the US where stock market valuations are much higher than elsewhere, this has worked best.

But there is also a second explanation for the success of SPACs: the difficulty for investors to find good stocks to invest in that are not already overvalued. SPACs simplify the process of bringing unlisted companies to the stock exchange and reduce their costs, while at the same time allowing investors to find additional portfolio diversification among the freshmen that will merge with SPACs, and in the most promising sectors, through the work of SPAC promoters.

Promoting a SPAC is not a very different job from that of Private Equity fund managers, but the time horizon changes (it becomes shorter) and the operational structure also changes, because fund managers have to put their hands on the strategy of the acquired companies and wait for them to grow in value, while the

⁵³ <https://www.spacresearch.com/>

⁵⁴ <https://www.agendadigitale.eu/startup/il-2021-e-lanno-delle-spac-tutto-quello-che-ce-da-sapere/>

promoters of SPACs only have to identify the most promising companies that are, after all, almost ready to be listed, making their lives easier and speeding up the listing process (also eliminating the risks of something going wrong) in exchange for a lower initial valuation than they would get in an IPO.

So, it's money from professional investors pouring into the stock market, not money from indistinct savers divesting from something else to get into an IPO. The difference is strategic: as in Private Equity, the subscribers of the capital of a SPAC have a medium-term logic and are therefore much less ready to disinvest immediately than the subscribers of an IPO. Moreover, they are on average much better informed than the average buyer of listed shares and therefore much better able to formulate a judgement on the possible target.⁵⁵

Let us now briefly analyse the most recent trends in SPACs.

For this type of analysis, it is necessary to distinguish the markets by geographical area, so first we will analyse the American context, then we will move on to the European context, concluding with the Italian one.

A further analysis of this data will be carried out later in the paper.

1.4.1. UNITED STATES

The United States is the country where SPACs were born.

They came into being in the 2000s, but due to the issues outlined above, they have struggled to establish themselves.

Over the years, the SEC has intervened countless times to regulate these financial vehicles, and some regulations have almost made them disappear, but despite everything, today more than ever, SPACs in the United States are a stronger reality than ever, and the data show it.

In 2007, US SPACs raised an impressive \$12 billion, then, due to the mistrust generated by the crisis in the global financial markets, there was a dramatic drop to \$3.8 billion raised in 2008⁵⁶.

⁵⁵ <https://www.kaleyra.com/it/blog/esperienza-del-cliente/spac-che-cosa-insegna-leempio-americano/>

⁵⁶ <https://space-economy.esa.int/article/113/spac-and-the-space-industry>

This gradual decline also affected the following year, when a further drop was noted and for the first time there was a real risk of SPACs becoming extinct. In fact, only \$36 million was raised in 2009.

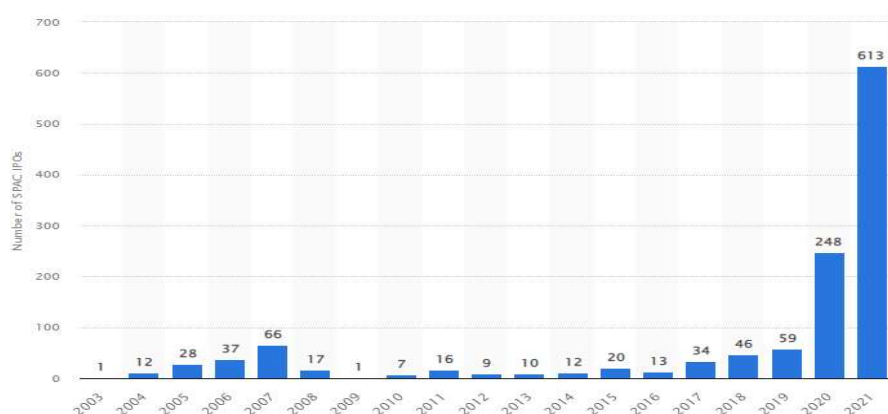
From then on, the capital raised through SPACs has always increased, as also highlighted in the chart below, where you can see even with the naked eye 3 fundamental peaks in the history of SPACs, namely the year 2017, the year 2020 and finally the year 2021. With respectively 11 billion collected in 2017, 83 billion in 2020 and 102 billion in 2021.

In terms of numbers, this represents an increase of 108% in just four years.

What is fuelling this market is a progressive interest on the part of various international players, and a progressive search on the part of each investor for something innovative and highly profitable to invest in⁵⁷.

SPACs, in my view, are particularly popular in the United States because they embody the ideal of the American dream. by American dream in this context, I refer to the fact that this kind of operation from the point of view of the target company offers the possibility for all kinds of companies to list themselves and thus raise capital from the public. from an investor's point of view, it offers the possibility of very high returns with an investment that, despite being expensive, offers the possibility of following one's investment step by step, actively participating in the shareholders' meetings.

In addition to investors, the data show that SPACs are also liked by private companies that are not yet listed, but especially SPACs are liked by start-up that prefer to invest their money in research and development rather than investing it in a long and costly process like the IPO, having no guarantee of success or having to consider aspects beyond their control like what happened to Airbnb.



GR.4⁵⁸

⁵⁷ <https://formiche.net/2021/02/spac-usa-silicon-valley-luiss-comana-usa/>

⁵⁸ <https://www.statista.com/statistics/1178249/spac-ipo-usa/>

1.4.2. EUROPE

Europe, unlike the United States, has not yet seen the SPAC trend explode.

There are many reasons for this, first and foremost the socio-cultural difference, which can also be expressed in terms of risk aversion⁵⁹.

Although investment in SPACs is mainly in the hands of highly qualified individuals, like any investment in the PE world, this aversion has repercussions throughout the European market.

Another key point is regulation, in Europe regulation is more stringent and this is a disincentive for the growth of this financial vehicle⁶⁰. This topic is certainly central to the SPAC theme, and in fact will be discussed at length in the next chapter.

It should be noted that several countries, primarily the Netherlands, England and France, have recently updated their legislation to make it less stringent and, as we shall see later, the effects have been felt.

In July 2007, a SPAC was launched on the European market for the first time: Pan-European Hotel Acquisition Company N.V. It raised around 115 million euros.

It was followed in 2008 by Liberty International Acquisition Company, which raised EUR 600 million.

The first German SPAC was Germany1 Acquisition Ltd., which raised USD 437.2 million.

The years between 2007 and 2011 were quite prolific for Europe in terms of the SPAC theme.

The trend of SPACs was on the rise; however the crisis of 2011 substantially decreased the appetite for investment in financial markets in general and inevitably affected the world of SPACs as well.

In 2017, this trend started to grow again, even if, as of today, it cannot be defined as fully restored to pre-crisis levels.

There is certainly growing interest in the topic, as evidenced by the 10 transactions carried out between 2020 and 2021, which raised \$1.3 billion.

In March 2021, the UK began considering a report recommending several changes to the listing rules for London companies to make them more conducive to SPAC listings.

⁵⁹ <https://space-economy.esa.int/article/113/spac-and-the-space-industry>

⁶⁰ https://ec.europa.eu/info/sites/default/files/amendment-regulation-co2-emission-standards-cars-vans-with-annexes_en.pdf

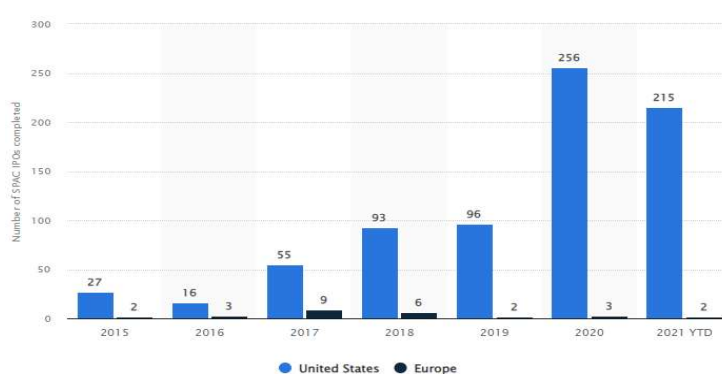
Under the previous rules, shares in SPACs were suspended when a target company was identified, effectively trapping investors, and deterring them from participating in the UK market. The FCA in April proposed a relaxation of the rules, waiving the suspension rule if a SPAC raised at least £200m. Today that figure has been cut to £100m. An option has also been introduced to extend the SPAC's operating period by 6 months (limited to between 2 years and 3 years), without the need to obtain shareholder approval. The additional 6 months will only be available in limited circumstances.

The additional safeguards that the FCA will require SPACs to benefit from the alternative approach include: a "buy-back" option that allows investors to exit an SPAC before any acquisition is completed; a guarantee that money raised from shareholders in the market is hoped for by other funds; the need to seek shareholder approval for any acquisition; and a time limit on an SPAC's operating period if no acquisition is completed.

The final rules aim to provide greater flexibility for larger SPACs, provided they incorporate certain features that promote investor protection and the smooth functioning of our markets, the UK authority's statement reads. "Private companies listed in the UK through an SPAC will also still be subject to the full rigours of the FCA's listing rules and transparency obligations⁶¹.

The number of SPACs in Europe between 2015 and February 2021 has always been significantly lower than the number of SPACs in the US and this difference is even more pronounced in the last 3 years.

In order to provide a clear picture of the difference that exists today between the US and European markets, I am inserting the graph below.



GR.5⁶²

⁶¹https://finanza.repubblica.it/News/2021/07/27/uk_fca_facilita_la_quotazione_delle_spac_sulla_borsa_di_londra-77/

⁶² <https://www.statista.com/statistics/1178249/spac-ipo-usa/>

1.4.3. ITALY

In Italy, the SPAC market is not yet fully developed.

This is due both to legislative reasons, as the regulator is opposed to the US SPAC system, which provides for a highly promotional initial phase, and to the fact that the Italian economy is mainly composed of SMEs, which are usually not interested in listing.

Nevertheless, some companies have been interested in listing through SPACs.

In particular, since 2011, when the first SPAC was launched in Italy, 27 SPACs have been admitted to EGM and 5 to MIV, for a total value of €3.8 billion raised⁶³.

However, the market is setting new milestones and attracting more and more interest.

It is recent news that the insurance-themed SPAC Revo closed its placement with 220 million raised, landing on AIM on 26 May 2021.

At the end of this thesis I will explore the issues of Italian performance and trends and provide a case study on these points.

⁶³ <https://dealflower.it/spac-il-ritorno-ecco-italiani-piu-attivi/>

2. THE LEGISLATIVE LANDSCAPE OF SPAC

After having concluded the first chapter, in which we have touched on several relevant issues regarding the definition of SPACs, their history, how they work and finally highlighting the trends that these financial vehicles have had in the various geographical areas, we can move on to another key issue, which, as also stated in the first chapter, is fundamental to being able to understand this phenomenon.

In this chapter, we shall deal with the theme of regulation.

Regulation, as written above, has an essential function in the financial sphere in that it can make any kind of financial product attractive.

To highlight this aspect, in writing the following chapter, I have decided to proceed by first highlighting the regulatory origins of SPACs, so as to define the regulatory starting point that this financial instrument has had, and then I will go on to explain today's regulatory environment focusing mainly on the comparison between the American and the Italian legislative framework.

In the middle of the comparison, I will make a brief excursus on what is the European context, highlighting some key aspects that allow the reader to understand the main obstacles to the proliferation of SPACs in the Old Continent.

2.1. THE REGULATORY ORIGINS OF SPAC

From a historical point of view, SPACs are a derivation of the blank check companies which dominated a particular US financial market in 1980, namely the Penny Stock Market.

BCCs were investment vehicles listed on the Penny Stock Market⁶⁴, which did not make available to investors financial statements approved prior to the listing process. In general terms, they were cash-shell companies⁶⁵, non-operating companies whose sole purpose was to raise the capital necessary to complete a future and possible acquisition process.

For this reason, investors were denied the opportunity to examine approved and audited financial statements.

⁶⁴ S. RIEMER, *Special Purpose Acquisition Companies: SPAC and SPAN, or blank check redux?*, in *Washington University Law Review* (Wash. U.L. Rev.), 2007-2008, vol. 85, n. 4, 934

⁶⁵ *Sulle caratteristiche delle cash-shell companies v. W.K. SJOSTROM* (supra, n. 1), 756

As a result, there was no further financial data to allow a considered assessment of the investment made through the purchase of the financial instruments issued by BCC at the time of the listing.

This created a lack of guarantees that made the BCCs possible instruments of fraud to the detriment of investors, since if the BCC did not complete an acquisition, the investor would be prejudiced by the loss of his initial investment⁶⁶.

It is then that in 1988, following the famous declaration of Mary L. Schapiro (then Commissioner of the Securities and Exchange Commission)⁶⁷, where the BCCs were defined as "dangerous" investment vehicles, that the Congress of the United States of America, in 1990, issued a specific regulation (the so-called Securities Enforcement Remedies and the so-called "BCCs"). Securities Enforcement Remedies and Penny Stock Reform Act of 1990) intended to regulate, for the first time, the Penny Stock Market and to endow the Securities and Exchange Commission (hereinafter, "SEC"), that is, the American body of control of the listed companies and which issue financial instruments diffused among the public, with ample powers to issue regulations suitable to discipline the BCCs.

It was because of this Act that the SEC was granted additional powers to regulate and govern BCCs. The SEC issued Regulation 419.

Through this regulation, the SEC, for the first time, imposed on BCCs several obligations with which they had to comply if they wished to be listed on the Penny Stock Market.

First, all financial instruments issued during the listing process and the funds raised because of the initial public offering (IPO) to the public had to be deposited in an escrow account; the funds raised by the IPO and the interest earned on them had to remain on deposit and could not be distributed until the acquisition was completed.

⁶⁶ <https://www.nasdaq.com/articles/spac-bcc-investment-formed-by-bain-capital-credit-files-for-a-%24300-million-ipo-2021-03-11>

⁶⁷ Mary L. Schapiro defines BCCs in her report to the 10th anniversary of the Northwest Securities Institute in Vancouver (British Columbia), entitled "Seeking new Sanctions: a new sanction". Institute in Vancouver, British Columbia, on March 9, 1990, entitled "Seeking New Sanctions: Comments on Developments in the Commission's Enforcement Program" in the following terms: "[...].

However, experience has shown that many other penny stocks are being used in fraudulent schemes [referring to the BBCs] that involve the use of penny stocks. refers to the BBCs] involving shell companies with no operating history, few employees, few assets, no legitimate prospect of commercial success, and markets that are manipulated for the benefit of the promoters of the companies and/or the market professionals involved".

Secondly, the acquisition had to be completed within a short period of time (eighteen months), and the funds deposited in the escrow account at the time of the IPO could be released to investors, to the extent of not more than eighty per cent if an acquisition was completed.

Finally, a key feature of this regime was the possibility given to shareholders to express their consent to the acquisition proposed by the board of directors of the company, giving them the right to withdraw and redeem in full the consideration paid for the purchase of the listed shares.

At the same time, the SEC, to implement the Securities Enforcement Remedies and Penny Stock Reform Act 1990, adopted Regulation 3a51-1, which introduced for the first-time conditions for trading financial instruments on the Penny Stock Market by defining penny stocks.

It established a minimum threshold of profits and share capital that the company had to demonstrate to trade its financial instruments on the Penny Stock Market.

These thresholds were, respectively, \$750,000 of profits in the approved financial statements prior to the application for listing, in at least the previous two years, and at least \$5 million of share capital.

One of the main features of blank check companies, their nature as cash-shell companies, was thus emptied of content, given the requirement to demonstrate minimum thresholds.

The main effect of this stringent regulation was the drastic reduction of the listing process of BCCs on the Penny Stock Market⁶⁸.

However, following this circumstance a new phoenix rose from the ashes under the name of Special Purpose Acquisition Company.

So, to all intents and purposes we can say that the rapid disappearance of the blank check companies allowed the birth of the SPACs.

SPACs were not obliged to comply with the provisions of Regulation 419 as they started to list financial instruments, which did not fall under the definition of penny stocks.

As they were only subject to the common IPO rules, they started to list their financial instruments on other more flexible capital markets to preserve their nature as cash-shell companies such as the old American Stock Exchange

⁶⁸ <http://www.rivistadirittosocietario.com/SPACs-limiti-e-prospettive-tra-hard-law-e-soft-law>

("AMEX") now known as NYSE MKT LLC or the over-the-counter bulletin board as an unregulated market ("OTC-BB")⁶⁹.

This historical development and the adaptability of SPACs have qualified them as "first generation SPACs"⁷⁰.

SPACs, although descended from BCCs, changed their name to avoid association with BCCs, which were defined as "dangerous" fraud instruments⁷¹, and voluntarily complied with the conditions imposed by Regulation 419 to preserve investor confidence.

Moreover, this "first generation" of SPACs imposed new features on themselves, which helped to shape the face of modern SPACs, and which have been referred to as "self-imposed SPAC restrictions"⁷².

One of the most important new features was a new composition of the board of directors which would include as eligible directors experienced managers with a reputation in the product or industry sector of the target companies, potential targets for future acquisitions by the SPAC⁷³.

In addition, the financial instruments issued following the listing could be traded even before the SPAC completed an acquisition (this aspect gave investors greater "liquidity" of their investment and a sort of "way-out" facilitated) and it was decided to offer a longer time frame for the completion of the final acquisition: from eighteen months, which was the original term of Regulation 419, to twenty-four months⁷⁴.

It is from these characteristics, which were added to those already outlined in Regulation 419, that we want to relate the birth of SPACs in the modern sense.

In other words, from this moment onwards, any company that provides in its listing prospectus for compliance with these characteristics has always been defined as a SPAC.

Secondly, it is important to note that for the first time, a new, de facto, self-imposed regulation is adopted on a voluntary basis, representing an indirect expression of soft law.

⁶⁹ T. CASTELLI, Not guilty by association: why the taint of their "blank check" predecessors should not stunt the growth of modern special purpose acquisition companies, in *Boston College Law Review*

⁷⁰ S. RIEMER (supra, n. 6), 944.

⁷¹ V. MARY L. SCHAPIRO (supra, n. 9)

⁷² T. CASTELLI (supra, n. 13), 254.

⁷³ On the "reputation" profiles of management, see § 8 below.

⁷⁴ https://www.spacsconsultancy.com/wp-content/uploads/2019/12/The_international_financial_regulation_o.pdf

In fact, from a legal point of view, it is considered that the behaviour, just examined, of spontaneous compliance with unwritten rules and rules that were not imposed, but which were nevertheless respected by the SPACs, can be configured as an example of soft law⁷⁵.

It is to this spontaneous compliance that we wish to reconnect, for the first time, the qualification of 'first generation' SPACs to distinguish them from 'second generation' SPACs.

At the basis of the SPACs of "first generation" and "second generation" there is the same need, which relates to the economic problems inherent in these companies, namely the need to protect investors and win their confidence to "mitigate" the effect of information asymmetry, which was anticipated earlier in the first chapter.

This historical path just concluded has therefore seen the origins of SPACs at the regulatory level and their subsequent evolution, initially into first-generation SPACs, characterised by self-imposed regulation to ensure transparency for investors and any other party involved, and finally into second-generation SPACs, still present today, where the rules are no longer self-imposed but are defined by the legal system and are therefore binding.

2.2. COMPARING LEGAL FRAMEWORKS

Now that we have defined the origin of SPAC in the modern sense, the SPACs that we observe today, it is particularly important to understand what are the normative characteristics of certain legal contexts that I consider essential for the purpose of this thesis.

As we have been able to learn in the previous sections, the historical origin of the SPACs is in the US context, which will be the first to be analysed. Subsequently, it will be compared with the European and Italian contexts to reconnect with the concepts previously mentioned in the last part of the first chapter, specifically the part where it is highlighted that one of the main reasons why the American context is more developed than the European one is precisely the legislative framework.

The main American financial markets, after the negative phenomenon of blank check companies, have encouraged SPACs through a policy of promotion on the main financial markets such as the New York Stock Exchange ("NYSE") and the National Association of Securities Dealers Automated Quotations ("NASDAQ").

⁷⁵ <http://www.rivistadirittosocietario.com/SPACs-limiti-e-prospettive-tra-hard-law-e-soft-law>

These actions could be classified as "SPAC-friendly-approach".

During 2008, NASDAQ and the NYSE adopted strategies to allow the listing of SPACs on their regulated markets.

Until then, SPACs were not listed on these markets, but as mentioned in the first paragraph, on the AMEX and the OTC-BB.

Both the NASDAQ and the NYSE have applied additional regulations to those imposed by the SEC, again to ensure greater transparency and reduce asymmetric information as much as possible⁷⁶.

We will now look in detail at the main changes made by each of the two markets (NYSE and NASDAQ) to admit SPACs to listing.

The NYSE MKT LLC independently implemented specific regulation of SPACs along the lines of these regulated markets.

The most interesting novelty to be noted with respect to the NYSE is that this regulated market has always required issuers to be operating companies with audited financial statements to IPO, however, for the first time the so-called Listed Company Manual of the NYSE⁷⁷ allowed SPACs to be listed, recognising as legitimate the listing of a cash-shell company, a non-operating company without audited financial statements. Furthermore, SPACs have been defined as Acquisition Companies.

