"ESPI BRIEFS"
No. 49

ESPI
European Space Policy Institute

The boom of SPACs in the space sector

1. The rise of SPACs in the financial market

Special purpose acquisition companies (SPACs) are publicly traded companies established with the aim of raising funds to acquire or merge with a private company (the "target"), thus allowing the latter to go public. The process by which a company goes public through a SPAC is as follows:

- The blank-check firm is created, goes public, and raises money (investors buy shares and receive warrants, allowing them to buy more shares later),
- The sponsor of the SPAC looks for a company to acquire/merge with; the SPAC usually has a limit of two years to perform such a move, otherwise the money must be returned to the investors,
- Shareholders vote to approve the merger/acquisition,
- At the closure of the deal, the sponsor receives a slice of the target firm's equity and, often, a seat on its board. In parallel, new investors can be added to bring in more capital.

SPACs have existed since the 1990s, but have been booming on the financial markets, mostly in the United States, over the past 18 months. They are now a trendy alternative to "traditional" initial public offerings (IPOs). A few factors explain this situation, both on the investors', and targets' sides.
Investors' side: In recent years, the number of companies on public markets has decreased, while the amount of money available has increased. Coupled with the incentive for stock exchanges to bring on new companies (as this is their source of revenue), the situation has created a push for SPACs. In parallel, the trustworthiness of this mechanism has improved due to efforts by the U.S. regulator and the arrival of experienced managers. Finally, the possibility for individuals investing in SPACs to get their money back if they disagree with the selected target, makes such vehicles attractive.
Targets' side: SPACs enable interested firms to go public quicker and with a limited regulatory process. The amount of money they will raise is clear and their valuation can be negotiated with the SPAC. Moreover, firms can directly communicate their financial projections to the market, which is not possible with an IPO. Finally, SPACs are also appealing to private equity actors that have already invested in the firm, as they provide a way to exit.

2. The SPAC craze is reflected in the space domain…

Though the SPAC trend is a result of financial dynamics, it has spilled over and affected the space sector. While some space companies have gone public this way in the past decades (Iridium in 2008, Avio in 2016), a real surge has been visible since Virgin Galactic merged with a SPAC in October 2019. In March 2021, a few SPACs dedicated to the space sector were created and, over the past six months, several space companies have announced deals with SPACs: Momentus, AST SpaceMobile, Astra, BlackSky, Rocket Lab, Spire, and Redwire. The expected valuation of these companies ranges from $0.6 bn (Redwire) to $4.1 bn (Rocket Lab). However, none of these deals have closed yet.
A commonality among these companies is their involvement in capital intensive activities. Indeed, they are all located in the upstream market (including launch) or are vertically integrated. The increasing popularity of SPACs in the space sector is therefore limited to a specific segment, with no purely downstream companies having been involved in such a move recently.
While there are many reasons for going public, a majority of the aforementioned companies highlight that it will allow them to be fully funded for the coming years, without having to spend time preparing funding rounds. Moreover, being a public firm is sometimes presented as a way to facilitate the purchase of other businesses. Most of these companies have chosen the SPAC mechanism due to its rapidity,

but some were already taking steps to be listed on stock markets. Indeed, there is currently a broader context of space companies going public, and not only through SPACs. For instance, Telesat and MDA announced their intentions to go public through an IPO. Similarly, the launch company iSpace plans to be listed on the Shanghai Stock Exchange STAR Market through this process.

3. …a phenomenon that raises questions

Among the space companies having announced a merger with a SPAC, two categories can be identified:

- On the one hand, some companies have already provided operational/commercial services and raise money to support the development of new products or services, the amelioration of existing ones, or the entering of new markets. For these companies, going public through a SPAC appears embedded in a longer-term development strategy aimed at scaling up their activities.
- On the other hand, some companies are in the later stages of development but have not yet carried out commercial or operational missions. For some, money raised through the SPAC will be used to pay for operations or basic costs (e.g., the launch of assets). The viability and maturity of these firms, two decisive elements when considering being traded on stock exchanges, are thus undetermined. These companies draw advantages from the opportunity offered by the SPAC process to present their expected growth, sometimes very optimistically. However, in the longer term, they will be urged to deliver what they promise. Public firms attract more scrutiny than private ones, thus making it more difficult to "hide" potential losses or results below expectations. So far, investors have not expressed major concerns. For instance, although Virgin Galactic has not flown a customer yet, its share price has increased over the past 18 months (from $10 a share in October 2019 to $30 in March 2021).

Moreover, most of these companies, even the established ones, have neither fully demonstrated their business models, nor reached profitability. Therefore, it remains to be seen if the NewSpace movement, due to its relative youth and still unconfirmed prospects, will be disproportionally exposed to the risks and benefits of the SPAC trend.

4. Which perspectives for Europe?

The SPAC phenomenon is not as widespread in Europe as it is in the United States (only three SPACs were listed on the continent in 2020, raising $495 million, compared to 244 raising $78.2 billion in the United States). An expansion of this trend might offer promising perspectives for the European space sector, but some conditions should be met in order to make it fully profitable. First, an appealing financial venue must be available. While Amsterdam and London have taken steps to bring SPACs to their stock exchanges, including contemplating an ease of regulation, their reception by SPAC sponsors must still be assessed. Second, an "audience" for these SPACs would have to exist in the space sector. Currently, the number of potential targets (i.e., NewSpace companies with high capital expenditure) seems quite limited in Europe. Indeed, according to Eurospace, there are only a few tens of NewSpace companies involved in the design, development, and manufacturing of space systems at the European level. However, in Europe, midcaps may be interested in going public via SPAC. In parallel, some SPACs listed in the United States have already expressed an interest in acquiring European tech firms (which could benefit space companies as well). Third, the management and strategy of the SPAC, as well as the relevance of its target, are critical factors that influence the success of the operation. The example of Avio illustrates well these three conditions: Space2 (the SPAC) and then Avio, have been traded on the stock exchange of Milan. Before the merger, Avio already employed more than 750 people and had thus reached the status of a midcap. In 2015, its net profit totalled €5.4 million, thus demonstrating the robustness of its business model. Finally, Space2 had a clear vision, as it expressly stated that it was looking for a medium-sized company and was not willing to "target companies in the startup phase", nor with financial difficulties.

Available for download from the ESPI website:
www.espi.or.at

Short title: "ESPI Briefs" No. 49
Published in: March 2021

Editor and publisher:
European Space Policy Institute, ESPI
Schwarzenbergplatz 6 • A-1030 Vienna • Austria
Tel: +43 1 718 11 18 -0 / Fax: -99
Email: **office@espi.or.at**