marshall stevens

Valuation Excellence since 1932

SPAC / de-SPAC Valuation Consulting

Special purpose acquisition companies, or SPACs, are acquisition vehicles used to take private companies public through a de-SPAC transaction. SPACs are often referred to as "blank check companies" or "shell companies" because they have no revenue generating operations when they are founded.

So why does an empty shell need a valuation?

SPAC OVERVIEW

1. SPACs are organized to raise investment capital through an initial public offering ("IPO") with an intent to merge with private companies in order to generate revenue and profits for the SPAC investors.

2. Business owners (entrepreneurs, private equity funds, and other investors) see SPAC transactions as an alternative vehicle to taking their companies public while avoiding the lengthy and cumbersome traditional IPO process.

3. Being a public company greatly increases the reporting requirements and scrutiny of disclosures made by management and boards of formerly private companies.

PUBLIC COMPANY REPORTING COMPLIANCE

SPACs have the same public company financial reporting compliance requirements as every other public company (FASB, SEC, PCAOB). Valuation is a component of that compliance:

1. **Valuation of simple and complex Equity and Debt Instruments** (FASB ASC 320, 718, 815 and 946) for founder's shares, preferred equity, warrants, options, etc.

2. **Purchase Price Allocation** analyses for public filings when targets have been identified and again when the business combination transaction (typically mergers) are consummated, and a new opening balance sheet is required (FASB ASC 805). The allocation analyses may include the valuation of intangible assets such as trademarks and tradenames, intellectual property, and customer relationships, as well as machinery & equipment and real estate.

3. **Impairment Testing** (ASC 350 & 360) and other analyses as necessary to comply with FASB accounting requirements.

Marshall & Stevens provides public company valuation consulting services to meet the **Mandatory Performance Framework ("MPF")** for those **Certified in Entity and Intangible Valuations ("CEIV")**, a professional designation designed to improve the quality of public company valuation analyses and reports.

THE RUSH TO TRANSACT

Post IPO, SPACs typically have an 18 to 24 months window in which to invest in a target. Transaction negotiations, due diligence, historical audit reviews, quality of earning studies, valuation analyses and fairness opinions all take time to be done well. Every step of the way there are standards to meet for compliance with SEC, legal, tax, and accounting rules, which should, if done properly, minimize the risk of shareholder suits. Rushing to meet compliance deadlines can lead to errors in filings and to paying premium fees to advisors to meet deadlines. Financial statement errors require restatements which leads to additional scrutiny from shareholders and regulators …

Common Challenges that slow down M&A transactions:

1. **Transition from Private Company Accounting to Public Company Accounting –** Many private companies utilize private company accounting standards in order to reduce audit fees. When these same companies are acquired by a SPAC, or any other public company, they often need to restate their historical financial statements to comply with public company accounting standards. An example of this is the restating of historical **purchase price allocation analyses** from prior business combination transactions.

   We have also experienced the SPAC's audit firm identifying valuation requirements that have not been followed by the target's audit firm. A common matter that must be addressed, before merger with the SPAC, is the **retrospective valuation of options or warrants** over multiple quarters or years.

2. **Control of Assets –** Does the SPAC have a clear understanding of the assets being acquired or is it relying on the latest depreciation schedule from the target? If the list is not correct, and often it is not correct, the new opening balance sheet could include the fair value of assets no longer in use or in place ("ghost assets") which then leads to paying insurance and property tax for these ghost assets.

3. **Fair Lease Rates –** Is the SPAC acquiring a real estate lease between related parties (selling shareholder's FLP)? Is the lease at market rates?

4. **Fairness Opinions** – A Fairness Opinion requires a review of transaction documents, a search and review of market data, and valuation analyses to determine **if** the contemplated de-SPAC transaction is fair as proposed.

Recommendation: Don't wait until the last minute to engage a qualified independent valuation firm to provide these important analyses. Like an independent audit of financial statements or a quality of earnings analysis, valuations require due diligence and detailed financial modeling which takes time.

FAIRNESS OPINONS

SPAC fiduciaries are encouraged to engage an independent source to provide a Fairness Opinion that addresses the fairness to its shareholder, from a financial point of view, of the proposed de-SPAC transaction. A sell-side fairness opinion is also advisable in some de-SPAC situations. For more information about Fairness Opinions, please see our Fairness Opinion Guide at https://marshall-stevens.com/wp-content/uploads/FairnessOpGuide.pdf.

REGULATORY COMPLIANCE

The SEC, FASB, IFRS, PCAOB and other regulators make changes to accounting, disclosure, and valuation standards in response to public and private company challenges and concerns. Marshall & Stevens keeps current with valuation standards in order to provide what is required and the manner in which it should be analyzed.

MARSHALL & STEVENS

Public and privately held companies rely on Marshall & Stevens to assist with the planning and reporting of mergers, acquisitions, divestitures, financings, corporate tax restructuring, wealth transfer, estate tax reporting and matters of dispute.

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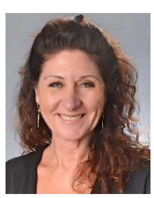

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