This reference is certainly a confirmation of one of the main characteristics that has been identified in relation to SPACs in the previous paragraph: the purpose of the acquisition.

Following the model of Regulation 419, the NYSE provided for a series of conditions, with which the SPAC issuer would have to comply.

One of the most important of these conditions was the increase in the time frame relevant to the acquisition, from 24 to 36 months, to encourage negotiations and potential closings with target companies.

The NYSE has reserved the right, in all circumstances, even if the issuer complies with the conditions imposed by this regulated market, to assess each application for listing individually⁷⁸.

In this way, the NYSE has broad discretion in assessing the merits of the IPO, partly because the memory of BCCs is still alive in the US financial markets, as mentioned above.

⁷⁶ <https://www.investopedia.com/articles/basics/03/103103.asp>

⁷⁷ <https://www.nyse.com/listings/resources>

⁷⁸ https://www.nyse.com/publicdocs/nyse/regulation/nyse/NYSE_Rules.pdf

On the other hand, the same rules have also been adopted by NASDAQ, which regulates the IPO of SPACs in paragraph IM-5101-2 of its rules, Equity Rules section.

The only significant differences from the NYSE rules are that the acquisition proposed by the board of directors must be approved not only by most of the shareholders but also by the independent directors of the SPAC.

Furthermore, in the SPAC rules, the company would have to comply with the corporate governance requirements that NASDAQ requires to list companies on its market.

Furthermore, unlike the NYSE, the fulfilment of the requirements of the NASDAQ regulations is a necessary and sufficient condition for the company to be listed, without the possibility that NASDAQ reserves the power to exercise a discretionary evaluation on the merits even after the company has correctly complied with the required parameters⁷⁹.

In any event, the SPAC, in addition to complying with the regulations of the NYSE, NASDAQ or the new AMEX, depending on the financial market on which it prefers to be listed, will have to comply with the conditions imposed by the SEC to be listed, including the drafting and sending of a prospectus concerning the issuer, the so-called Form S-1.

We have just seen, therefore, how, within the same regulatory framework, there are multiple disciplines, depending on the market in which there is interest in listing, in addition, of course, to the regulations imposed by the SEC that any SPAC in the US must comply with.

From the description of the current regulation of SPACs in America, at least two inferences can be drawn.

The first is that the regulations of the NYSE, NASDAQ and the new AMEX, which we have just mentioned, are binding and cannot be circumvented by the SPAC issuer if it seeks to list on these markets. In other words, a SPAC in America will not be able to voluntarily comply with these regulations, but will have to comply with them, otherwise it will be excluded from the listing process.

Second, it follows that the provisions of the NYSE and NASDAQ regulations are intended only for the issuer and not for the investors. This means that the perspective with which the NYSE, NASDAQ and the new AMEX have adopted these regulations is oriented towards the issuer and the conditions of transparency and governance that the issuer must fulfil to IPO.

⁷⁹ <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules/nasdaq-5600-series>

This perspective is a reflection of the shift from a form of caveat emptor to a form of caveat venditor⁸⁰, the need for the investor to exercise the utmost diligence in selecting the financial instruments to be purchased, to the direct imposition on the issuer of specific conditions to be fulfilled in order to ensure maximum investor protection in terms of transparency and disclosure of the financial instruments offered.

However, the risks arising from a possible lack of diligence are different: in the case of the issuer, the consequence of a breach of the "rules of the game" would be the inability to list its instruments from the outset, or if listed, a delisting or even de-listing⁸¹.

In the case of the investor, the lack of due diligence would result in substantial financial loss or the absence of capital gains.

This makes one think once again about the nature of SPACs as cash-shell companies and heralds a change of perspective about such companies: not only is a form of regulation based on the caveat venditor approach sufficient, but also, and above all, one of caveat emptor.

So, what the critique wants to highlight is that while on the side of SPACs the regulation imposes more transparency, on the other side, on the side of the investor, no restriction has been applied.

In fact, it will be seen that the limitation of SPACs to a mere vendor caveat approach does not substantially resolve or "mitigate" the negative effects due to information asymmetry and related economic issues, since the NYSE, NASDAQ and new AMEX regulations are only a regulation directed at the SPAC promoters or management and not a real information vehicle for investors.

It could be argued that the prospectus is still an information tool for investors to enable them to check the risk of the investment made.

In the case of SPACs, however, the prospectus does not appear to be sufficient, since the fact that these companies are not operational and therefore lack a previous financial history does not allow investors to form a correct opinion except through two pieces of information:

1) the assurance that if the SPAC, to be listed, had to comply with the rules imposed by the market in which it is listed, as well as the rules of the SEC

⁸⁰ S. HARTER-BACHMANN, Sarbanes-Oxley Act: have the Americans set capital market standards?, in Company Lawyer (Co Law), 2006, 35.

⁸¹

https://www.icsi.edu/media/webmodules/GOVERNANCE_RISK_MANAGEMENT_COMPLIANCES_AND_ETHICS.pdf

2) the consideration that such a listed SPAC is necessarily promoted by a board of directors made up of high-profile directors with high managerial skills, which are, after all, the only real assessable asset for such companies.

Yet, such data prove to be relative and too superficial for the purpose of assessing the risk of an investment in terms of SPACs since the assessment would be exclusively based on a mere compliance exercise carried out diligently by SPACs and on well-founded subjective opinions of investors⁸².

It is therefore clear that we are still looking for an objective datum to which to link the judgement of an investment, which ultimately cannot be based on subjective and relative criteria as is currently the case in the world's main financial markets.

We have therefore understood the rules that a SPAC in the United States must comply with to proceed with the listing and subsequently with the business combination; for the purposes of this paper, we will now go on to understand the differences and similarities that exist between the American context, which has just been highlighted, and the European context.

In Europe, as stated in the previous paragraph and at the end of the first chapter, the boom of the SPAC, has yet to happen, the trends are growing, and considering only the deviations between the year 2020 and 2021, the growth is noteworthy.

The reasons for these differences between America and Europe can be found in several factors, however, in my opinion first and foremost there is a legislative reason.

To support this, one only must look at the distribution of SPACs at European level.

Indeed, at European level, more than 65% of SPACs⁸³ were listed on Euronext in Amsterdam and Frankfurt. The only two capital markets that enjoy two key features:

- 1) a legislation favourable to the proliferation of new financial instruments, thanks to the flexibility that characterises them
- 2) a greater propensity, compared to many European capital markets, for internationalisation.

The regulatory aspect of most interest to investors, according to many articles⁸⁴, is the fact of being able to sell one's participation if one is not in line with the selection of the target chosen for the business combination by the SPAC.

⁸² <https://www.lw.com/thoughtLeadership/lw-us-ipo-guide>

⁸³ <https://www2.deloitte.com/xe/en/insights/industry/financial-services/spacs-in-europe.html>

⁸⁴ <http://www.derobertislex.com/it/2021/06/15/leuropa-e-i-sogni-di-spac/>

Thus, a problem in most European countries is the low liquidity index, which is expressed in the speed with which an investor can withdraw from his investment and receive his money back.

this is one of the fundamental aspects that an investor interested in SPACs observes. In fact, in most European countries, including Italy, as will be seen in the last part of the following paragraph, exit times can be as long as 180 days⁸⁵.

It is precisely on this issue that many European countries are moving with the intention of changing their regulatory system, not only to accommodate SPACs, which are at the heart of the draft, but also to allow the proliferation of countless innovative financial instruments⁸⁶.

First and foremost, the United Kingdom, which, despite being the leading European stock exchange and having always enjoyed an excellent level of propensity towards internationalisation, has not been the object of interest for SPACs due to unfavourable legislation, although recently some interesting movements are also being seen in the British territory, which has moved towards a simplification of the system⁸⁷.

Clearly, the regulatory framework is one of the reasons why the European market is lagging the US market, while other reasons can be found in the fact that Europe is, to date, even less attractive than America for the launch of start-ups, the main customers of SPACs. So much so that many European promoters are inclined to launch SPACs in US capital markets.

This is due to historical reasons: America, thanks to Silicon Valley, has always cared more about innovation and technology than any other country in the world, and SPACs deal mainly with companies with a high technological index.

Finally, a final reason why European markets are in a less advanced state is historical trends: while in 'traditional' finance the numerical aspect counts more than anything else, in the PE world there are several non-quantitative factors to be assessed. One of these is the fact that the number of SPACs on European markets is currently low: in 2021, 26 SPACs were listed in Europe, raising a total of \$6.6 billion, while in the same period, 433 SPACs were listed in America, raising almost \$120 billion⁸⁸.

⁸⁵ https://www.lw.com/admin/Upload/Documents/FocusRisparmioMagazine_IsabellaPorchia.pdf

⁸⁶ <http://www.derobertislex.com/it/2021/06/15/leuropa-e-i-sogni-di-spac/>

⁸⁷ <https://finanza.lastampa.it/News/2021/07/27/uk-fca-facilita-la-quotazione-delle-spac-sulla-borsa-di-londra/NzdfMjAyMS0wNy0yN19UTEI>

⁸⁸ https://it.style.yahoo.com/analisi-europa-mercato-ipo-torna-105922173.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2x1LmNvbS8&guce_referrer_sig=AQAAADD6J4hnU25AJqgsbsjwQtsfc4hew5yKbcmj33HGx_LdVbziE3QhUMRLf8GnQkEEf34Vx9nkSaXHvCJ-

Those who must and can decide on the path to listing often do not even consider SPACs because there is insufficient historical data to evaluate the option either numerically or historically.

Many experts⁸⁹, in this regard, have in fact identified the historical moment when the trend of SPACs in Europe will explode, just when all SPACs currently listed but, pending the identification of the target company, will proceed with the business combination. At that point, it is likely that many other companies will opt for listing through SPACs.

Obviously, the explosion of the SPAC trend in Europe is dependent on a combination of factors.

The boom, if it occurs, will not be distributed uniformly across the European landscape but will certainly be localised in certain geographical areas, most likely those that will manage to adapt their legislative framework to make it more flexible and attractive to attract SPACs and a range of other innovative financial instruments⁹⁰.

Following this line of thought, useful to understand what has been said above with regard to the European Union, could be the example of Luxembourg.

Luxembourg, as mentioned above, is one of the most advanced European countries in terms of innovative financial instruments.

On 22 February 2020, Lakestar Spac 1 SE was listed on the Frankfurt stock exchange. This company was followed in the listing process by the law firm Arendt & Medernach.

The members of this law firm were interviewed, following the conclusion of the transaction, and asked about the difference between the Luxembourg capital market and that of other countries. Without hesitation they stated that

"The accessibility of the regulator and its knowledge of the product and conditions, the flexibility of Luxembourg company law in the implementation of the market conditions for the Spac and the unique international environment allow a rapid realisation of projects"⁹¹

It follows that the versatility of company law allows the conformation of a model identical, or almost identical, to that in the United States. In addition to this, also

bRNqrJlLqbF66IAOF_IGOIG5P3wo0wLrjJHgOZGUsv5rcmTec5GCrpHu8b7bAnaB1fbYpboxRo2KZ4aR
MG3I0hx7vuVr

⁸⁹ <https://www.morningstar.it/it/news/213042/leuropa-si-prepara-a-un-mini-boom-delle-spac.aspx>

⁹⁰ <https://www.morningstar.it/it/news/213042/leuropa-si-prepara-a-un-mini-boom-delle-spac.aspx>

⁹¹ Alexander Olliges, partner in corporate law, mergers & acquisitions di Arendt & Medernach.

during the interview mentioned above, the partner of Arendt & Medernach identified three fundamental ingredients that can guarantee the success of a SPAC

- 1) the product must be recognisable as a Spac by investors and the legal solutions must have the confidence of the market
- 2) The regulator must be able to understand the product.
- 3) there must be a well-functioning and efficient market infrastructure.⁹²

Since the US legislative context is unambiguous, while the European one, for obvious reasons, is fragmented, it is not possible to go into the merits of each legislation, but to provide the reader with a more complete overview of the European context it is necessary to at least provide graphical supports.

Year	Number of issues	Market share (%)
2019	5	12
2020	4	10
2021	35	78
Total	44	100

Source: Refinitiv, an LSEG business

TABLE 1⁹³

In the table above we can see the breakdown of annual SPAC IPOs listed on European stock exchanges by market share and volume.⁹⁴

Primary exchange nation	Number of issues	Market share (%)
Netherlands	13	37
United Kingdom	6	18
France	4	11
Sweden	4	11
Germany	4	11
Finland	2	6
Italy	2	6
Total	35	100

Source: Refinitiv, an LSEG business

TABLE 2⁹⁵

⁹² Alexander Olliges, partner in corporate law, mergers & acquisitions di Arendt & Medernach.

⁹³ https://www.refinitiv.com/en/?utm_content=Refinitiv%20Brand%20Core-IT-EMEA-G-EN-Exact&utm_medium=cpc&utm_source=google&utm_campaign=434508_PaidSearchEN&elqCampaignId=13781&utm_term=refinitiv&gclid=Cj0KCQiAi9mPBhCJARIsAHchl1zZn6pTMwSowK1NH0eU0hQ6m4-vcfqhWJ8ENsROuFyAwbMuxR76JJUaAqqBEALw_wcB&gclsrc=aw.ds

⁹⁴ European SPAC & De-SPAC Data & statistics roundup

⁹⁵ https://www.refinitiv.com/en/?utm_content=Refinitiv%20Brand%20Core-IT-EMEA-G-EN-Exact&utm_medium=cpc&utm_source=google&utm_campaign=434508_PaidSearchEN&elqCampaignId=13781&utm_term=refinitiv&gclid=Cj0KCQiAi9mPBhCJARIsAHchl1zZn6pTMwSowK1NH0eU0hQ6m4-vcfqhWJ8ENsROuFyAwbMuxR76JJUaAqqBEALw_wcB&gclsrc=aw.ds

This graph, on the other hand, shows the number of SPAC IPO listings on European stock exchanges by number and market share.⁹⁶

As will be seen below, the Italian regulation on SPACs has been updated and has become like the American regulation.

From the point of view of form, in American company law the SEC dictates certain laws common to each type of SPAC, which are then integrated by the regulation of the capital market in which the SPAC is to be listed (NYSE or NASDAQ).

In Italy, we will see how CONSOB dictates the regulations that each SPAC listed in the MIV must follow, while as regards the EGM segment, the only regulations that a SPAC must follow to be listed are the regulations imposed by the aforementioned capital market segment⁹⁷.

First, let's define SPACs under Italian law.

They are governed by the Regulation of Markets organised and managed by Borsa Italiana S.p.A.⁹⁸ where they are classified as:

"companies set up for the purpose of acquiring a business and whose exclusive corporate purpose provides for investment primarily in a company or activity as well as related instrumental activities"

or

"whose investment strategy has not yet been initiated or completed and/or is characterised in terms of particular complexity...".⁹⁹

The requirements for listing, however, depend on the market of reference. In Italy, the choice must be between two markets, the MIV and the EGM.

These two markets have different regulations and we will see below what the main characteristics of these two markets are.

As regards the MIV:

the Market Regulations expressly provide that:

(i) "the duration of the company shall not exceed 36 months to make one or more significant investments, with the possibility of extension only where it can be demonstrated that there are concrete ongoing negotiations to reach a significant level of investment".

⁹⁶ European SPAC & De-SPAC Data & statistics roundup

⁹⁷ https://www.gop.it/news_view.php?lang=ita&id=904

⁹⁸ Reference is made to the Market Rules in force as of 25 June 2018.

⁹⁹ This is essentially the definition of "SIV" contained in the previous versions of the Markets Regulation (until 25 June 2018)

(ii) "Investments are considered significant if they represent in aggregate more than 50% of the company's assets"¹⁰⁰.

In addition, with respect to the requirements for the shares of such companies to be admitted to trading on the MIV, the Market Rules provide that they must have:

(i) "foreseeable market capitalisation of at least €40 million", with the specification that Borsa Italiana may admit shares with a lower capitalisation if it considers that a sufficient market will form for such shares

(ii) "sufficient dissemination, which is presumed to be achieved when the shares are distributed to professional investors for at least 35% of the capital represented by the category to which they belong".¹⁰¹

Notwithstanding the foregoing, listings of SPACs may take place not only on the MIV but also on EGM Italy, as mentioned above.

As far as EGM is concerned, SPACs are qualified as:

"companies established for the purpose of acquiring a specific business"¹⁰² And they are included in the category of "investment companies"¹⁰³.

The rules set out in the EGM Rules for SPACs were amended in 2018, and provide that "in order to be admitted, the issuer must raise a minimum of €30 million in cash through a placement that closes on or around the date of admission" as well as certain criteria that the promoters of a SPAC must meet in order to have their shares admitted to trading on EGM.¹⁰⁴

More specifically, on this last point, the EGM Rules provide that:

"Limited to companies set up for the purpose of acquiring a specific business, promoters must be persons (natural or legal) with proven experience and/or have held senior positions in the field of

(i) primary capital market operations;

(ii) private equity transactions;

(iii) management of medium-sized companies;

¹⁰⁰ cfr. art. 1.3 del Regolamento Mercati

¹⁰¹ Cfr. l'art. 2.2.37 del Regolamento Mercati

¹⁰² Cfr. l'avviso di Borsa Italiana n. 20406 del 3 novembre 2017

¹⁰³ l Regolamento Emittenti AIM Italia al 3 gennaio 2018

¹⁰⁴ avviso di Borsa Italiana n. 20406 del 3 novembre 2017

(iv) investment banking.¹⁰⁵

Continuing with the review of the main provisions on SPACs, it should be noted that the EGM Rules provide that an investment company

(i) "must define and pursue an investment policy";

(ii) "must obtain the prior approval of shareholders convened in a general meeting for any material change to its investment policy";

(iii) "if it has not substantially implemented its investment policy within 24 months of admission, the company must obtain the approval of the shareholders at the first meeting and annually thereafter until it has substantially implemented it".¹⁰⁶

In this regard, it is worth recalling Article 14 of the EGM Rules which defines a "reverse take-over" in terms of one or more acquisitions within a 12-month period that for the EGM Italia issuer:

(i) exceed 100% in any of the materiality indices; or

(ii) result in a material change in the issuer's business, board of directors or change in control; or

(iii) in the case of an investment company, deviate significantly from the investment policy (as described in the admission document or approved by the shareholders in accordance with these Regulations).

It is further provided that any agreement which may lead to a reverse take-over must be:

(a) subject to the approval of the shareholders convened at the meeting;

(b) communicated without delay, providing the information specified in the EGM Rules and, if the reverse take-over is concluded with related parties, the additional information required by the Consob Regulation on RPTs adopted by resolution No. 17221 of 12 March 2010; and

(c) accompanied by the publication of an information document relating to the enlarged entity resulting from the transaction and a notice of the meeting to be published at least fifteen days before the date fixed for the meeting.

Therefore, whenever a SPAC listed on EGM Italy intends to carry out a business combination with a target company, a "reverse take-over document" must be made available to shareholders, containing information on the SPAC and the

¹⁰⁵ Cfr. l'art. 8 del Regolamento AIM.

¹⁰⁶ Cfr. l'art. 8 del Regolamento AIM.

target company. The reverse take-over disclosure document must contain information on: the target company's business, any risk factors, management, recent financial data.

The decision to list a SPAC on the regulated MIV market rather than on the unregulated EGM Italia market depends essentially on the size as well as the different peculiarities of the vehicle, without prejudice to the fact that listing on EGM Italia has so far been the solution chosen by most operators, given the greater ease of access in terms of costs and time, to consider is that in 2018 there was a total of 27 SPACs listed in Italy, of these 22 listed on EGM and only 5 on the MIV¹⁰⁷.

In this last regard, it is enough to think of the differences found between the MIV and EGM Italy with reference to the documentation that the issuer is required to make available to investors at the time of the IPO.

On the one hand, SPACs listed on the MIV are required to prepare a prospectus - pursuant to Article 94 of the TUF - "in accordance with the layouts provided for by the EU regulations governing the matter" and submitted to Consob for approval.

In contrast, the EGM Regulation provides that, for the purposes of admission to trading, the issuer must prepare an "admission document" containing an information set, the content of which, although traceable to that of the prospectus, is not subject to Consob's preliminary investigation.

To conclude the topic of Italian regulation, it is important to point out that although regulation about SPACs exists, unlike in many other European countries, it is also, in my view, advanced. What is lacking is a simplification about the possibility of demobilising investments¹⁰⁸.

As mentioned at the beginning of the chapter, many European countries do not prove attractive to SPACs precisely because of the problem of the legal environment. The functioning of a SPAC does not change, but the timeframe in which one receives the reimbursement of the shares can discourage the investor.

The theory on which the above analysis of the legal system revolves, as mentioned in the introduction, is that the legal environment is a fundamental element for the diffusion of any financial instrument.

