SPACs in Canada: Should You Invest With This Hot, New Method?

Description

Several trend reversals happened last year in the investment world, particularly in the United States. The Special Purpose Acquisition Corporation (SPAC) market saw a breakout year in 2020. SPAC IPOs totaling 237 raised US$79.87 billion in gross proceeds versus the US$13.6 billion raised in 2019 from 59 IPOs.

The more than 450% year-over-year increase was astonishing, as it outperformed the traditional IPOs, which raised only $67 billion. In Canada, the SPAC market wasn't as robust. Based on *Bloomberg's* data, there were only 25 issues in 2020 compared to the 56 in 2019. However, the trend in the U.S. could lead to broader acceptance and more SPACs in Canada.

Blank-check companies

SPACs are known as "blank-check companies," because they have no commercial operations or assets other than cash. A group of individuals (directors or officers) forms a SPAC solely to raise capital through an IPO to acquire an existing company with actual operations.

The SPAC's management team holds a roadshow to gauge investors' interest in the offering. When the SPAC lists on the stock exchange, it should raise a minimum of $30 million. The SPAC will then open a holding account and place 90% of the funds raised in escrow. It must use the money to acquire an operating company.

Founders have up to three years to identify an appropriate business or asset as the SPAC's target company. If the SPAC fails to meet the timeline, it must pay back the money to shareholders. There's no maximum size or cap on a target company. However, the qualifying transaction must be 80% of the funds' value held in escrow.

SPAC benefits to investors

The SPAC route is beneficial to founders, because it's more cost effective and faster than the traditional IPO. Retail investors can invest in sectors or companies that hedge and private equity funds typically target. Furthermore, the escrow requirements offer a strong degree of protection. Investors get back their money if there's no qualifying transaction within the prescribed time frame.

Robust outlook

A SPAC's drawback is limited or no visibility of the acquisition target for investors. If you're looking for a business with a robust outlook, **Real Matters** (TSX:REAL) is an attractive choice. The $1.47 billion company focuses on the mortgage lending and insurance industries, particularly in the U.S. market.

Real Matters provide flawless appraisal, title, and closing services through its proprietary technology and network of independent qualified field professionals. For the fiscal year 2020 (year ended September 30, 2020), the company reported a 41.4% increase in total revenue versus fiscal 2019. Net income rose 223.8% year over year.

Management is looking ahead and has set new fiscal 2025 performance targets. The company aims to achieve a higher share of the U.S. appraisal market. The target is between 17% to 19% in the refinance market and up to 9% of the purchase market. Even the margin targets for net revenue and adjusted EBITDA are more than double the volumes from fiscal 2018. Purchase the tech stock now while the price is below $20 per share.

Redemption right

The prominent Canadian SPACs are Bespoke Capital Acquisition Corp. (global consumer industry) and NextPoint Acquisition Corp. (financial services industry). An investor can vote for or against a qualifying acquisition. If you don't like the company, business, or sector, you can opt-out and exercise your redemption right.

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