In the next chapter we will analyse the impact of SPACs in Italy.

¹⁰⁷ https://www.gop.it/news_view.php?lang=ita&id=904

¹⁰⁸ <http://www.aim-italia.it/home/95-spac-e-private-equity.html>

3. ITALY AND SPACs

After having had the opportunity to understand the functioning of SPACs in chapter one, and their regulation in chapter two, the topic that will be dealt with in chapter three is the SPACs in Italy.

In chapter one, in addition to having explained the operation of a SPAC, we had the opportunity to outline, in brief, the trends that have been observed in Italy in recent decades. In chapter two, after having explained the US regulatory framework and having made an excursus on the European context, we focused on the Italian legislative context.

In chapter three, we will proceed with a comprehensive review of the key features of SPACs in Italy.

The analysis will be based on a database created ad hoc, combining the information present on a series of illustrious Internet sites. Subsequently, we will focus our attention on the target companies selected by SPACs to carry out the business combination and finally we will conclude by highlighting what could be the innovations that would allow the Italian context to become a leader in the SPAC market.

3.1. SPACs AND THE ITALIAN CAPITAL MARKET

Below you can find a table containing all the SPACs set up in Italy until 31.12.2021.

YEAR	SPAC	NAME AFTER BUSINESS COMBINATION	DATE OF IPO	MARKET	MLN RAISED	PROMOTERS	WITHDRAWAL AT THE TIME OF BC	DATE OF BUSINESS COMBINATION
2011	ITALY 1 INVESTMENT	IVS	27/01/2011	MIV	150	5	22%	16/05/2012
2011	MADE IN ITALY 1	SE.SA.	27/06/2011	AIM	50	3	18%	01/02/2013
2013	INDUSTRIAL STARS OF ITALY	LU.VE.	22/07/2013	AIM	50	2	0%	09/07/2015
2013	SPACE	FILA	18/12/2013	MIV	130	5	0%	01/06/2015
2013	GREENITALY 1	PRIMAVERA	27/12/2013	AIM	35	3	26%	22/12/2015
2015	SPACE 2	AVIO	31/07/2015	MIV	300	1	0%	10/04/2017
2015	CAPITAL FOR PROGRESS 1	GP1	04/08/2015	AIM	51	3	0%	29/12/2016
2015	GLENALTA FOOD	ORSERO	10/11/2015	AIM	80	5	9%	13/02/2017
2016	INDUSTRIAL STARS OF ITALY 2	SIT	27/05/2016	AIM	50,5	2	0%	20/07/2017
2016	INNOVA ITALY 1	FINE FOOD	19/11/2016	AIM	100	5	0%	01/10/2018
2017	CRESCITA	GRUPPO CELLULAR	15/03/2017	AIM	130	2	9%	04/06/2018
2017	SPACE 3	AQUAFILL	05/04/2017	MIV	152,85	1	0%	04/12/2017
2017	GLEALTA SPA	GFT	19/07/2017	AIM	98	5	8%	30/07/2018
2017	SPRINT ITALY	SICIT GROUP	21/07/2017	AIM	150	5	13%	04/06/2019
2017	EPS	ICF	01/08/2017	AIM	150	4	7%	14/05/2018
2017	CAPITAL FOR PROGRESS 2		04/08/2017	AIM	65	3	56%	
2017	SPACTIV		27/09/2017	AIM	90	3	44%	
2017	INDUSTRIAL STARS OF ITALY 3	SALCEF GROUP	19/10/2017	AIM	150	3	34%	07/11/2019
2017	IDEAMI		11/12/2017	AIM	250	2	57%	
2017	SPACE 4	GUALE CLOSURES	21/12/2017	MIV	500	1	13%	06/08/2018
2018	SPACS	ILLUMITY	01/02/2018	AIM	600	2	8%	05/03/2019
2018	ALP.I.	ALTARES VISION	01/02/2018	AIM	100	5	2%	18/04/2019
2018	VEI 1		27/02/2018	AIM	100	1	100%	
2018	LIFE CARE CAPITAL		03/03/2018	AIM	140	5	100%	
2018	GABELLI VALUE 4 ITALY		20/04/2018	AIM	110	6	100%	
2018	EPS2		10/05/2018	AIM	74	4	100%	
2018	ARCHIMEDE	NET INSURANCE	21/05/2018	AIM	47	3	3%	17/12/2018
2018	THE SPAC	FRANCO UMBERTO MARMÌ S.p.a.	02/08/2018	AIM	60	3	27%	19/08/2020
2018	ELITE SPAC-IN-CLAUD	DIGITAL VALUE		AIM	22,5	2	0%	07/11/2018
2019	GEAR 1	COMER INDUSTRY	26/02/2019	AIM	30	3	0%	13/03/2019
2020	REVO	ELBA ASSICURAZIONI	26/05/2020	AIM	220	2	1%	04/08/2021
2021	INDUSTRIAL STARS OF ITALY 4 S.P.A.		08/07/2021	AIM	138	4	0%	

Table 3¹⁰⁹

¹⁰⁹ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebeez website updated to 31/12/2021

By analysing the data contained in the table it is possible to identify which was the first SPAC to be listed in Italy.

In January 2011 Italy 1 Investment, a company incorporated under Luxembourg law, officially became the first SPAC in Italy, although the first SPAC listed and incorporated in Italy was Made in Italy 1, which listed six months later. Historically, therefore, we can trace the birth of this instrument back to 2011.

From 2011 to 2021, the last calendar year just ended, 32 SPACs have been listed, excluding three because the technical characteristics that they have in common make them more similar to pre-book companies, companies that are listed only after defining the business combination and therefore differ from SPACs for one of the main elements, namely the desire to raise capital in order to acquire a company to be brought on the stock exchange.

The three SPACs excluded from our analysis are:

1) Ipo challenger: an investment vehicle that in 2012 raised more than 50 million capital through the issue of bonds convertible into shares of the target company. The company that emerged from the merger was Italian Wine Brands, currently listed on EGM. ¹¹⁰

2) Ipo Club 1: this is a closed-end fund that was promoted by Azimut Global Consuleling in 2016, the purpose of this company is to invest in bonds issued by pre-booking companies, becoming serial investors in SPACs. ¹¹¹

3) Ipo Challenger 1: born in 2017, it enjoyed the same characteristics as its predecessor, namely Ipo Challenger. This company led to the listing of Pharmanutra, a company specialised in the production of medical devices. ¹¹²

After this brief excursus on the SPACs that are not part of our analysis, it is necessary to enter into the main topic of the chapter.

Now there are 32 SPACs in the Italian market.

These SPACs have raised a total of EUR 4773.85 million; thus, each SPAC has raised an average of EUR 136 ¹¹³million.

¹¹⁰ <https://www.bluerating.com/mercati/45082/la-spac-evoluta-ipo-challenger-fa-il-filo-a-fondie-sgr>

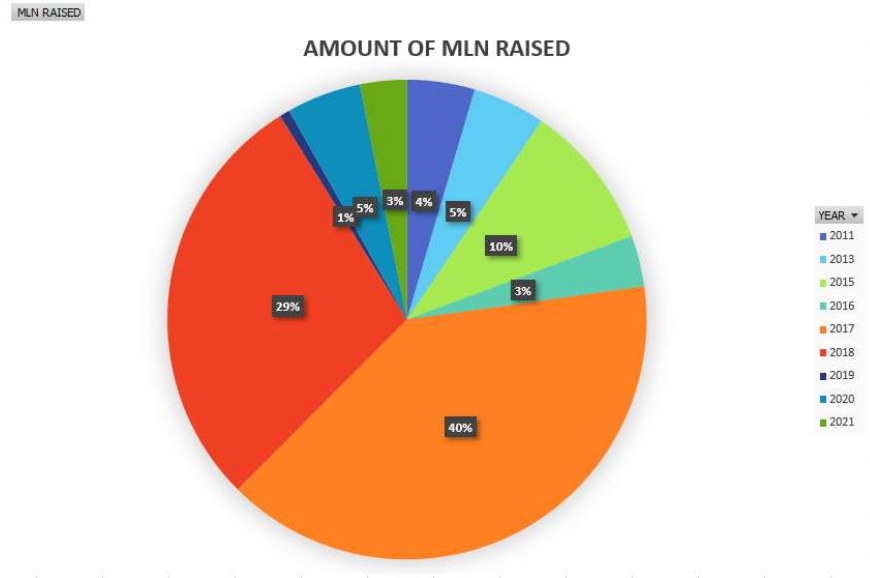
¹¹¹ Bebeez, 12 Giugno 2017.

¹¹² <https://bebeez.it/private-equity/pharmanutra-si-quota-allaim-grazie-alla-pre-booking-company-ipo-challenger-1/>

¹¹³ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebeez website updated to 31/12/2021

In the graph below we can clearly identify the years in which SPACs have raised the most capital.



Graph 6¹¹⁴

Those years are 2017-2018, years that not coincidentally also coincide with a progressive diffusion and understanding of the financial instrument by investors.

As can be seen in TAB.3 the fundraising to complete the business combination is in a range between 50 and 120 million; however, some SPACs have experienced abnormal capital raisings compared to the range just described.

The first deviation occurred in 2016 with the SPAC Space 2, which was financed with 300 million¹¹⁵, and in 2018 the SPAXS¹¹⁶ project, the promoter of one of the most famous business combinations in Italy, which generated Illimity, raised capital of 600 million. During the same year, another 500 million was raised with the Space 4¹¹⁷ project.

¹¹⁴ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebeez website updated to 31/12/2021

¹¹⁵ <http://www.space2spa.com/?rnd=0.6182033676674936>

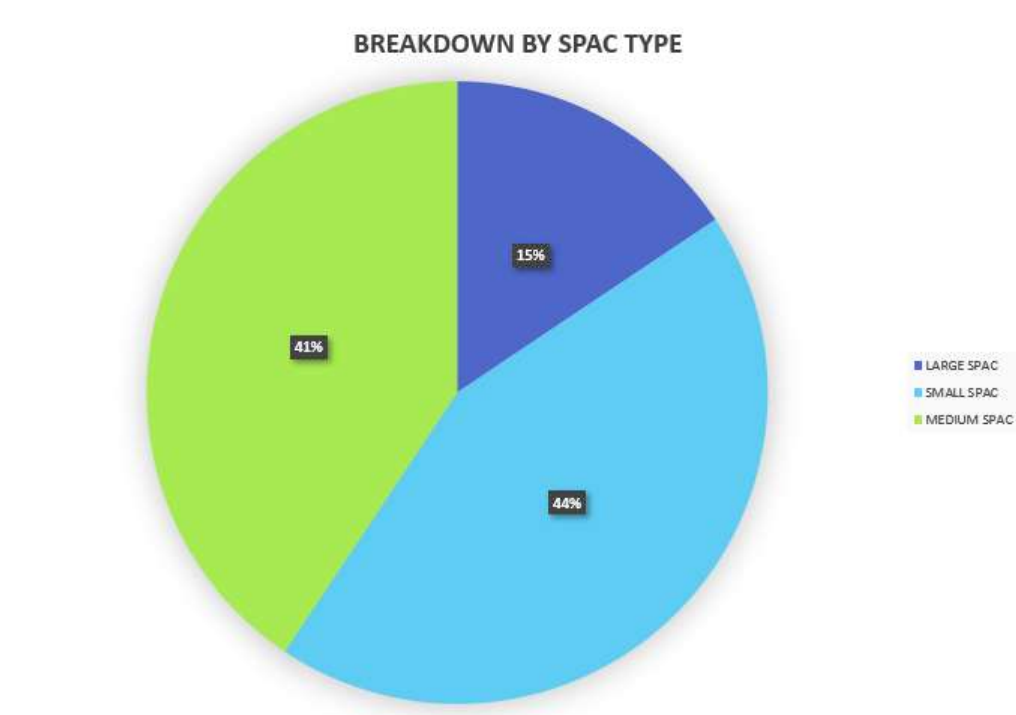
¹¹⁶ <https://bebeez.it/private-equity/spaxs-raccoglie-600-mln-euro-la-spac-va-borsa-mercoledi-1-febbraio/>

¹¹⁷ <https://bebeez.it/en/private-equity-en/spac-space4-raises-500-million-euros-reaching-the-maximum-allowed-target/>

In contrast, some of the SPACs present in our markets have raised capital that deviates from the average, but on the negative side, these are Green Italy 1¹¹⁸ and Gear 1¹¹⁹ with respectively 30 and 35 million raised.

For the purposes of our analysis, the SPACs can be divided into three macro-groups: the first contains the large SPACs, those that have had great support from financiers from the outset. The medium-sized SPACs, which have raised between 100 and 160 million and, finally, the small SPACs, which have managed to raise sums of up to 100 million.

Below is a short chart summarising the SPAC overview, following the breakdown just created.



Graph 7¹²⁰

The percentages into which the chart, and consequently the Italian SPAC landscape, is divided are as follows:

- LARGE SPACs 5 representing 15.56%.
- MEDIUM SPACs: 13 representing 40.63%.

¹¹⁸ <https://bebeez.it/private-equity/spac-green-italy-quotazione-entro-fine-anno/>

¹¹⁹ <https://bebeez.it/spac/si-quota-allaim-comer-industries-grazie-allaccelerated-business-combination-la-spac-gear1/>

¹²⁰ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebeez website updated to 31/12/2021

- SMALL SPACs: 14 representing 43.75%.

Continuing with our analysis, it is noteworthy the operation carried out by two of the SPACs taken in analysis also in TAB.3:

Space 2¹²¹ and EPS¹²², both of which used half of the capital raised to create a new SPAC, by means of a partial split in favour of the newly created company.

From these two companies Space 3 and PEP were born respectively.

In this regard, it is interesting to highlight an aspect directly related to the collection of funds and their deposit in restricted funds.

In the Italian experience examined, it appears that 80% of the SPACs have segregated 100% of funds raised from investors during the IPO in an escrow account. The remaining 20% deposited in an escrow account 99% of their funds.¹²³

The reason for this strategy is due to the investor's fear of SPACs, who wants to protect his investment, and who is therefore more inclined to invest if there is a guarantee that the full amount will be returned if the business combination fails. Moreover, there is also security in the fact that not all resources are at the full disposal of the management from the beginning.

Based on the considerations made, therefore, one concludes that the amounts used by the promoters during the setting up of the SPAC and the search for the target company, are the initial resources contributed by the promoters themselves.

This implies that the directors assume the obligation to manage the contributed resources in an optimal way, to efficiently cover the management costs and the expenses that the SPAC has to incur in order to carry out the business combination.

This aspect of Italian SPACs, if on the one hand provides greater security to investors, on the other causes two main problems.

The first is the limited availability of resources that management has at its disposal to carry out the business combination, which could lead to decisions taken hastily with the sole aim of concluding the transaction and accessing the restricted capital.

¹²¹ <http://www.space2spa.com/>

¹²² <https://bebeez.it/spac/eps-equita-pep-spac-2-acquistato-il-9861-del-capitale-con-il-piano-di-riacquisto-delle-azioni/>

¹²³ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021

The second is that the low exposure to risk on the part of investors can lead to the manifestation of some opportunistic behaviour on their part.

This is the case that happened to an Italian SPAC: Capital for Progress 2¹²⁴, the second SPAC, after Capital for progress 1, promoted by Massimo Capuano, Antonio, Perricone, Marco Fumagalli, Alessandra Bianchi and Bruno Gatti.

In 2018, this SPAC had registered a number of withdrawals equal to 57.38%¹²⁵ of the ordinary shares leading the company to liquidation, despite being in the process of carrying out the business combination with ABK Group Industrie Ceramiche Spa.

The failure of the business combination was not the reason for such a high number of withdrawals, but on the contrary, the reason for the failure was the high number of withdrawals.

The reason why so many investors chose to liquidate their investment prematurely is the unfavourable market conditions and the resulting depressed prices. As we read in the article written by 'Beebeez', "many people, with the prospect of being liquidated at 10 euros, decided to buy the stock that had closed the day before at 9.2 euros." ¹²⁶

The withdrawal percentages of the SPACs recorded during the approval of the business combination is closely correlated with the appreciation of the target by the shareholders.

The maximum withdrawal percentage in the 32 Italian SPACs is about 30¹²⁷.

Some SPACs are exceptions, Italy 1 investment¹²⁸ which set a percentage of 35%, Space¹²⁹, Glenalta¹³⁰ and Space 4¹³¹ which set the percentage at 33%.

The reason why the withdrawal percentages are so high is that the target companies are generally little known and for this reason investors may be discouraged from completing the investment.

¹²⁴ <https://bebeez.it/realestate/la-ex-spac-capital-for-progress-2-alle-prese-con-la-crisi-di-copernico-holding-sospese-le-quotazioni-allaim/>

¹²⁵ Comunicato stampa, 3 Novembre 2018, www.capitalforprogress.it

¹²⁶ <https://bebeez.it/realestate/la-ex-spac-capital-for-progress-2-alle-prese-con-la-crisi-di-copernico-holding-sospese-le-quotazioni-allaim/>

¹²⁷ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebeez website updated to 31/12/2021

¹²⁸ https://bebeez.it/wp-content/uploads/2013/03/Cs_Italy1-Spac.pdf

¹²⁹ <http://www.space-spa.it/>

¹³⁰ <https://www.glenaltafood.com/>

¹³¹ <https://bebeez.it/en/private-equity-en/spac-space4-raises-500-million-euros-reaching-the-maximum-allowed-target/>

In this respect, it is necessary to refer to the previous chapters where the main problem of SPACs, information asymmetry, is highlighted. This is also the basis for the problem of high withdrawal rates, as investors cannot use a large set of information to accurately assess their investment.

The fact that the target companies are little known is due to the fact that, being private, they do not enjoy the "publicity" that a listed company enjoys, but another fundamental element to take into account is their limited brand awareness.

Finally, citing authors Gigante and Conso¹³², the cause is also dictated by the speculative trading sought by the average investor in the SPAC market. Having a short-term orientation, the investor is not interested in the realisation of the business combination, for the speculative investor, it is sufficient that the shares of the SPAC begin to rise due to the spread of information about the future business combination, to exit the investment by liquidating the shares he owns at a higher price than he had bought them at originally. but rather in generating capital gains quickly by diversifying his investments.

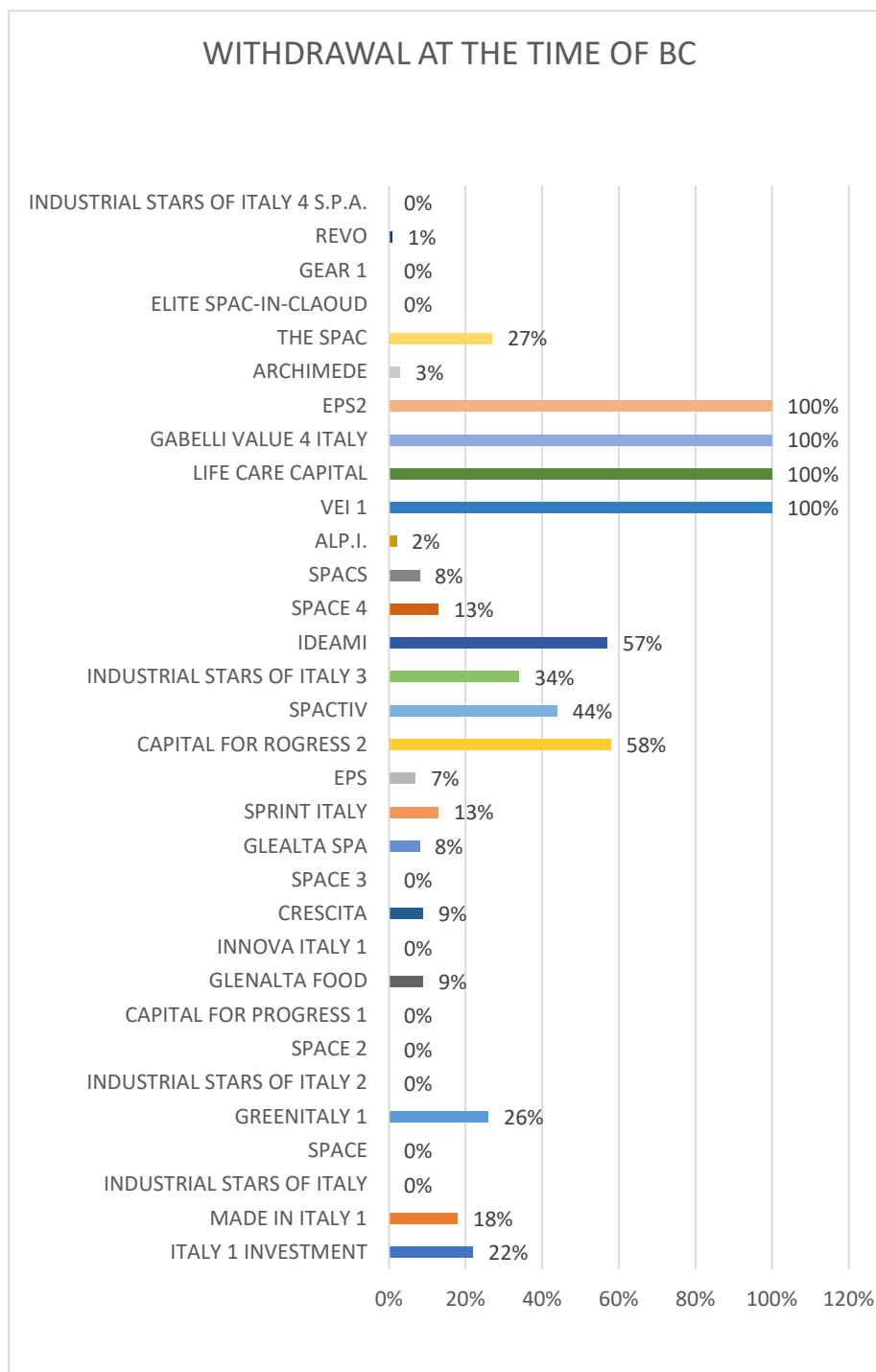
When analysing the withdrawal rates of Italian SPACs, it is interesting to note that the withdrawal rates are on average high.

The chart below provides an overview of the withdrawal rates of Italian SPACs as of 31/12/2021¹³³.

¹³² LE SPAC IN ITALIA GIGANTE; CONSO

¹³³ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021



Graph 8¹³⁴

¹³⁴ own re-elaboration on data on the Borsa Italiana website:
<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to
 31/12/2021

To make the graph more explanatory and therefore less confusing, some clarifications are necessary.

The SPACs with a withdrawal percentage of 100%, Gabelli Value 4 Italy, Life Care Capital, VEI.1 and EPS2 had some anomalous situations, for the sake of completeness I think it is interesting to analyse these four situations.

1) Gabelli Value 4 Italy: this SPAC, launched in the EGM segment on 18 April 2018, decided to proceed with the dissolution of the company for two reasons, the first being the proliferation of the epidemiological emergency due to Covid-19, and the second being the absence of a business combination to be carried out that could meet the objectives originally proposed by the promoters. Therefore, as the 24-month deadline approached, the company preferred to proceed with the liquidation. ¹³⁵

2) Life Care Capital: This EGM-listed SPAC found itself in the situation of having to proceed with liquidation following the rejection of the business combination with Biogenera. This rejection came as a great surprise because LCC, to date, is the only thematic SPAC in the Italian health&life care sector, and prior to the shareholders' meeting at which the business combination was to be voted on, a framework agreement had been signed between the parties. This agreement had been signed by the founding partners, the Emilia-Romagna region, the members of Italian Angels for Growth and Meta Ventures, and they represented 85% of Biogenera's share capital. However, on the day of the vote, only about 5% of the SPAC capital showed up at the Assembly. A percentage far from reaching the minimum quorum for the vote. the SPAC went into liquidation. ¹³⁶

3) VEI.1: the case of VEI.1 is very interesting because this vehicle was created with the aim of acquiring an Italian company with an equity value between 100 and 400 million, so unlike the previous case of LCC, which was a thematic SPAC, this SPAC was open to any kind of acquisition. However, the directors' report states that: "despite the activities put in place by the company's management in order to identify a possible target company with which to carry out the relevant transaction and in an increasingly less favourable market context, it was not possible to identify opportunities to carry out a relevant transaction capable of creating value for shareholders, also taking into account the statutory term of the

¹³⁵ <https://www.milanofinanza.it/news/gabelli-value-for-italy-non-c-e-la-business-combination-sciolta-la-spac-202004140914248129>

¹³⁶ <https://bebeez.it/spac/lassemblea-della-spac-life-care-capital-boccia-la-business-combination-biogenera/>

company's duration of 29 February 2020" according to VEI.1, in fact, the causes of the failure to carry out the business combination are:

- i.) the diffusion among investors of a non-positive perception of transactions with special purpose acquisition companies, mostly, attributable to the negative performance recorded by most SPACs and companies resulting from recent business combination transactions, and also confirmed by the non-listing of additional SPACs planned for the end of 2019
 - ii.) the observed difficulty in identifying possible target companies of quality and attractive valuations that, in turn, would consider the transaction with a SPAC more advantageous than a direct ipo or transactions with private equity funds;
 - iii.) the recent attempts to promote IPOs by leading companies which were then forced to abandon their listing plans due to the unfavourable conditions of the Italian primary market;
- and
- iv.) tensions in international markets due to trade relations between the United States and China and the potential slowdown of the global economy.

The SPAC was therefore put into liquidation.¹³⁷

4) EPS2: The story of EPS2 begins with another SPAC considered in our analysis, namely EPS. In fact, after completing the business combination with ICF (Chemical Forest Industries), EPS decided to use the capital raised but not used, which amounted to 74.36 million, to start another SPAC, EPS2. This SPAC had 18 months to identify the target company with which to carry out the business combination. However, since they could not find a company that met the criteria, they opted for a share buy-back operation, which allowed investors to recover their money, which had been invested in the SPAC for more than two and a half years, ahead of the timeframe for repayment in the event that the SPAC went into liquidation.¹³⁸

In addition to the SPACs mentioned above, another SPAC deserves individual attention: GEAR 1.

This was the only SPAC to be formed in 2019. A few months after its incorporation, in June, it carried out the business combination with the company

¹³⁷ <https://bebeez.it/spac/chiude-battenti-la-spac-vei-1-promossa-palladio-non-trovato-tempo-la-target/>

¹³⁸ <https://bebeez.it/spac/eps-equita-pep-spac-2-acquistato-il-9861-del-capitale-con-il-piano-di-riacquisto-delle-azioni/>

Comer Industry. As can be seen through the graph above, it had a withdrawal rate of 0%.

These two data are slightly out of line with all the characteristics highlighted in the other Italian SPACs, since, while all SPACs take an average of 15.9 months, which will be highlighted in the following pages of the chapter, GEAR1 took only one month to complete the business combination. Moreover, while all other SPACs have high withdrawal rates, this business combination had 0%.

The justification for this "anomalous" data is that the operation is unique in the Italian panorama, it is defined as accelerated business combination, the particularity lies in the fact that the shareholders' meeting approved the merger between the two companies before the listing of ordinary shares and warrants of the SPAC. Therefore, the SPAC did not follow the typical procedure for such vehicles but identified the target company before it was listed on EGM.

This operation actually allowed that no investor could withdraw from the subscription of GEAR1's ordinary shares in the private placement.¹³⁹

After the excursus carried out on the five SPACs previously analysed individually, it is now necessary to identify a common trait of the Italian SPACs, easily recognizable also from the graph above.

In fact, the names of most of the companies are repeated, even years apart from one listing to the next. In order of entry into the stock market they are: Industrial stars of Italy, Space, Capital for progress and Glenalta.

These SPACs are defined as serial in that they are promoted by individuals who, following a successful transaction, follow others.

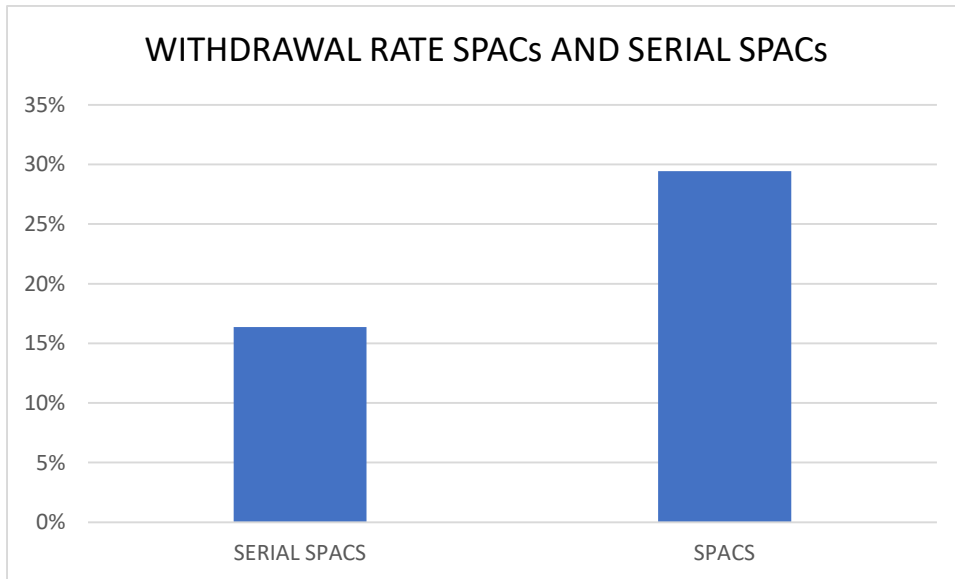
The case of Space is the most striking, in fact, four serial SPACs have been launched: Space, Space 2, Space 3 and Space 4.

All of them have completed the business combination with success, having withdrawal percentages from the investors widely under the average; in fact, the first 3 had percentages equal to 0 and the last one of 13%, percentage that has however guaranteed the possibility to carry out the operation.

According to the experts, the reason for the success of the serial SPACs is due to the promoters, who come from the world of private equity, have extensive knowledge of extraordinary transactions and have managed to convey a sense of confidence to investors that has ensured the success of all these operations.

The table below shows the withdrawal rate of serial SPACs and SPACs.

¹³⁹ <https://bebeez.it/spac/si-quota-allaim-comer-industries-grazie-allaccelerated-business-combination-la-spac-gear1/>



Graph 9¹⁴⁰

As can be seen, serial SPACs have an average withdrawal rate of around 16%, while SPACs have withdrawal rates of around 30%.

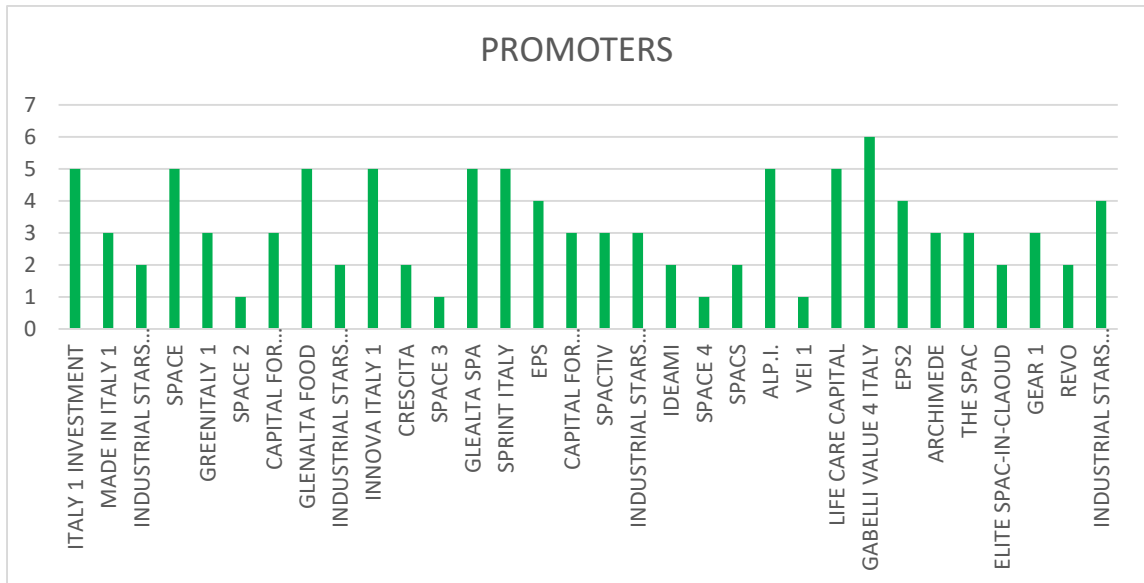
An analysis of the 32 SPACs present in the Italian market also shows an average number of promoters of 3.21 per company. The SPAC with the highest number of promoters, as shown in the graph below, is Gabelli Value for Italy¹⁴¹, which has 6 promoters.

In most cases, Italian SPACs have management teams of 3 or 5 individuals.

¹⁴⁰ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebeez website updated to 31/12/2021

¹⁴¹ <https://www.soldionline.it/notizie/azioni-italia/gabelli-value-for-italy-detemina-scioglimento-della-societa>



Graph 10¹⁴²

It is interesting to note that the data recorded in this analysis differs from that reported in the study conducted by Lakicevic, Sachmuroe and Vulcanovic,¹⁴³ who in their analysis, try to identify which are the possible variants that can determine the success of a SPAC.

Their analysis sample refers to SPACs that were listed in the US between 2003 and 2012. What emerges is that the number of average promoters in American SPACs is 5.91, thus higher than the Italian average.

From some more recent analyses it even seems that the number of promoters in today's American SPACs is increasing. Of course, the fact that the Italian sample base is narrow because of the low number of SPACs is to be considered.

Also according to Lakicevic, Sachmuroe and Vulcanovic, the number of promoters in SPACs correlates with the success of the SPAC itself. They argue that SPACs with large management teams are more likely to succeed in business combinations, mainly due to the high level of expertise and extensive network of relationships possessed by the promoters.

If in the United States, at least the data, give reason to the theory of Lakicevic, Sachmuroe and Vulcanovic, in Italy, relying on mathematical data, we can see that

¹⁴² own re-elaboration on data on the Borsa Italiana website: <https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021

¹⁴³ institutional changes of Specified Purpose Acquisition Companies (SPACs) Milan Lakicevic, Yochanan Shachmurove (yoshachmurove@gmail.com) and Milos Vulcanovic

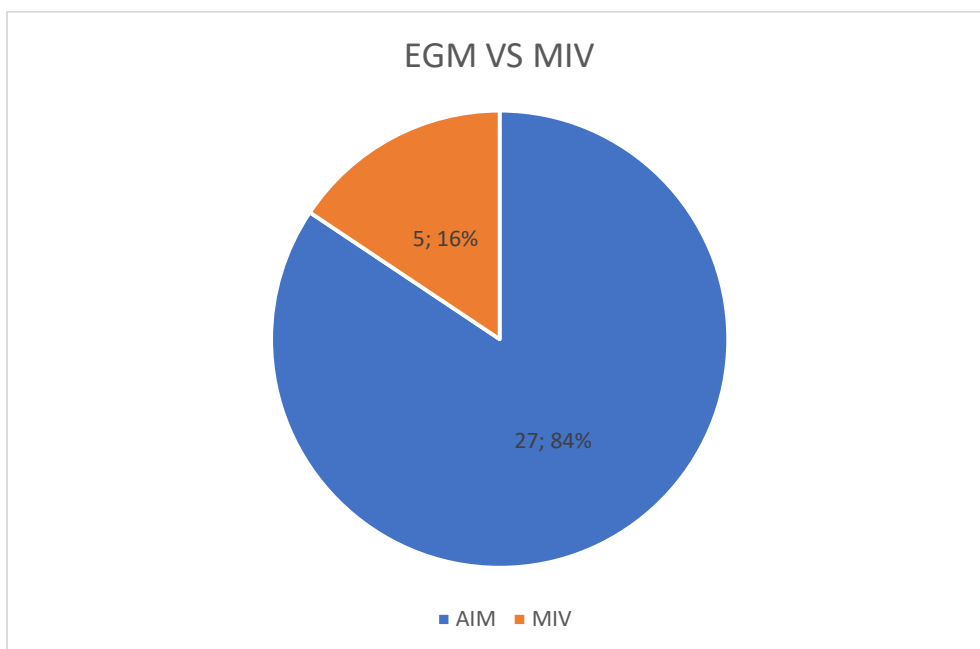
the only Italian SPAC to have deviated from the average of promoters, is Gabelli Value 4 Italy that, as mentioned above, was forced to liquidation.

In my opinion, the correlation may have, in part, reason to exist because of the synergy that can be formed between several networks. However, it is certain that if a SPAC does not boast many promoters, but they are prominent figures with in-depth knowledge of the subject, they can certainly attract more investors than a SPAC with many non-specialist promoters.

In this case, quality beats quantity.

Proceeding with our analysis of the Italian context, it is worth mentioning the market segment in which SPACs prefer to be listed. In fact, as we saw in chapter 2, the choice of the listing market can be between EGM and MIV.

The graph below shows which of the two markets is preferred by Italian SPACs.



Graph 11¹⁴⁴

From the figure above, the EGM segment is by far preferred to the MIV. Twenty-seven SPACs have opted for EGM, while only five have chosen MIV.

As we pointed out in the previous chapter, EGM has less stringent requirements, which is one of the features preferred by SPAC promoters.

¹⁴⁴ own re-elaboration on data on the Borsa Italiana website: <https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebeez website updated to 31/12/2021

Since, after the business combination, it is the shares of the target company that start to be traded, it is normal that the reference market changes.

In fact, all the 5 SPACs that carried out the business combination, while they were listed in the MIV segment, subsequently preferred to move to the MTA STAR, the MTA segment of the Italian Stock Exchange dedicated to medium-sized companies with a capitalisation between 40 million and 1 billion euros.

It should be noted that 3 SPACs, previously listed on EGM, have also chosen the MTA STAR to proceed with their activities.

There may be several reasons why a SPAC may be interested in changing the listing market immediately after the business combination. One of the most common reasons is the size of the SPAC after the merger. In fact, many SPACs, after acquiring the target, move towards the MTA star, boasting a capitalisation more than 40 million, the minimum capitalisation required to access the MTA star.

The implication is that the company gains access to a market dedicated to medium to large sized companies, which offers higher standards to investors causing a greater circulation of money and consequently a greater attractiveness of the shares¹⁴⁵.

In the MTA, as can also be read on the website of the Italian Stock Exchange¹⁴⁶, the requirements include:

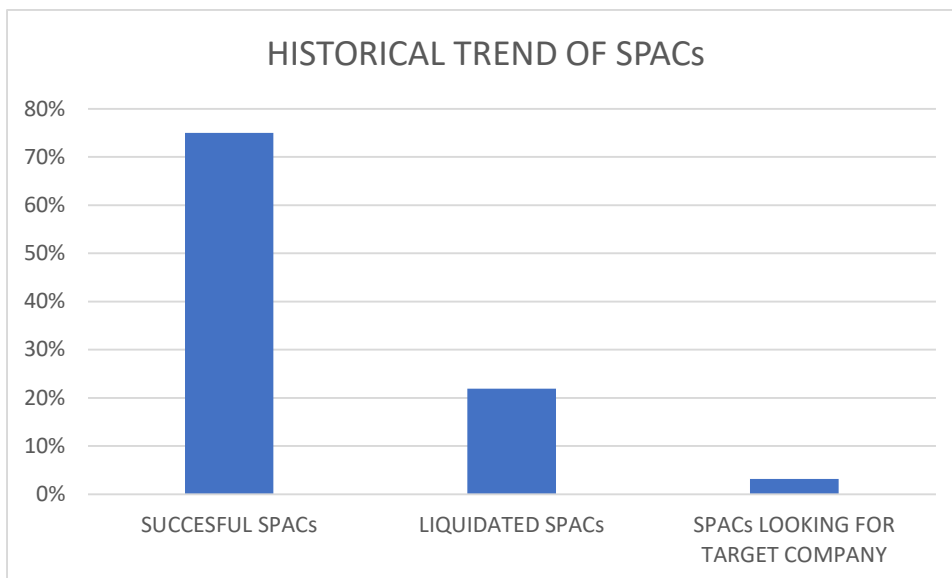
- High transparency and high communication vocation
- High liquidity, minimum 35% free float
- Corporate governance in line with international standards

As mentioned above, there are 32 SPACs in Italy. Of these, 24 have identified the target company, while eight have not completed the business combination and have consequently gone into liquidation. However, one of these eight, Industrial Stars of Italy 4, is still looking for a target company and consequently cannot be included in our analysis.

As a result, the SPAC landscape can be summarised with the following graph:

¹⁴⁵ <https://www.finanziamentipergiovani.it/quotazione-in-borsa.html>

¹⁴⁶ <http://www.fideuraminvestimenti.it/fideuramlab/vademecum/show/87#:~:text=L'ammissione%20alla%20quotazione%20su,flottante%20di%20almeno%20il%2025%25>.



Graph 12¹⁴⁷

Successful SPACs represent the majority, accounting for 75% of the total, while SPACs that have not completed the business combination and therefore have been forced to proceed with liquidation represent 22%, and finally, SPACs that are still looking for a business combination represent 3% of the total.

Analysing the 24 business combinations concluded in Italy, it is possible to note the presence of operations structured in different ways. The types of business combinations adopted in Italy to date are of 4 kinds:

- 1- Merger of the target companies within the SPAC
- 2- Merger of the SPAC into the target company
- 3- Acquisition by the SPAC of the entire capital of the target company
- 4- SPAC in cloud

In the following, we will carry out a brief analysis of these types of business combinations.

Regarding the first one, the merger of the target company inside the SPAC, which is the most common type of SPAC in circulation, 15 cases on 24, the choice is attributable to the following: by incorporating the target, there is an automatic and immediate listing. Since the SPAC is already listed on the market, it will be

¹⁴⁷ own re-elaboration on data on the Borsa Italiana website: <https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021

sufficient to change the name of its shares by giving them the name of the target company. The operation is, in fact, a capital increase of the SPAC in the issuance of new shares to be offered to the target's shareholders in exchange for their old shares which will be consequently cancelled.

The second is the reverse merger, which involves the incorporation of the SPAC into the target company, of this type of merger we have seen 7 cases out of a total of 24. In this case, there is a capital increase for the purpose of issuing new shares in the target company. A further capital increase may be necessary if the shareholders decide to exercise their right to convert warrants. This method is more complex, as two possible alternative scenarios arise: either the shares of the target company are traded, subject to approval by Borsa Italiana, or the IPO is carried out. The second scenario, which is obviously consequent to a refusal to negotiate on the part of the Italian Stock Exchange, would cause costs that could wipe out the benefits of the business combination. In most cases, because SPACs are conducted by experts in the field, they have always succeeded in getting the shares listed. However, even if in all seven cases it happened that the Italian Stock Exchange accepted the trading, it is not a foregone conclusion and can be a major obstacle to the success of the operation.

The third type, found in only one case, the case of the SPAC EPS, is the acquisition of the entire capital of the target company. This gives rise to a different relationship from those mentioned above in that the SPAC acts as a parent company and the target as a subsidiary. This is possible through the direct purchase of the shares of the outgoing shareholders.

The fourth and last typology found in Italian SPACs is the most particular and also in this case we have only one example. The case is that of the SPAC Elite.

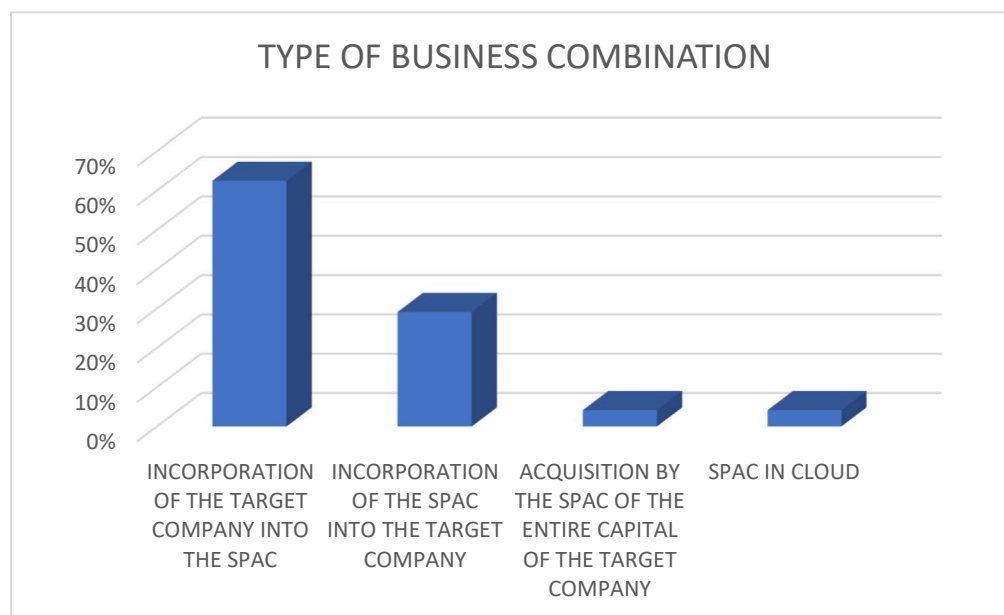
Thanks to the Spac in Cloud model, the company that decides to list (target) and the promoters, negotiate the terms and conditions of the investment together with a principal investor (Cornerstone Investor), who subscribes at least 20% of the total offer.

Only at a later stage, the offer is opened to other institutional and professional investors who complete the order book. Following this scheme, the listing process and the digital raising of capital run in parallel and are completed with the admission to listing, making the operation faster and more flexible for both companies and investors.

Thus, capital raising takes place through a platform that includes different investment opportunities and the investor chooses the one that best suits his interests¹⁴⁸.

¹⁴⁸ https://bebeez.it/files/2017/09/Spac_in_Cloud.pdf

The graph below summarises the percentages of the various types mentioned above in the Italian market.



Graph 13¹⁴⁹

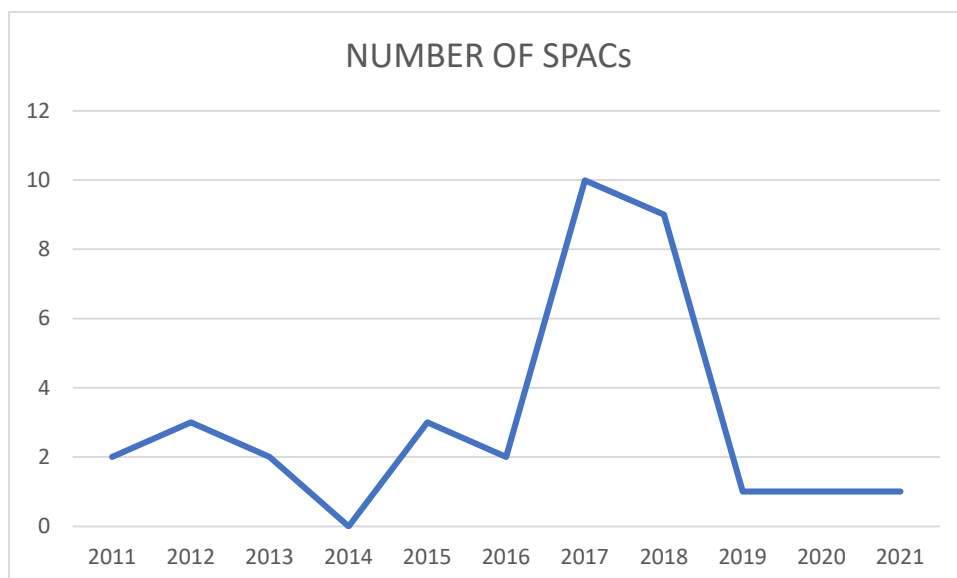
As it is easy to see, the direct merger remains the first choice among Italian SPACs; in fact, 63% of SPACs have carried out the business combination in the way mentioned above.

In a much lower percentage, 29%, we see the reverse merger, and finally, as mentioned above, only two operations that differ from the previous ones.

For the purposes of the following elaboration, it is important to highlight the temporal trend of Italian SPACs.

In the analysis, the year of listing of the companies, meaning the first day of trading of the shares on the market, and the number of vehicles set up for each year are related.

¹⁴⁹ own re-elaboration on data on the Borsa Italiana website: <https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021



Graph 14¹⁵⁰

The graph shows a fluctuating trend, with a very limited presence of SPACs in the first years, an exploit from 2015 to 2019 and a constant trend tending to zero in the following years.

The initial fluctuating trend can be mainly attributed to the uncertain conditions of the Italian macroeconomic context following the crisis in the financial markets. The maturing mistrust that many investors had in the years between 2010 and 2015 was reflected in the low proliferation of this type of financial instrument.

In fact, from 2016 onwards, as can be seen from the graph, the trend rose, peaking in 2017-2018 with the listing of 10 and 8 SPACs respectively.

After the peak, the market slowly stalled, seeing in three years the listing of just three SPACs.

The reason for this decline can certainly be found in the pandemic, which has affected the financial markets and consequently the proliferation of these innovative financial instruments.

Another interesting fact about Italian SPACs is the average time gap between the listing of the SPAC and the business combination. SPACs have an average of 24 months to complete the objective for which they were set up, after which the promoters must necessarily proceed with the liquidation of the company.

¹⁵⁰ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021

YEAR	SPAC	NAME AFTER BUSINESS COMBINATION	DATE OF IPO	DATE OF BUSINESS COMBINATION	GAP DATE
2011	ITALY 1 INVESTMENT	IVS	27/01/2011	16/05/2012	16
2011	MADE IN ITALY 1	SE.SA.	27/06/2011	01/02/2013	20
2013	INDUSTRIAL STARS OF ITALY	LU.VE.	22/07/2013	09/07/2015	24
2013	SPACE	FILA	18/12/2013	01/06/2015	18
2013	GREENITALY 1	PRIMAVERA	27/12/2013	22/12/2015	24
2015	SPACE 2	AVIO	31/07/2015	10/04/2017	21
2015	CAPITAL FOR PROGRESS 1	GP1	04/08/2015	29/12/2016	17
2015	GLENALTA FOOD	ORSERO	10/11/2015	13/02/2017	15
2016	INDUSTRIAL STARS OF ITALY 2	SIT	27/05/2016	20/07/2017	14
2016	INNOVA ITALY 1	FINE FOOD	19/11/2016	01/10/2018	23
2017	CRESCITA	GRUPPO CELLULAR	15/03/2017	04/06/2018	15
2017	SPACE 3	AQUAFILL	05/04/2017	04/12/2017	8
2017	GLEALTA SPA	CFT	19/07/2017	30/07/2018	13
2017	SPRINT ITALY	SICIT GROUP	21/07/2017	04/06/2019	23
2017	EPS	ICF	01/08/2017	14/05/2018	10
2017	INDUSTRIAL STARS OF ITALY 3	SALCEF GROUP	19/10/2017	07/11/2019	25
2017	SPACE 4	GALE CLOSURES	21/12/2017	06/08/2018	8
2018	SPACS	ILLIMITY	01/02/2018	05/03/2019	13
2018	ALP.I.	ALTARES VISION	01/02/2018	18/04/2019	15
2018	ARCHIMEDE	NET INSURANCE	21/05/2018	17/12/2018	7
2018	THE SPAC	FRANCO UMBERTO MARMI S.p.a.	02/08/2018	19/08/2020	25
2019	GEAR 1	COMER INDUSTRY	26/02/2019	13/03/2019	1
2020	REVO	ELBA ASSICURAZIONI	26/05/2020	04/08/2021	15

Table 4¹⁵¹

Analysing the time gaps, shown visually in Table TAB.2, Italian SPACs take an average of 15.9 months to identify the target company and proceed with the completion of the transaction. This indicates that they are relatively fast, taking on average 65% of the maximum time allowed by law.

In the course of this section, we have therefore observed the main characteristics of Italian SPACs, focusing on the key aspects that characterise this type of operation.

In the next section we will proceed with an analysis of the target companies with which the SPACs have decided to carry out the business combination.

3.2. THE TARGETS OF ITALIAN SPAC

To exhaustively conclude the overview of Italian SPACs, a complete analysis of the target companies with which the SPACs have carried out the business combination cannot be omitted.

¹⁵¹ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021

For obvious reasons, we have included in our analysis all the SPACs that have completed the business combination until 31/12/2021. Therefore, our reference database counts 24 SPACs shown in the table below.

YEAR	SPAC	NAME AFTER BUSINESS COMBINATION	REFERENCE SECTOR
2011	ITALY 1 INVESTMENT	IVS	WHOLESALE AND RETAIL TRADE
2011	MADE IN ITALY 1	SE.SA.	PROFESSIONAL
2013	INDUSTRIAL STARS OF ITALY	LU.VE.	MANUFACTURING
2013	SPACE	FILA	MANUFACTURING
2013	GREENITALY 1	PRIMAVERA	CONSTRUCTION
2015	SPACE 2	AVIO	MANUFACTURING
2015	CAPITAL FOR PROGRESS 1	GP1	INFORMATION AND COMMUNICATION
2015	GLENALTA FOOD	ORSERO	WHOLESALE AND RETAIL TRADE
2016	INDUSTRIAL STARS OF ITALY 2	SIT	MANUFACTURING
2016	INNOVA ITALY 1	FINE FOOD	MANUFACTURING
2017	CRESCITA	GRUPPO CELLULAR	WHOLESALE AND RETAIL TRADE
2017	SPACE 3	AQUAFILL	MANUFACTURING
2017	GLEALTA SPA	CFT	MANUFACTURING
2017	SPRINT ITALY	SICIT GROUP	MANUFACTURING
2017	EPS	ICF	MANUFACTURING
2017	INDUSTRIAL STARS OF ITALY 3	SALCEF GROUP	CONSTRUCTION
2017	SPACE 4	GUALE CLOSURES	MANUFACTURING
2018	SPACS	ILLIMITY	BANKING
2018	ALP.I.	ALTARES VISION	MANUFACTURING
2018	ARCHIMEDE	NET INSURANCE	FINANCIAL INSURANCE
2018	THE SPAC	FRANCO UMBERTO MARMI S.p.a.	CONSTRUCTION
2018	ELITE SPAC-IN-CLAUD	DIGITAL VALUE	INFORMATION AND COMMUNICATION
2019	GEAR 1	COMER INDUSTRY	MANUFACTURING
2020	REVO	ELBA ASSICURAZIONI	FINANCIAL INSURANCE

Table 5¹⁵²

It has been seen above that there are some SPACs that can be defined as thematic, such as the case of LCC (Life Care Capital), not present in the following analysis because it has been liquidated, and there can be SPACs that can be defined as "generalist" given their willingness to merge with companies belonging to non-determined productive sectors but which, however, respect certain characteristics defined by the promoters in the IPO phase of the SPAC.

Therefore, we can distinguish two types of SPAC, the thematic SPAC which focuses on a specific sector, and the generalist SPAC which focuses on the characteristics of the company and not on the production sector.

However, it is important to stress that even thematic SPACs filter companies on the basis of company characteristics as well as on the basis of the production sector.

¹⁵² own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebeez website updated to 31/12/2021

In our country, to date, there have been four thematic SPACs. However, for the purposes of our analysis, Life Care Capital should be excluded because, as mentioned above, it has not completed the business combination.

The other three remaining thematic SPACs represent 12.5% of the total number of successful SPACs, and they are:

- Green Italy 1: SPAC that has always focused its interest in Green Economy companies¹⁵³, has in fact concluded the transaction by merging with Primavera, a company specialising in energy efficiency and the provision of integrated energy management solutions for complex structures. The name of the company was later changed to Zephyro to give the company more international connotations as the name Primavera was too complex to pronounce.¹⁵⁴

- Glenalta Food: a company interested in acquiring companies in the food and beverage sector that completed the business combination by acquiring Orsero, a leading company in the export, marketing and production of fruit and vegetables.¹⁵⁵

- Gear 1: a company dedicated to the acquisition of companies specialising in mechanics, which consequently acquired Comer Industries, the leading global player in the design and production of advanced engineering systems and mechatronic solutions for power transmission¹⁵⁶.

It can be said that out of a total of 4 thematic SPACs, 75% were successful while 25% were not.

A second analysis that has to be carried out on the database in TAB.3 is regarding the sector of activity of the target companies. It can be noted that there is a prevalence of some sectors, mainly traditional, compared to other sectors, more oriented towards technology and innovation, which did not have a high number.

¹⁵³ http://www.vedogreen.it/wp-content/uploads/2012/05/3_greenitaly1.pdf

¹⁵⁴ <https://bebeez.it/societa-it/vera-cambia-nome-zephyro-delibera-un-dividendo-straordinario-del-5/>

¹⁵⁵ <https://www.orserogroup.it/>

¹⁵⁶ <https://www.comerindustries.com/>



Graph 15¹⁵⁷

As can be seen from GR.10 most of the target companies specialise in the manufacturing sector (50%). This is followed by the wholesale and retail trade and construction sectors and finally we have cases of target companies specialising in the financial, insurance and banking, information and communication and professional consultancy services sectors.

Below is a detail of the specific manufacturing sector in which the target companies selected for the business combination operate.

YEAR	SPAC	NAME AFTER BUSINESS COMBINATION	REFERENCE SECTOR	SPECIFIC SECTOR
2013	INDUSTRIAL STARS OF ITALY	LU.VE.	MANUFACTURING	production and marketing of refrigeration and air conditioning equipment
2013	SPACE	FILA	MANUFACTURING	production and marketing of articles for visual and plastic arts for drawing
2015	SPACE 2	AVIO	MANUFACTURING	production and development of space launchers
2016	INDUSTRIAL STARS OF ITALY 2	SIT	MANUFACTURING	design, production and marketing of components for gas appliances
2016	INNOVA ITALY 1	FINE FOOD	MANUFACTURING	development and contract manufacturing of solid oral forms for the pharmaceutical, nutraceutical and medical device industries
2017	SPACE 3	AQUAFILL	MANUFACTURING	production and marketing of synthetic fibres
2017	GLEALTA SPA	CFT	MANUFACTURING	design and production of plants for the food sector
2017	SPRINT ITALY	SICIT GROUP	MANUFACTURING	production and supply of biostimulants and retardants for the agrochemical and industrial sectors
2017	EPS	ICF	MANUFACTURING	production of adhesives and fabrics
2017	SPACE 4	GUALE CLOSURES	MANUFACTURING	production of safety caps for beverages
2018	ALP.I.	ALTARES VISION	MANUFACTURING	production, design and installation of inspection and track&trace solutions
2019	GEAR 1	COMER INDUSTRY	MANUFACTURING	power transmission mechatronics engineering and solutions

TABLE 6¹⁵⁸

As can be seen from Table 5, there is no prevailing sector. They all deal with specific micro-sectors which makes it impossible to trace a trend.

¹⁵⁷ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021

¹⁵⁸ own re-elaboration on data on the Borsa Italiana website:

<https://www.borsaitaliana.it/homepage/homepage.htm> and on the Beebez website updated to 31/12/2021

3.3. SPAC REVOLUTION IN ITALY

To conclude Chapter 3 on the overview of the SPAC market in Italy, it is important to highlight the critical points that make SPACs less attractive when compared to other markets in Europe or the United States.

Many experts have identified the right of withdrawal as the main cause of the difficulty in listing a SPAC and, above all, in making it successful and then proceeding with the business combination¹⁵⁹.

This aspect is common in all legal systems that favor a simplified right of withdrawal.

In this regard, it is necessary, first, to understand the reason why the right of withdrawal is a problem.

The grounds for withdrawal established for listed companies are listed in Article 2437 of the Civil Code¹⁶⁰.

This article specifies that shareholders have the right to withdraw from the company if they have not taken part in resolutions concerning 'the modification of the company's object, when it allows a significant change in the company's activity'.

Consequently, as far as SPACs are concerned, the decision as to whether to carry out the business combination corresponds to the moment when the shareholders can assert their right of withdrawal.

The reason for this is that, at the IPO stage, the corporate purpose of the SPAC simply concerns the search for an investment opportunity and must therefore be subsequently modified by the shareholders' meeting when it approves the business combination.

In this way, it is possible to bring the practice of SPACs, which provides for the right of dissenting investors to repayment of the capital contributed, under Italian law.

this represents on the one hand a problem but on the other hand an advantage.

¹⁵⁹ <http://www.derobertislex.com/it/2020/11/10/come-guidare-la-spac-revolution-in-italia/>

¹⁶⁰ [https://www.brocardi.it/codice-civile/libro-quinto/titolo-v/capo-v/sezione-v/art2347.html#:~:text=Dispositivo%20dell'art.,2347%20Codice%20Civile&text=Le%20azioni%20s ono%20indivisibili\(1,dagli%20articoli%201105%20e%201106.](https://www.brocardi.it/codice-civile/libro-quinto/titolo-v/capo-v/sezione-v/art2347.html#:~:text=Dispositivo%20dell'art.,2347%20Codice%20Civile&text=Le%20azioni%20s ono%20indivisibili(1,dagli%20articoli%201105%20e%201106.)

In fact, many countries that have adapted their legal system by introducing a simplified right of withdrawal have met with varying degrees of success.

The problem arises when an investor, with the sole purpose of speculation, buys shares in the SPAC while it is in the process of identifying the target and then, at the time of the business combination, withdraws, receiving the repayment of his shares increased because of the value accrued over time. If the speculative investors exceed 30%, as we learned earlier, the business combination does not take place and the SPAC is put into liquidation.

the right of withdrawal is only a problem if it is misused. i believe it is appropriate to assess the investor's ultimate purpose before accepting his investment. The problem can also be traced back to the perception that one has of the financial instrument. if the SPAC for some reason is targeted by investors whose sole purpose is speculation, it is clear that the right of withdrawal represents a problem for the other parties involved. On the contrary, if the SPAC is used for its purpose, going to select investors not only on the basis of their assets but also on the basis of their future intentions, then the right of withdrawal represents an opportunity for those investors who are not really in line with the business combination announced to liquidate their investment.

In this regard, it is also useful to know what the regulations suggest regarding the liquidation value of the shares.

The liquidation value of the shares is governed by Article 2437-ter of the Civil Code, which states, for companies listed on a regulated market, "the liquidation value of the shares listed on regulated markets is determined by making exclusive reference to the arithmetic average of the closing prices during the six months preceding the publication, or receipt, of the notice of the meeting whose resolutions legitimise the withdrawal (i.e., in our case, the meeting that approves the business combination)"¹⁶¹.

In the context of SPACs, however, Fumagalli highlights the problem linked to the impossibility of knowing the exact redemption value.

the redemption value is announced on the date of the announcement of the meeting and corresponds to the average of the previous 6 months.

however, the price of the previous six months could differ widely from the redemption value announced to investors during the IPO.

¹⁶¹ <https://www.brocardi.it/codice-civile/libro-quinto/titolo-v/capo-v/sezione-x/art2437ter.html>

The calculation of the six-month average will also include the period between the announcement of the business combination and the publication of the notice of call for the shareholders' meeting.

This is because, during this period, it is assumed that the stock will react according to the quality of the proposed transaction.

For SPACs listed on EGM and MIV Italy, on the other hand, the aforementioned Article 2437-ter of the Italian Civil Code¹⁶² provides that 'the liquidation value of the shares shall be determined by the directors, after hearing the opinion of the board of statutory auditors and of the person in charge of the statutory audit of the accounts, taking into account the assets of the company and its income prospects, as well as the market value of the shares, if any'.

The problems in this case concern the fact that the directors do not necessarily have to give equal weight to the three elements just described.

On the contrary, Fumagalli¹⁶³ argues that the prospects of the SPAC should not even be taken into account: whoever withdraws, in fact, renounces the greater value created by the integration of the target and, consequently, will not be able to obtain the results obtained through the post-merger activity.

With reference, instead, to the amount of assets, it is deemed that it refers to the number of ordinary shares segregated in the escrow accounts¹⁶⁴. Finally, it is believed that the market value referred to in Article 2437-ter of the Italian Civil Code tends to be lower than the pro-rata value of the escrowed funds, thus making the liquidation value of the shares lower than the price paid at the IPO by investors.

With the aim of proposing a valid solution to the above-mentioned problems, it is worth mentioning the operation, not yet concluded, that Giovanni Cavallini (former chairman and managing director of Interpump), Attilio Arietti (founder and chairman of Oaklins Italy), Enrico Arietti (partner of Oaklins Italy), Davide Milano (managing director of Oaklins Italy), Marco Croci and Piero Vitali (respectively associate and m&a analyst of Oaklins Italy) are pursuing, the SPAC Industrail Stars of Italy 4¹⁶⁵.

¹⁶² <https://pminews.it/wp-content/uploads/2021/07/IR-Top-Consulting-CS-Osservatorio-AIM-15072021.pdf>

¹⁶³ <https://www.hoepli.it/libro/sviluppo-della-spac-in-italia/9788823844292.html>

¹⁶⁴ <https://www.elibrary.imf.org/view/books/069/22606-9781513579191-en/ch04.xml>

¹⁶⁵ <https://bebeez.it/spac/punta-a-quotarsi-entro-fine-giugno-la-nuova-spac-ricaricabile-di-arietti-e-cavallini-ecco-tutte-le-innovazioni-per-limitare-recessi-e-velocizzare-il-deal/>

They reasoned that the Italian Civil Code provides for several cases in which shareholders have the right of withdrawal, but a company is free to establish other withdrawal rights for its shareholders.

In essence, they have reserved the right of withdrawal only for the original investors, those who subscribed to the shares of the SPAC in the IPO and who will keep them in their portfolio until the shareholders' meeting votes on the business combination proposal. In this way they avoid the presence of opportunistic investors who enter the stock when it is at a low price on the secondary market, with the intention of withdrawing at the time of the business combination at the withdrawal price, obviously higher than the purchase price, and profit from the difference, without even looking at the proposed transaction.

This solution, however, entails the fact that the SPAC cannot merge with the target company, as is the practice. This is because otherwise, in the event of a merger, the legal rules on the withdrawal of shareholders, mentioned above, would apply, which give the right to shareholders who do not agree with the operation, regardless of whether they are original investors in the SPAC or investors who have entered the secondary market, to withdraw. In addition, in the case of a merger, the merger would have to be voted on at an extraordinary shareholders' meeting and therefore with the majorities required for extraordinary meetings.

To overcome this problem, they have foreseen that the target company will launch a capital increase that the SPAC will subscribe with the capital raised in the IPO. The SPAC, once obtained the shares of the target, will turn them over to its shareholders as a distribution of extraordinary reserves, without tax effect, and will be asked for admission to listing on the Stock Exchange, producing the relevant Admission Document. The admission would not be an IPO, it is only a matter of receiving permission from the Italian Stock Exchange to trade the shares on a regulated market. This process would be possible using the admission document.

The company will not have to bear the costs of the IPO, which would cancel out all the benefits of the process described above. This solution also has the advantage of not requiring the resolution of an extraordinary shareholders' meeting. In fact, the ordinary meeting will suffice, which means that it is easier to reach the deliberative quorum, which, as we have seen in some previous examples has proved to be another of the problems of Italian SPACs in recent times.

Another advantage that can be derived from the concretisation of this operation is the reduction of the time of the operation, in fact they will be considerably reduced, because without the merger one will not have to wait the canonical 60 days provided by the Civil Code to allow the opposition of the creditors, which in the case of the SPACs is a useless wait. In addition to this, the timeframe for

withdrawal will also be much shorter than that provided for by the withdrawal law: instead of waiting 15 days from the registration of the shareholders' resolution, it is sufficient to send an e-mail within 48 hours of the meeting. This avoids that the outcome of the operation remains pending for 20 or 30 days.

This solution may represent the definitive turning point for Italian SPACs, bringing back the enthusiasm seen in 2017 and 2018.

However, although this solution offers a remedy to what have been identified as the main problems of SPACs in Italy, in my view, it is not sufficient to revive the market.

The most deep-seated and difficult problem to solve is the reluctance that many companies have towards the stock exchange. The feeling many entrepreneurs have about the stock exchange is that they lose control of the company. However, there are examples of companies that without the stock exchange could never have reached the levels they have.

The stock exchange brings meritocracy and rationality to the growth process, if you decide to make acquisitions, they must be explained to the market in a convincing way and if there is a logic, the market understands it and reacts accordingly.

As we will see in more detail in the next chapter, once the company has been evaluated, the valuation remains the same until the listing, unlike the traditional IPO where the investment bank initially proposes a valuation that is then revised in accordance with what the potential investors want to offer, and one finds oneself having to accept because refusal would mean reputational damage.

4. THE CHOICE: IPO VS. SPAC

After defining SPACs and how they work, and having comprehensively described the global regulatory context, identifying the main differences between the main legal systems, we have looked at the Italian context, providing an exhaustive overview. It is now necessary to take a step back to re-evaluate this instrument on a global scale.

To continue with our analysis, it is important to compare SPACs with the IPO process, having in mind that the comparison between these instruments can never provide an unambiguous result that can be true for every economic context. It obviously depends on the intent of the company and its future goals: each of these instruments has strengths but also weaknesses.

The purpose of my analysis is to highlight what are the key aspects that a company should consider when choosing to become public

To provide a more complete overview of this issue, it is first necessary to recall the advantages and disadvantages of SPACs which we have mentioned in previous chapters and which we will now discuss individually.

In the second part of the chapter I will compare, in the light of what has emerged in the analysis of advantages/disadvantages, the SPAC and the IPO.

4.1. ADVANTAGES OF SPACs

The global spread of SPACs is attributable to the countless advantages that this vehicle is able to offer, which have been the cause of the global proliferation of this financial instrument.

The first advantage that can be found is undoubtedly the synergy that this operation requires to be implemented. By synergy we mean that all the actors involved must act in a cohesive manner, as members of the same team, sharing a common objective, namely, the realisation of the business combination.

The actors involved are mainly of three categories, namely promoters, investors, and entrepreneurs.

The term entrepreneurs refer to the subjects that have developed and led the target company until the moment of the business combination.

Often, in M&A transactions, the interests of these actors are opposed. In fact, the actors who transfer, in part or in full, the control of the company seek to obtain as

much as possible from the transaction, while those who acquire control wish to buy at the most convenient price. If investors have the prospect of seeing the value of their investment increase, they will be in favour of the transaction; if, on the contrary, they have a negative prospect as a result of the transaction, they will be against it.

In SPACs, as noted above, all actors gain from the realisation of the transaction, in proportion to how much trust they have placed in it.

The alignment of objectives is characterised by the transparency enjoyed by the operation.

SPACs, as companies listed on a regulated market, must comply with rules which, depending on the market in question, change and give the investor confidence in the reliability of the operation. Among the most frequent obligations imposed on SPACs are regulations concerning the filing of financial statements and the publication of all relevant company events.

However, as SPACs are companies with the purpose of acquiring a target, financial statements are not particularly explanatory and do not provide the investor with all the information he might need to properly assess the investment.

For this reason, as pointed out at the beginning of the second chapter of the study, SPACs tend to impose self-imposed rules and restrictions on the operations of directors to safeguard investors¹⁶⁶.

An example of a self-imposed regulation is usually the deposit of 100%¹⁶⁷ of the funds raised by the listing of the SPAC in a guaranteed deposit, or the imposition of particularly binding conditions on the rewards to be given to the management, such as the achievement of positive economic results for several years after the business combination.

Entering the merits of the advantages of a SPAC, it is useful to divide them according to the actors who benefit from them, to make the reading more orderly.

Investors, those who subscribe to the shares in the listing phase of the SPAC, are not required to contribute any capital to achieve the aim of the business

¹⁶⁶ <https://docplayer.it/1734616-Le-spac-approdano-in-italia.html>

¹⁶⁷ The amount of funds raised to be allocated to the earmarked fund is decided by the promoters when drafting the official document in which they highlight all the features that the operation should have. as it is a document drafted by the promoters, it is a self-imposed rule.

combination; in fact, as we have seen above, it is the promoters themselves who will bear all kinds of costs¹⁶⁸, in most cases, until the completion of the operation.

Moreover, in most cases, investors do not receive any kind of remuneration, but this too is linked to the success of the operation.

Investors also have the advantage of being able to withdraw from the company if they do not agree with the business combination voted by the other investors. In addition, they will be entitled to receive 100% of the money they have deposited¹⁶⁹. This guarantees a high level of liquidity, as they have the possibility to exit the investment even after the business combination has been completed, by selling their shares on the market.

The SPAC is therefore defined as a low-risk operation¹⁷⁰, for investors.

The SPAC must conclude the operation within 24 months from its listing, this guarantees the investor the realization of the operation in a limited time horizon, which, if compared to Private Equity operations, which have time horizons that can reach 12 years, is certainly considered short-term.

Moreover, investors do not deal directly with the operational phase, which makes the investment affordable for anyone, as they can rely on professionals who oversee concluding the deal with the target company.

The promoters have the advantage of being able to obtain high fees if the business combination is successful. The gain is not only economic: it has been shown that promoters who succeed in the deal also enjoy high reputational returns that may allow them to repeat the deal in the future¹⁷¹.

In chapter three, we have seen, in this respect, the proliferation of serial SPACs, which are launched by the same management team, and which achieve good results precisely because investors trust their capabilities.

Among the skills and characteristics that are most appreciated by investors are: the ability to raise capital, often linked to the network created by the synergy produced by the promoters, the high level of professionalism in the search for the target company, the commitment to completing the operation, the seriousness

¹⁶⁸ <https://www.aim-italia.it/vantaggi/94-spac-vantaggi-e-svantaggi.html>

¹⁶⁹ The money is invested, as seen in the first chapter, in low-risk securities. These securities usually have a positive return in line with inflation, but if an event occurs that causes these securities to plummet, investors will receive their share minus the negative value of the investment.

¹⁷⁰ <https://corpgov.law.harvard.edu/2018/07/06/special-purpose-acquisition-companies-an-introduction/>

¹⁷¹ <https://studiodilorenzo.it/pubblicazioni/la-spac-appoggia-le-quotazioni-in-piazza-affari/>

and finally the previous experience, especially if related to the Private Equity world.

Entrepreneurs are the last category of actors involved.

The term entrepreneurs refer to the subjects that have developed and led the target company until the moment of the business combination.

When the business combination takes place, the SPAC takes the form of the target company by bringing in the funds raised in the IPO phase of the SPAC. However, this does not mean that the entrepreneurs are liquidated; on the contrary, they often continue to enjoy a majority shareholding compared to other investors and promoters.

The figure of the entrepreneur of the target company is often underestimated in the phase immediately preceding the business combination and immediately following it, as there is a greater focus on the financial aspects of the operation, but it is far from being a marginal figure, as the company must remain productive during the operation and no one better than the entrepreneur himself can guarantee the continuation, at an operational level, of the business¹⁷².

This clearly applies also to the period following the business combination.

The result for the entrepreneur is a considerable increase in the value of his shareholding, a greater stability of the company since the SPAC, by acquiring the target company, brings liquidity; and finally, a considerable publicity at the level of brand identity caused by the opening to the regulated market.

In view of the above, it has been found that entrepreneurs always welcome the presence of promoters in their corporate governance.

4.2. DISADVANTAGES OF SPACs

In the previous section, we looked at the strengths of a SPAC. However, for the sake of completeness, it is important to highlight the weaknesses as well.

The first critical point that we are going to analyse is the difficulty in finding a target company with which to carry out the business combination.

The search for the target company takes place only after the listing of the SPAC and as we have seen in some examples during the third chapter, the situation occurred in which the management team was not able to identify a target company able to meet all the requirements that the SPAC had set out to seek.

¹⁷² <http://www.space-spa.it/space-spa/che-cosa-una-spac.html>

When such situations occur, the promoters are faced with two options, either select a target that does not meet the requirements and hope for investor approval during the meeting or proceed directly to liquidate the SPAC without waiting for the vote.

Of the two options, the liquidation of the SPAC is often chosen because, although it is a defeat for the management team, the reputational damage is less, and the investors receive their money early as they do not have to wait until the shareholders' meeting.

In a thematic SPAC, usually more details about the business combination are known because if, for example, the SPAC is oriented towards the pharmaceutical sector, there is more information about the investment. If, on the other hand, the SPAC will be generic, for example oriented to complete the business combination with a target company that is in a range of capitalisation between 100 and 200 million, there is no information and consequently the investment will be based on the credibility of the management team¹⁷³ rather than the transaction itself.

Some complaints about SPACs are related to the fact that the minimum investment is usually high. Some sources estimate it to be around EUR 50,000.¹⁷⁴ The problem, apart from the significant amount, is the possibility that the SPAC fails to identify the target company and goes into liquidation.

In this case, as mentioned above, the funds would be credited back to the investors but, the problem is that that money deposited for years on safe funds, does not generate significant returns and the investor might reflect on the fact that if he had used that money to make other investments, he would have generated higher returns.

Thus, the problem is one of loss of profit. This is the loss of capital gains due to the non-occurrence of a certain condition.

Another weakness is represented by the time horizon, which on the one hand ensures that the operation takes place within a defined period of time, but on the other hand, could push the promoters to carry out a business combination of which they are not convinced rather than send the SPAC into liquidation, or worse, they could select a target company that is not able to go public because of deep-rooted problems that the management team did not realise during the understanding or due diligence phase because they were in a hurry to conclude the operation.

¹⁷³ <https://www.aim-italia.it/vantaggi/94-spac-vantaggi-e-svantaggi.html>

¹⁷⁴ <https://www.diventaretrader.com/spac>

A final weakness is information asymmetry¹⁷⁵, which will also be discussed in the following section.

SPACs usually tend to self-impose rules, the reason being, as we have also seen above, that national institutions and the markets of reference for listing tend to leave as much freedom as possible to encourage the proliferation of these vehicles.

The purpose of SPACs is to make themselves more transparent to actors who would otherwise not have the opportunity to make a rational investment decision.

However, the problem lies in the fact that these rules, being self-imposed, change from SPAC to SPAC and there may be a case where lack of transparency on some points may lead to wrong decisions by the investor.

4.3. SPAC VS IPO

Having set out the strengths and weaknesses of SPACs, it is necessary to proceed with the paper by highlighting the main differences between SPACs and IPOs. Finally, I will set out my reasoning for this comparison.

A further premise is that this paragraph will go over the differences and similarities that I have already mentioned in the course of the elaboration, but I will go deeper into these issues so as to be able to provide the reader with a complete overview of the topic that I believe is of most interest and that may prove to be most useful, that is, the comparison between these instruments.

Fumagalli, in the development of SPACs in Italy¹⁷⁶, a book already mentioned several times during the elaboration, defines them as "a faster, cheaper and less stressful path to capital opening" compared to the traditional IPO.

For this analysis, it is essential to underline first how the two processes are very different but are commonly assimilated as the goal is the same.

Indeed, whether it is a SPAC or a company that has embarked on the IPO path, the ultimate result, in case of success, is the opening to a regulated market and the consequent possibility of raising capital from the public.

This is the end of the similarities between these two instruments.

The first major difference is the corporate object: the SPAC can be defined in various ways depending on the legal system, the market of reference and the

¹⁷⁵ https://www.treccani.it/enciclopedia/asimmetria-informativa_%28Dizionario-di-Economia-e-Finanza%29/

¹⁷⁶ <https://books.google.it/books?id=ThDcCgAAQBAJ&printsec=copyright#v=onepage&q&f=false>

sector to which it belongs but, in fact, it is an empty box, a company with no assets. The IPO is about a fully operational company with assets, audited financial statements, a brand identity, and a history.

According to some experts, the main strength of the SPAC lies in the speed with which the company can complete the listing process, which takes place after a few months, whereas the process that a company that chooses the IPO must follow usually begins at least 5 years¹⁷⁷ before the actual listing.

Another difference highlighted by experts concerns the placement of shares among the investing public.

In the IPO process a third entity, an investment bank, is involved¹⁷⁸.

The involvement of this institution is useful in limiting the information asymmetry created between investor and company¹⁷⁹.

In fact, by placing these institutions between the company wishing to list itself and the regulated market, they guarantee the validity of the operation.

It is interesting to make some observations on this point.

Clearly, the investment bank will ask for commissions from the listed company¹⁸⁰; these commissions are generally very expensive and are often the step that prevents many companies from going public.

Their function, however, is key to the operation: whereas years ago the information asymmetry occurred because information circulated only within channels generally inaccessible to the average investor, nowadays, the problem is diametrically opposed, too much information is circulating, and it is necessary to be able to filter it to select only the most reliable sources of information.

This is where the investment banks come in.

Certainly, the listed company has an interest in portraying its own situation in an overly optimistic way, since, as we have already said, the reputational damage from returning to the unregulated market could prove devastating.

¹⁷⁷ the five years that are mentioned refer to the whole process, which has to start well before the submission of the application for listing to the CONSOB. part of the process is arranging the financial statements by adapting them to the fourth directive, having them audited by auditing companies and more.

From a theoretical point of view this process takes about two years but from a practical point of view the duration is longer.

¹⁷⁸ https://www.treccani.it/enciclopedia/banca-d-affari_%28Dizionario-di-Economia-e-Finanza%29/

¹⁷⁹ https://www.treccani.it/enciclopedia/asimmetria-informativa_%28Dizionario-di-Economia-e-Finanza%29/

¹⁸⁰ <https://ilsocietario.it/articoli/focus/lo-status-della-societ-quotanda-profilo-giuridici>

However, these institutions, having ongoing relationships with investors, have an interest in portraying the most truthful scenario possible because trust between investment bank and clients is the pillar that keeps the investment bank on its feet. Just think of Lehman Brothers and the reputational damage it suffered¹⁸¹.

As you can understand, it is therefore a question of alignment of interests.

The SPACs, as we have already seen, with their self-regulation do not need a body standing between them and the target.

Since they are not operating companies, their approval for listing is a mere formality, as they have no assets and are not operating, there can be no obstacles between them and listing.

Subsequently, at the stage of choosing the target, the interests of promoters of SPAC are aligned with those of the investors, and therefore they will have aligned interests in choosing the company that best conforms to the criteria sought.

The promoters of the SPAC will carry out similar analyses to those that the investment bank will carry out on the listed company, when choosing the target with which to carry out the business combination, as the objective is the same: to have a truthful representation of the company.

Investment banks, not having a crucial role in SPACs unlike in the IPO process, have in recent years become the promoters themselves.

The reason is obvious, since their participation in the SPAC operation is not necessary for the reasons explained above, the only way they could participate in the growth of this financial instrument was to start launching SPACs in the market and play the role of promoters.

Another noteworthy aspect is that in some cases, although not required by law, the SPACs turned to some investment banks for an external evaluation of the target.

Directly linked to this topic is the issue of pricing.

In the IPO process, the investment bank, among its functions, will also have to determine how to issue the securities of the listed company, assuming the role of bookrunner¹⁸².

It will then collect the opinions of potential institutional investors on the securities to be issued, and in this way, it will identify a price range, within which the actual price will be defined.

¹⁸¹ <https://st.ilsole24ore.com/art/cultura/2011-08-13/margin-call-film-crac-193638.shtml?uuid=Aa5g77vD>

¹⁸² <https://www.borsaitaliana.it/borsa/glossario/bookrunner.html>

This phase is defined as the riskiest within the IPO operation, because, if the price is too high, it will not be possible to place all the shares and in the worst-case scenario the listed company will have to abandon the operation, suffering all the consequent damages.

In the case of SPACs, the stock will not be valued by a third party, but the market will react to the announcement of the business combination by assigning a value to the stock that will depend on how positively or negatively the market evaluates the selected target.

The main difference is that the shares of the SPAC have a pre-business combination price, which changes depending on how the market reacts to the proposed merger and adjusts, whereas in the case of the IPO, the price is decided by a third party, the investment bank, and only adjusts, with the reactions of the market, after the company is listed.

The process of evaluating the stock is therefore a more gradual process and, above all, it will not depend exclusively on the opinions of institutional investors, who, for various reasons, may have an interest in overvaluing it to prevent the listed company from proceeding with the listing or, on the contrary, undervalue it in order to be able to buy the shares at a discount and, at a later date, flood the market with shares, causing the price to collapse¹⁸³.

The absence of an independent body does not prove to be a problem for SPACs, as they enjoy this characteristic of self-regulation by interacting directly with the market.

The SPAC is particularly appreciated for this characteristic, which gives it a connotation of cheapness¹⁸⁴.

Inexpensiveness means a propensity to be a leaner operation in terms of obligations to be fulfilled, less costly, as there are no intermediaries and promoters to pay commissions to¹⁸⁵, and finally more efficient, as it is not the opinion of someone who can influence the price but rather the opinion of the whole market.

A noteworthy contribution to be mentioned regarding the differences between SPACs and IPOs is that offered by Kolb and Tykvov¹⁸⁶, the two authors have

¹⁸³ <https://investimentifinanziari.net/spac/>

¹⁸⁴ <https://www.okpedia.it/economicita>

¹⁸⁵ Cost-effectiveness is characteristic of the SPAC in that it can decide whether to rely on a valuation carried out by the investment bank, whereas in the IPO process the company wishing to list itself does not have the choice of relying on the investment bank or not.

¹⁸⁶ <https://ideas.repec.org/a/eee/corfin/v40y2016icp80-96.html>

identified which factors a company should consider choosing between these two alternatives.

The first point they touch on is the correlation that exists between high market volatility and the choice of financial instruments considered safe. The SPAC, because of the right of withdrawal offered to investors and its feature of full reimbursement in the event of liquidation, is considered a risk-free investment.

It should be remembered that no investment is truly risk-free. In fact, in financial jargon, the connotation of risk-free is attributed to government securities with a good ranking, which are precisely the type of securities in which the money raised during the IPO of the SPAC is invested, until the business combination takes place.

This is the reason why SPACs are preferred to IPOs in times of high volatility.

In addition, the two researchers found another noteworthy correlation.

Companies that list on regulated markets through SPACs enjoy a high market-to-book ratio.

Small- to medium-sized companies with this characteristic in their early days on a regulated market are perceived by the market as riskier compared to companies going through a classic IPO, as they have a more volatile prospective earnings capacity¹⁸⁷.

It has been observed that weak companies with persistent low earnings tend to have high book-to-market ratios. Moreover, the book-to-market ratio analysed together with company size can be used as indicators of systematic risk.

As a result, small companies with high book-to-market ratios, which are the companies that most often prefer to go down the SPAC route rather than the IPO route, are perceived by the market as high-risk investments, since their prospective earnings capacity is subject to greater risk than large companies with low book-to-market ratios, given their greater sensitivity to economic conditions.

The market-to-book value index is the most widely used method of comparing book value with market value; it is calculated by finding the ratio of assets minus liabilities to the number of shares issued.

So, if the company has a book value of 2 million from its balance sheet and there are 100,000 shares on the market, the nominal value of the share should be €20.

If the share price is 20 Euros our Price to book ratio will be 1 (20/20).

This ratio, if equal to 1 means that the equity of the company is in line with the market price, if lower than 1 it could mean that the company is undervalued, that

¹⁸⁷ <https://quifinanza.it/economia/e-boom-delle-spac-ecco-cosa-sono-e-perche-sono-rischiose/471060/>

the market price is lower than the equity value, while if higher than 1 it means that it is overvalued¹⁸⁸.

The reason why SPACs are initially overvalued is the market's confidence in the business combination.

Financially and economically stronger companies tend to prefer the IPO process to SPACs. Indeed, the SPAC is usually an alternative adopted by small and medium-sized companies that do not have the requisites and resources to access the market through an IPO.

Also typical of these small and medium-sized companies is their high level of debt, which they manage to reduce through SPACs thanks to the cash injection generated by the merger with the SPAC.

Indeed, experts have targeted SPACs as a means of accessing the public market for companies defined as low quality firms.

The last trait typical of companies that prefer SPACs is their size; in fact, it is usual to observe companies that are very small compared to those that go public through IPOs.

4.4. CONCLUSIONS ON THE COMPARISON BETWEEN IPO AND SPAC

As pointed out above, it is impossible to define unequivocally which instrument is best. The choice must be made considering several factors.

However, one aspect that should be mentioned is that many companies undertake the IPO process without properly evaluating the alternatives and often, these companies are faced with significant costs without achieving a result that justifies this outlay.

In addition to the economic aspect, there is also the factor of the type of business.

Listing through an IPO can subject the company to analysis that can highlight its weaknesses globally and this can have negative effects on the outcome of the IPO or on the value of the stock once listed.

The SPAC, being an agreement between promoters and entrepreneurs, tends to keep the business aspects more confidential¹⁸⁹.

¹⁸⁸ <https://investirecomeimigliori.com/price-to-book-ratio/>

¹⁸⁹ <https://finance.yahoo.com/news/spac-vs-ipo-key-differences-155324344.html>

To conclude this chapter of the paper, therefore, it can be said that SPACs offer greater transparency among the actors directly involved up to the business combination, while for those who invest in the SPAC post business combination there may be information asymmetries due to the confidentiality of the information disclosed only among those partners who have participated in the project from the beginning.

The IPO has the advantage of being synonymous with quality for the company that succeeds in completing the process; however, completing the transaction requires a long and tortuous process, as well as being incredibly expensive.

We can therefore conclude this by stating that IPOs should be chosen only by those companies that can be defined as complete even before going public and that are looking for new opportunities to further grow their business, while SPACs should be chosen by companies that boast an attractive business idea but, in order to be defined as complete, need to open up to the public market and integrate within their team experts who can provide innovative solutions that will allow the company to establish itself on a global scale.

5. CASE STUDY: ORSERO S.P.A.

5.1. INTRODUCTION

In the last part of the paper, as mentioned in the introduction, I will present a case study.

The purpose of this case study is to make the SPAC operation clearer by providing a practical example. However, thanks to this case study it will also be possible to evaluate the stock market performance of the company under analysis.

To choose the operation on which to draw up the case study, I have taken into consideration the aim of the paper, that is to provide an overview of the subject of SPACs, focusing on the Italian market.

In addition to the Italian market, I also considered other factors that both the SPAC and the target had to respect.

It had to be a company that had completed the business combination and that, to date, is still listed on the same capital market. The reason behind this choice is the convenience of data retrieval, as well as the possibility of carrying out a more precise analysis of historical changes in the market value of securities.

Furthermore, with the aim of offering the reader an example that does not deviate from the regular functioning of a SPAC, I decided to opt for a direct merger, where the SPAC incorporated the target company by acquiring all its characteristics.

Considering these premises, the transaction that will be analysed in the following case study will be the merger of GF Group into Glenalta Food. The merger, as will be seen later, set as a condition the change of name of the company, changing the name GF Group into Orsero S.p.A.

To make the transaction clearer to the reader, a further introduction is necessary.

Orsero is the company that Glenalta Food is interested in.

Orsero, although it is the company that represents the core business, is subject to the control of a holding company, GF Group.

Glenalta therefore has to enter into the transaction with GF Group but its object of interest is Orsero.

Glenalta, as will be seen later, estimates the value of GF Group at 80 million, of which 55 million Orsero and the other companies controlled by GF Group, defined as non-strategic, 25 million.

Glenalta Food, to complete the transaction requires conditions, namely that GF Group gets rid of the companies defined as non-strategic and that at the end of the transaction the name of the resulting company will be ORSERO S.P.A. a name that represents the core business.

Since the transaction would dilute the share capital into shares, the original GF Group shareholders would receive a number of shares depending on the total share capital that would result from the merger.

The value of GF Group's share capital was known, while that of Glenalta Food was not, as it was a function of the withdrawal percentage that the company would have recorded.

As a result, the share capital split depended on the withdrawal that Glenalta would have had at the shareholders' meeting.

As will be seen during the case study, the percentage that was allocated to the original GF Group shareholders after the business combination represents 41% of the total share capital.

Since the promise of shares in proportion to the withdrawal percentage that Glenalta would have recorded was a key point of the contract between the parties, GF Group founded FIF Group, a company with the sole purpose of holding these shares equal to 41%.

NAME OF THE COMPANY INVOLVED IN THE OPERATION	ROLE OF THE COMPANY
ORSERO	subsidiary of GF Group, which represents the core business of the
GF Group	holding company, the parent company of Orsero, with which the agreements concerning the business combination were concluded.
FIF Group	company that, post business combination, owns the shares intended for the original shareholders
GLENALTA FOOD	SPAC
ORSERO S.p.A.	company resulting from the business combination between GF Group and Glenalta Food

TABLE 7¹⁹⁰

¹⁹⁰ personal reworking with data found in <https://s3-eu-west-1.amazonaws.com/orserogroup/wp-content/uploads/2019/12/20145731/2019-10-25-Statuto-Orsero-SpA-def.pdf>

5.2. STRUCTURE OF CASE STUDY

To make the case study as orderly and analytical as possible, I will first describe the history of the target company, GF Group, focusing on the developments that led the company to consider the idea of listing on the stock exchange.

Subsequently, I will provide an overview of the history of Glenalta Food, giving details aimed at highlighting the characteristics that have distinguished it and led it to represent a successful example of SPAC in Italy.

Once the analysis of the two companies is concluded, I will proceed to describe the business combination process, considering the fluctuation of the price of shares and warrants issued by the SPAC.

The analysis regarding the benefits of the operation will be divided according to the actor taken into consideration, remaining faithful to the division reported in chapter 3 of the paper.

The benefits experienced by promoters, investors, and original entrepreneurs of the target company will then be analysed to provide the reader with a complete analysis of the benefits of the operation.

5.3. THE TARGET COMPANY: GF GROUP

The company was founded in 1940 on the initiative of Antonio Orsero, a wholesaler and greengrocer from Magliolo¹⁹¹.

The company initially dealt with the distribution of fruit and vegetables in the Liguria area.

Over time, the business grew in importance and was able to expand its distribution network, initially in Northern Italy and then in the rest of the peninsula, becoming a leader in the Italian fruit and vegetable sector.

The expansion of the distribution network is thanks to Raffaello Orsero, son of Antonio, who, after leaving school early, took over the family business and, together with his brothers Luciano and Gianni, founded the Fratelli Orsero company, which in 1970 changed its name again to become Fruttital Distribuzione¹⁹².

Over time, the company managed to maintain good economic-financial stability and at the same time obtain important orders that pushed the company towards an increasingly international context.

¹⁹¹ <https://www.orserogroup.it/il-gruppo/>

¹⁹² <https://distribuzionemoderna.info/intervista/orsero-quasi-80-anni-di-storia-ed-eccellenza>

One of the main turning points came in 1976, when the agri-food giant Del Monte entrusted Fruttital Distribuzione with the exclusive marketing of bananas and pineapples for the Mediterranean basin.

Following the big contract with Del Monte, the company began to gain more and more notoriety and began to import pears from Argentina, grapefruits from Israel and more.

In 1981, the company expanded further by establishing Reefer Terminal SpA, a company that set up a terminal in the port of Savona-Vado to handle and store fresh products¹⁹³.

This investment gave Fratelli Orsero the opportunity to internalise a large part of the distribution process, giving the company independence in terms of distribution.

The Orsero brothers can efficiently exploit the competitive advantage and, remaining consistent with the company's vision, over the years decided to further internalise part of the distribution process.

This was achieved through the acquisition of AZ France and its subsidiaries, the leading distributor of fruit and vegetables in France.

In 1989 they set up the companies A:P: Armatori Patenopei and Cosiarma, a company that builds refrigerated ships¹⁹⁴.

In 1990, among the various companies acquired, the Orsero brothers boasted control of more than 60 companies involved in production, distribution, marketing, logistics and marketing.

The companies were merged under one brand. The operation was done by founding a parent company, GF Group, with the aim of consolidating the balance sheet and giving a unified group vision to control the subsidiaries more efficiently¹⁹⁵.

The rise of the Orsero brothers, however, did not end with this operation. In 1996, it arrived in Greece with Bella Frutta and in 2002 in Spain with the acquisition of 50% of Hermanos Fernandez Lopez¹⁹⁶.

¹⁹³ <https://it.wikipedia.org/wiki/Orsero>

¹⁹⁴ <https://it.wikipedia.org/wiki/Orsero>

¹⁹⁵ <https://s3-eu-west-1.amazonaws.com/orserogroup/wp-content/uploads/2017/02/03180029/Orsero-S.p.A.-Comunicazione-efficacia-fusione-GF-Group-S.p.A.-in-Glenalta-Food-S.p.A..pdf>

¹⁹⁶ <https://www.orserogroup.it/2017/02/13/comunicato-stampa-4/>

The key to the company's success lies in the care it takes in selecting its suppliers, putting quality first, and in its ability to make long-term agreements with suppliers.

This has also been possible thanks to the high level of vertical integration that has always characterised the company. In fact, the Orsero brothers have always sought to have key processes such as product storage and handling under their control. This, together with the careful selection of the product, has given the company an excellent level of reputation fuelled by the high quality of its products.

The company has managed to exploit market macro-trends efficiently: in the 1970s, they were among the first to launch into the tropical fruit business, a booming market that allowed them to enter a premium quality market that was unexplored at the time. In the 2000s, having achieved excellent results in the distribution sector, instead of focusing on their core business, they decided to broaden the spectrum of their activities, pursuing a policy of diversification through the numerous acquisitions described above and focusing on the real estate market by acquiring companies in this sector.

The developments of the last 10 years have been oriented towards a new focus on their core business, the distribution sector, by proceeding with a policy of divestment from activities defined as non-strategic such as real estate.

5.4. SPAC: GLENALTA FOOD

On 10 November 2015, the SPAC named Glenalta Food is listed on the EGM (former AIM Italy), a segment dedicated to small and medium-sized companies.

The characteristic of this SPAC is certainly its focus on food, one of the dragging sectors of the Italian economy.

The operation took place through Banca Aletti & C. SpA which handled the placement of the company in the EGM segment and CFO Sim which acted as bookrunner.

The company was promoted by Gino Luigi, former CEO of Ferrero and independent director of Italian Wine Brands, another company listed through the SPAC IPO challenger discussed at the beginning of the third chapter of the paper.

Other promoters are Stefano Malagoli, former manager of Ferrero, Luca Giacometti, co-promoter of the SPAC made in Italy 1 and IPO challenger, and finally Silvio Marengo¹⁹⁷.

The SPAC, which is being placed on the public market, has raised EUR 80 million.

In the company's information document, it is pointed out that the capital raised during the listing phase is entirely paid into escrow funds and thus makes up the company's free float.

Glenalta Food begins to find interest from the first moment, in fact, the company manages to raise 80 million against the 60 million it had set as a target¹⁹⁸.

The reasons why the SPAC was able to raise capital above expectations are surely to be found in the high professionalism of the promoters and the sector of interest.

The promoters all had a relevant background in both agribusiness and SPAC mergers, due to their involvement in past projects. In addition to this, the agribusiness market has sparked interest not only from institutional investors but also from entrepreneurs, families, family offices both Italian and international.

Glenalta entered the market with very good prerequisites and aimed to direct its interests towards medium-sized Italian companies with a value between 100 and 250 million.

Since the ultimate aim of the SPAC is to take a company public, the target company had to be unlisted on a regulated market, and being Glenalta Food, a thematic SPAC, the sector of interest had to be Food & Beverage, Consumer and Retail.

In addition to these characteristics, the SPAC was further oriented towards companies with the following requirements:

- 1) Family-controlled companies.
- 2) Companies belonging to Private Equity portfolios.
- 3) Companies belonging to multinational groups.

The listing took place with the issue of 8 million shares and 4,120,000 warrants¹⁹⁹.

¹⁹⁷ https://www.borsaitaliana.it/borsaitaliana/ufficio-stampa/comunicati-stampa/2015/glenalta_pdf.htm

¹⁹⁸ https://www.borsaitaliana.it/borsaitaliana/ufficio-stampa/comunicati-stampa/2015/glenalta_pdf.htm

¹⁹⁹

https://www.glenaltafood.com/wpcontent/uploads/2015/10/1.Documento_di_Ammissione_Glenalta_Food_S.p.A..pdf

Significant shareholders, such as the Swiss private bank "Pictet Geneva" with 6.5% of the shares and "Julius Baer Sicav" with 5.3%, have been present on the market since the early days. The rest of the capital is divided into minority shares of less than 5%, with a total of 105 players.

To provide more context, it is important to briefly highlight the performance of the food sector in Italy during the period in which the operation took place.

The years prior to 2015 saw several M&A transactions led by Private Equity funds, in 2011 and 2012 three key transactions fuelled the sector, the merger between Consillium and Nutkao, PM&Partners with Monviso and Clessidra with Balconi.

CONSILIUM SGR, on 13 July 2010 announced the acquisition of a majority stake in Nutkao, producer of chocolate spreads for the private label segment and semi-finished products for the confectionery industry²⁰⁰.

In 2012, PM Partners acquired Monviso, a company based in Turin that enjoys an excellent reputation as one of the leading Italian operators in the production of bread substitutes with gourmet and health/functional characteristics. The company produces rusks, crusts, breadsticks and crackers under the Panmonviso brand that are marketed by major Italian and foreign distributors²⁰¹.

In 2013 Clessidra, a Private Equity fund, acquires 80% of Balconi S.p.A.

Balconi S.p.A. is a leading Italian confectionery company and a significant player in Europe in the production and marketing of sliced snacks and industrial sponge cakes. The company sells its products to supermarket and discount chains, mainly under its own brand ("Balconi") and partly through private labels.

Clessidra Private Equity has supported the company by adding new managerial resources, strengthening commercial activities, especially abroad, and developing the brand through important marketing efforts. Finally, Clessidra Private Equity supported the management in the acquisition and integration of Baroni, completing the product range with biscuits and wafers and ensuring opportunities for commercial synergies between the two companies, especially in foreign markets²⁰².

In addition to this growing interest of Private Equity funds, another trend considered by investors was that of Italian companies with a turnover of more than 20 million and a EBITDA of more than 5 million. These companies in the food

²⁰⁰ http://www.privateequitymonitor.it/attach/cs_nutkao.pdf

²⁰¹ <http://pm-partners.it/investimenti/monviso/>

²⁰² <https://www.clessidraprivateequity.it/portfolio/balconi-s-p-a-industria-dolciaria/>

sector enjoyed a profitability margin of between 10% and 13% with an average turnover growth of around 8%²⁰³.

In addition, the segments showing the highest turnover growth in Italy between 2011 and 2013, while maintaining a steadily increasing EBITDA margin, included cocoa, coffee, spices, condiments, and bakery products.

These data explained a large part of Glenalta Food's success because the target with which the SPAC had set out to complete the business combination fell into the category of companies described as particularly profitable at that moment in history.

5.5. BUSINESS COMBINATION

On 28 October 2016, the boards of directors of Glenalta Food and GF Group S.p.A, holding company which also included Orsero, entered and approved the agreement relating to the business combination transaction between the two companies.

The deal stipulated by the two companies created the following results²⁰⁴:

- The name of the company resulting from the business combination became Orsero S.p.A.
- It was decided that the reference market, even after the business combination, would be AIM Italy, now called EGM.
- The historical shareholders of the GF Group had the right to obtain a capital share between 40% and 49% of the merged company, leaving a free float of more than 50%.
- The positions within the company were divided as follows: Paolo Prudenziati as Chairman of the Board of Directors with management powers, Raffaella Orsero as Vice-President and CEO, Matteo Colombini as CFO of GF Group got a role in the Board of Directors with the role of supporting Raffaella Orsero as CEO and finally Gino Luigi and Luca Giacometti got a role in the Board of Directors as they were appointed by Glenalta Food.

In addition to the decisions on the division of roles within the company and other key aspects of the agreement, it was also decided when the shareholders'

²⁰³ https://www.glenaltafood.com/wp-content/uploads/2015/10/1.-Documento_di_Ammissione_Glenalta_Food_S.p.A..pdf

²⁰⁴ http://www.glenaltafood.com/wp-content/uploads/2016/10/Glenalta-Food_CS_Stipula_Atto_di_Fusione_GF_Group.pdf

meeting would be called to decide on the transaction. The date was set for 30 November 2016.

The agreement between the parties stipulated, in addition to the above terms, that GF Group would carry out preparatory transactions for the disposal of non-strategic shareholdings, for a price of EUR 25 million.

The valuation of the target company was estimated at around 80 million, however, due to the disposal of non-strategic investments, the valuation was estimated at around 55 million for the entire share capital.

VALUE OF TARGET COMPANY	MLN EUR
VALUE OF GF GROUP	80.000.000,00
VALUE OF NON CORE ASSETS	25.000.000,00
TOTAL VALUE OF GF GROUP	55.000.000,00

TABLE 8²⁰⁵

Since Glenalta's valuation was dependent on the withdrawal percentage it would find at the shareholders' meeting, its value could only be estimated.

They relied on an estimate, establishing, based on the withdrawal percentages they could find, various scenarios to complete the business combination.

In fact, the valuation of Glenalta could range from a maximum of 80 million in case of no withdrawal by the shareholders to a minimum value of 56 million, if the withdrawal percentage was 30%. This was the maximum withdrawal threshold set by the SPAC. In the worst case, where the withdrawal percentage would have exceeded 30%, the SPAC would have been liquidated.

Based on the evaluations carried out, the agreement between the parties decided for an exchange ratio of 43 newly issued Glenalta Food shares for every 50 GF Group ordinary shares

Based on the evaluations carried out, the agreement between the parties decided for an exchange ratio of 43 newly issued Glenalta Food shares for every 50 GF Group ordinary shares.

Regarding the division of capital between the historical shareholders of GF Group and the shareholders of Glenalta, it was decided, as reported above, that the

²⁰⁵ personal reworking with data found in <https://s3-eu-west-1.amazonaws.com/orserogroup/wp-content/uploads/2019/12/20145731/2019-10-25-Statuto-Orsero-SpA-def.pdf>

shareholders of GF Group could obtain a percentage of shares that could be between 40 and 49%.

Approximately 40% of the share capital of Orsero S.p.A., assuming that Glenalta contributes to the Transaction its entire endowment of resources, amounting to approximately Euro 80 million including the consideration paid by Glenalta for the purchase of the equity instruments, and approximately 49% of the share capital of Orsero, assuming maximum withdrawal and therefore a contribution to the Transaction by Glenalta of approximately Euro 56.6 million including the consideration paid by Glenalta for the purchase of the equity instruments.

VALUE OF SPAC	MLN EUR
FUNDS COLLECTED BY GLENALTA	80.000.000,00
VALUE OF GLENALTA IN CASE OF MINIMUM WITHDRAWAL	80.000.000,00
VALUE OF GLENALTA IN CASE OF MAXIMUM WITHDRAWAL	56.000.000,00

TABLE 9²⁰⁶

Therefore, if the capital contribution had been maximum, 80 million, the historical shareholders of the target company would have obtained less shares, 40%, while if the contribution had been minimum, equal to 56 million, they would have obtained 49%.

Therefore, it was decided that the exact share held by GF Group shareholders in Orsero would vary depending on the number of Glenalta shares that might be subject to the right of withdrawal.

INJECTION OF FUNDS	MLN EUR	CAPITAL SHARES ALLOCATED TO ORIGINAL SHAREHOLDERS
IN CASE OF MINIMUM WITHDRAWAL	80.000.000,00	40%
IN CASE OF MAXIMUM WITHDRAWAL	56.000.000,00	49%

TABLE 10²⁰⁷

This was foreseen by Glenalta's Articles of Association, in fact, shareholders who had not taken part in the resolution approving the Merger could withdraw from the company pursuant to Article 2437 of the Italian Civil Code.

In relation to this right, the Board of Directors of Glenalta had determined the withdrawal value in Euro 10.00 per share.

²⁰⁶ personal reworking with data found in <https://s3-eu-west-1.amazonaws.com/orserogroup/wp-content/uploads/2019/12/20145731/2019-10-25-Statuto-Orsero-SpA-def.pdf>

²⁰⁷ personal reworking with data found in <https://s3-eu-west-1.amazonaws.com/orserogroup/wp-content/uploads/2019/12/20145731/2019-10-25-Statuto-Orsero-SpA-def.pdf>

The valuation of Orsero S.p.A. was estimated at between 138 million in case of minimum withdrawal and 114 million in case of maximum withdrawal.

The valuation was calculated taking the value of GF Group at 55 million and adding the value of Glenalta, which could have been 80 million in the best possible scenario if no shareholder had exercised his right of withdrawal or 56 million if 30% of the shareholders had exercised their right of withdrawal.

VALUE OF THE COMPANY RESULTING FROM THE BUSINESS COMBINATION	MLN EUR
TOTAL VALUE OF GF GROUP	55.000.000,00
VALUE OF GLENALTA IN THE BEST CASE	80.000.000,00
VALUE OF GLENALTA IN THE WORST CASE	56.000.000,00
VALUE OF ORSERO S.P.A. IN BEST CASE	135.000.000,00
VALUE OF ORSERO S.P.A. IN WORST CASE	111.000.000,00

TABLE 11 ²⁰⁸

The agreement also provided for the allocation of a free warrant to anyone who, on the day before the effective date of the transaction, held two ordinary shares of Glenalta Food. So, 1 warrant for every 2 shares held. More precise details on warrants will be described later.

Finally, it was decided the final date by which the whole deal should be closed. The date was set by February 2017 to give Orsero the opportunity to complete the operations divestment from non-strategic assets without damaging its business.

On 30 November 2016, Glenalta Food, announced that the business combination transaction had been approved with 95.61% of votes in favour out of a total of approximately 61% of the shareholders.

On 28 December 2016, the board of directors of Glenalta Food expresses with great joy the result of the transaction. Only 9.38% of the shares, corresponding to about 750,000 shares, were subject to the right of withdrawal and therefore the statutory termination condition provided by Glenalta's articles of association was not fulfilled.

On 10 January 2017, the company provided updates on the right of withdrawal, communicating a withdrawal corresponding to another 67 thousand shares. For a total of 817 thousand shares²⁰⁹.

²⁰⁸ personal reworking with data found in <https://s3-eu-west-1.amazonaws.com/orserogroup/wp-content/uploads/2019/12/20145731/2019-10-25-Statuto-Orsero-SpA-def.pdf>

²⁰⁹ http://www.glenaltafood.com/wp-content/uploads/2016/10/Glenalta-Food_CS_Iscrizione_Atto_di_Fusione__Glenalta_GF.pdf

The shares resulting from the right of withdrawal were offered to non-revoking shareholders due to the preemption right in force on the securities, the difference was subsequently placed on the market.

The shares purchased by shareholders with pre-emptive rights correspond to 228 thousand shares corresponding to 27% of the total shares subject to withdrawal.

DATE OF SHAREHOLDERS' MEETING	REGISTERED WITHDRAWAL RATES	SHARES SUBJECT TO THE RIGHT OF WITHDRAWAL
30/11/2016	9,38%	750.000
10/01/2017	0,83%	67.000
TOTAL NUMBER OF SHARES SUBJECT TO WITHDRAWAL RIGHTS		817.000
SHARES PURCHASED BY SHAREHOLDERS WITH PRE-EMPTIVE RIGHTS		228.000

TABLE 12²¹⁰

On 6 February 2017 Glenalta Food announced that the final deed of merger was signed and will become effective on 13 February 2017.

This deed represents in fact the final act of the business combination, successfully completed by the two companies.

The division of shares was in line with what had been decided when the agreement between the companies was signed.

In accordance with what had been decided at the shareholders' meeting on 30 November 2016, there would be a capital increase of 55 million, through the issuance of 5,590,000 new shares with no indication of par value but with the same characteristics as Glenalta Food shares.

To provide the reader with greater clarity on the operation, a diagram is provided below to summarise the operation.

GF GROUP	
VALUE OF GF GROUP	80.000.000,00
DISINVESTMENT FROM NON CORE ASSETS	- 25.000.000,00
TOTAL VALUE OF GF GROUP	55.000.000,00
PRICE PER SHARE	10,00 €
NUMBER OF SHARE	5.500.000,00
CONVERSION RATE OF GF GROUP SHARES TO GLENALTA SHARES	1,16
AMOUNT OF SHARES	5.590.000,00
VALUE OF THE SHAREHOLDING OF GF GROUP (FIF GROUP) IN ORSERO SPA	41%
GLENALTA FOOD	
FOUND RAISED	80.000.000
FUNDS RETURNED TO SHAREHOLDERS WHO HAVE EXERCISED THEIR RIGHT OF WITHDRAWAL	-817.000
VALUE OF SHARES PURCHASED BY SHAREHOLDERS WITH PRE-EMPTIVE RIGHTS	228.000
FUNDS TO BE INVESTED IN ORSERO S.P.A.	79.411.000
PRICE PER SHARE	10,00 €
AMOUNT OF SHARES	7.941.100,00
VALUE OF GLENALTA FOOD'S STAKE IN ORSERO SPA	59%

TABLE 13²¹¹

²¹⁰ personal reworking with data found in <https://s3-eu-west-1.amazonaws.com/orserogroup/wp-content/uploads/2019/12/20145731/2019-10-25-Statuto-Orsero-SpA-def.pdf>

²¹¹ personal reworking with data found in <https://s3-eu-west-1.amazonaws.com/orserogroup/wp-content/uploads/2019/12/20145731/2019-10-25-Statuto-Orsero-SpA-def.pdf>

The result of the transaction gave Orsero S.p.A. a share capital of 64,500,000 euro with a total of 13,590,000 ordinary shares present on the EGM segment, at that time AIM Italy.

FIF Holding, a company created by GF Group to hold the shares obtained from the business combination, obtained 40.70% of the total share capital represented by 5,531,000 shares²¹².

Finally, the clause regarding warrants is worth mentioning. The total number of warrants issued is 7,693,997.

5.6. POST BUSINESS COMBINATION RESULTS

Following the description of the two companies Glenalta Food S.p.A. and GF Group and the analytical description of how the merger took place, making the company Orsero S.p.A. listed on the EGM, it is important to highlight the historical performance of the stock from the business combination until today²¹³.

Having a dataset including all the changes in the price of the stock from 01/02/2017 we can calculate what have been the returns of the stock over the years.

The purpose of the paper is to assess whether the SPAC is a process that brings benefits to the actors involved.

The actors involved, described in the third and fourth chapters of the paper, are the promoters, investors, and entrepreneurs.

The promoters subscribed 1,500,000 euros of special shares with a conversion value, conditional on the success of the business combination, of 1 to 6. So, each special share converted into six ordinary shares.

with reference also to what has been reported in the previous chapter, I provide a detail of the transaction useful to understand the dynamics at the level of share capital before and after the business combination

²¹² it is important to note that FIF Group was created by GF Group as a third company whose corporate purpose was to hold the shareholding of Orsero S.p.A.

²¹³ <https://www.borsaitaliana.it/borsa/azioni/grafico.html?isin=IT0005138703&lang=it>

	SHARE CAPITAL PRIOR TO BUSINESS COMBINATION			SHARE CAPITAL POST BUSINESS COMBINATION		
	EURO	NUMBER OF SHARES	VALUE	EURO	NUMBER OF SHARES	VALUE
COMMON STOCK	63.000.000	13.590.000	WITHOUT NOMINAL VALUE	63.500.000	13.890.000	WITHOUT NOMINAL VALUE
SPECIAL SHARES	1.500.000	150.000	WITHOUT NOMINAL VALUE	10.000.000	100.000	WITHOUT NOMINAL VALUE
TOTAL AMOUNT	64.500.000	13.740.000	WITHOUT NOMINAL VALUE	73.500.000	13.990.000	WITHOUT NOMINAL VALUE

TABLE 14²¹⁴

This capital was the only capital that the SPAC could access from the time of the IPO until the time of the business combination.

A prospectus prepared by Glenalta shows that of this capital, 1,050,000 was used to incur various types of expenses.

The payment for the shares of shareholders who exercised their right of withdrawal was EUR 10 per share. Since the calculation of the value of the shares in the case of withdrawal is based on the historical performance of the shares in the months preceding the business combination, we can assume that the value of their participation in economic terms was EUR 10 per share held by them.

1,500,000 euros of participation of the promoters therefore, assuming a price of 10 euros per share, resulted in 150,000 special shares, which converted into ordinary shares were equivalent to 900,000 shares.

The value of their shareholding, at the time when the shareholders could claim their right of withdrawal, was therefore 9 million. An increase in the value of their holdings of 83%.

For the sake of accuracy, I would like to point out that the value of the shareholdings at the time of the shareholders' withdrawal was an actual value but not enforceable by the promoters, since the special shares only converted into ordinary shares after the business combination and from the seventh day after the actual listing of Orsero S.p.A. on the stock exchange, on 22 February 2017.

Calculating the value of their holdings on 22 February 2017, the day on which the special shares converted into ordinary shares, their value was €10.69 per share.

So, the promoters, by investing €1,500,000, obtained 150,000 special shares, converted into 900,000 ordinary shares, which at a value of €10.69 per share results in €9,621,000.

This represents an increase in their shareholding of 8,121,000 euros.

Having seen the operation from the point of view of the promoters, we must now focus on the investors.

²¹⁴ personal reworking with data found in <https://s3-eu-west-1.amazonaws.com/orserogroup/wp-content/uploads/2019/12/20145731/2019-10-25-Statuto-Orsero-SpA-def.pdf>

In return for raising 80 million euros, 8,000,000 ordinary shares were issued.

The nominal value was 10 euros per share, corresponding to the value in case of withdrawal at the shareholders' meeting.

However, the value of the warrants had to be added to the following value: the articles of association provided for one free warrant for each pair of ordinary shares held, on the date before the transaction was completed.

In addition to these warrants, another warrant was to be obtained for each pair of ordinary shares held, by the third trading day following the effectiveness of the business combination.

Therefore, the total number of outstanding warrants was 7,693,997²¹⁵.

The Warrants issued by Glenalta Food and combined free of charge with the Ordinary Shares under the Offer enjoyed the following main features:

(i) a Strike Price different from the Share Subscription Price, the value of each warrant does not correspond to the value of an ordinary share but is lower approximately 1/10th of an ordinary share. (If the value of a share is 10 euros, the value of a warrant is 0.10 euros)²¹⁶.

(ii) a variable Exercise Ratio depending on the Average Monthly Price of the underlying share.

These characteristics make it possible, while maintaining the economic dilution identified at the time of the issue, to graduate the inflow of the capital increase resulting from the exercise of the Warrants.

In particular, the Exercise Ratio is equal to:

Average Monthly Price - Strike Price

Monthly Average Price - Share Subscription Price

Furthermore, if, following the effective date of the Relevant Transaction, then the date of the business combination, resolved by the Company's Shareholders' Meeting, the Monthly Average Price is higher than a certain level (Threshold Price), the Warrant's maturity will be anticipated (Acceleration Condition) and the

²¹⁵ http://www.glenaltafood.com/wp-content/uploads/2016/10/Glenalta-Food_CS_Stipula_Atto_di_Fusione_GF_Group.pdf

²¹⁶ http://syndication.teleborsa.it/Nis/NisViewer_2.aspx?nisenc=MXxjb211bmljYXRpLjIwMDc4MDAwMDIzMjAxNzF8MXwyMDIyMDIxMw

Exercise Ratio shall be calculated by substituting the Threshold Price for the Monthly Average Price according to the following ratio:

Threshold Price - Subscription Price Shares

Threshold Price - Subscription Price Shares

Assuming an average price of the ordinary shares of EUR 11²¹⁷, one euro higher than the price paid to the withdrawing shareholders, and a share subscription price of EUR 0.1, the exercise ratio is around 0.13, meaning that the number of compendium shares issuable is 1,118,688²¹⁸.

1,118,688 shares correspond to EUR 111,868.8 of post-conversion share capital.

To verify whether investors have obtained a good return on this investment, it is necessary to assess the average return on the stock.

Based on the official dataset of variances over the period from 01/02/2017 to date, the average value of the stock is €8.35 compared to the €10 it would have paid at the shareholders' meeting if the right of withdrawal had been exercised.

However, the stock has maintained positive returns for prolonged periods of time. This is to show that the average share price is lower than the value of the shares on the withdrawal date. 8.35 compared to the €10 offered to shareholders who exercised their right of withdrawal, but the stock had returns more than €10 per share for extended periods of time so any shareholder could have exited the investment and generated a good capital gain.

Obviously, like any stock, it has had declines in historical periods when many other stocks have suffered from unfavourable macroeconomic trends.

Below is a graph of the stock's performance.

²¹⁷ the price is higher than the nominal EUR 10 established as the value of the shares subject to the right of withdrawal because the warrants were subject to the condition of being exercisable only after the actual listing of ORSERO S.P.A. and consequently the shares had already started to be traded and the price was higher than EUR 10, as can be seen from the graph below.

²¹⁸ https://www.glenaltafood.com/wp-content/uploads/2015/10/1.-Documento_di_Ammissione_Glenalta_Food_S.p.A..pdf



Graph 16²¹⁹

As can be seen from the graph above, the share price started at EUR 10 per share, increased considerably in the first period, reaching a value of up to EUR 14 per share, then fell progressively, due to the proliferation of the COVID-19 pandemic and other unfavourable market trends, from 2018 to 2021, and has now recovered, reaching values of around EUR 13 per share.

If an investor had exited the investment a week after the business combination, he would have had a realisation value per share of €13, compared to the €10 per share he would have obtained by withdrawing from the transaction at the AGM, gross of the value of the warrants.

The original entrepreneurs of the target company, in many interviews, have stated that having entered a regulated capital market has taken the business to a higher level by giving the company a more international connotation, offering it opportunities unattainable without the support of an exchange market.

Since the shares held by the original entrepreneurs are ordinary shares, once they officially enter the stock exchange, the value of their holding aligns with the market value of the shares.

²¹⁹ <http://www.glenaltafood.com/operazione-rilevante/>

5.7. CONCLUSION

The business combination between Glenalta Food SPA and GF Group is defined as a successful operation.

As we can see, the transaction generated positive returns for all the actors involved in the operation, both in economic and reputational terms.

A personal reflection on the operation just described is that this operation should be taken as an example to understand how the listing on a regulated market for a company like GF Group through IPO could have highlighted problems concerning participations in non-strategic activities of the group that could have led to an initial devaluation of the stock that would have been the target of speculative investors.

The SPAC offered GF Group the opportunity to enter a regulated market by first restructuring the company and eliminating its non-strategic assets, and then concluding the business combination, giving the company the opportunity to remain operational throughout the duration of the transaction and including all the top management in GF Group on the board of directors, which would not have happened if they had been overwhelmed by a hostile takeover following the devaluation of the stock on the stock exchange after the IPO.

The success of the transaction is certainly attributable in large part to the promoters who, thanks to their experience in the sector, were able to use their skills and knowledge to complete the transaction and give Orsero S.p.A. the opportunity to become the second most important company in EGM Italy²²⁰.

²²⁰ <https://distribuzionemoderna.info/intervista/orsero-quasi-80-anni-di-storia-ed-eccellenza>

CONCLUSION

During the paper, several topics concerning the world of SPACs were discussed. The objective was to provide the reader with a clear view of the SPAC market in Italy, as well as to provide food for thought regarding the choice between IPO and SPAC.

To achieve the objective, general elements were provided at the beginning of the thesis, providing a definition of SPAC.

In addition to this, an analysis of how it works was conducted, describing analytically all stages of the process.

Subsequently, given the importance of the regulatory aspect of the proliferation of financial vehicles, an analysis of this issue was provided, making comparisons that I believe are useful in assessing the functioning of SPACs in other regulatory contexts and comparing them with the Italian regulatory system.

The third chapter deals with the SPAC market in Italy, the first central topic of the paper. The chapter has been written to provide the reader with a comprehensive analysis of all the SPACs launched in Italy since 2011.

the paper continues by analysing the second key point, that concerning the comparison between IPOs and SPACs, a topic often discussed in realities aiming to open towards a regulated capital market.

Finally, a case study is presented. the purpose of the case study was to provide the reader with a practical example of the launch of a SPAC and the business combination process.

With the hope of having offered all the insights listed above, the conclusion that can be drawn about the SPAC market in Italy is that the SPAC represents a successful model, and many examples demonstrate this claim.

The market is not yet developed, has ample room for growth and the recent interest of some celebrities in the world of SPAC, in my opinion, will give the market, the right boost to be able to grow further and reach very interesting levels.

Another factor to be considered is the benefit that companies can obtain through this instrument.

Certainly, the purpose of the listing indicates that the company is aiming to further develop its business.

SPACs offer the possibility of raising new capital, just like IPOs, but without having to embark on a long and costly process that can be a problem.

In conclusion, the SPAC offers unique opportunities and I believe that its potential will grow further over time.

This last part of the paper I want to dedicate to all the people who have contributed to its realisation.

Professor Nicola Chiaranda who has been an excellent Professor, the best. With his charisma, he was able to transmit to me his passion for the world of Private Equity, as well as being a guide in the drafting of the paper.

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Honorable mention to my parents, if I am here today, I owe it to them, who have always been my first supporters, who have tried to help and support me in every way. every thank you in the world would not be enough to demonstrate the enormous debt of gratitude I owe you.

I hope one day to be able to show you even a tenth of the love that you show me every day of my life, whatever happens.

Finally, I would like to thank my colleagues at the university, my work colleagues and all the people who have been present in my life.

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