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What is a Special Purpose Acquisition Company (SPAC)?

By

Robinson Capital

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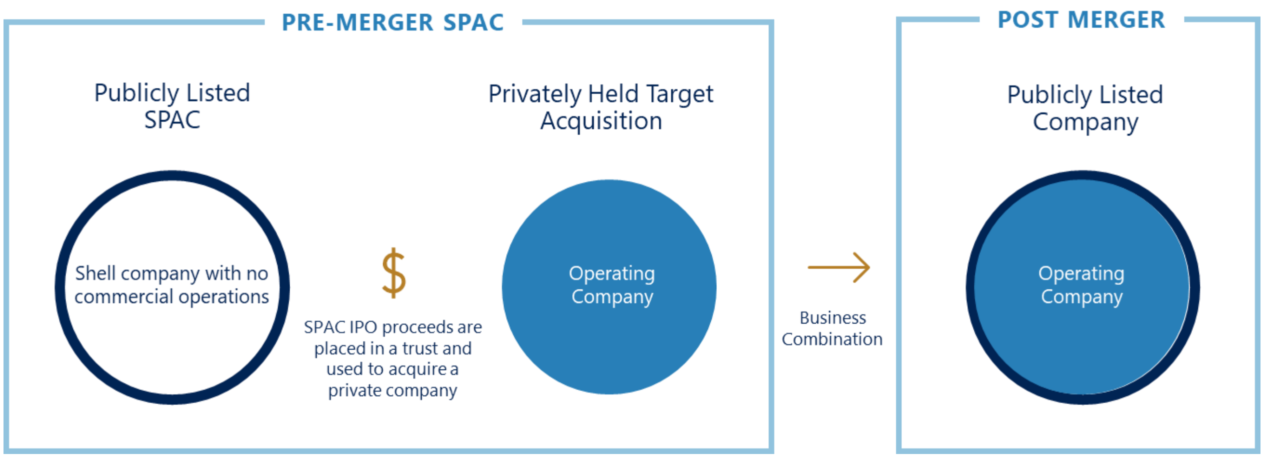
Robinson Capital, LLC is an independent investment advisor that provides customized investment management services for RIAs, family offices, broker-dealers and institutions. Robinson Capital manages traditional and alternative fixed income solutions.

Founded in 2012, Robinson seeks to identify long-term trends and favorable risk/return scenarios using multiple strategies in the fixed income markets.

What is a Special Purpose Acquisition Company (SPAC)?

A **S**pecial **P**urpose **A**cquisition **C**ompany (SPAC), also known as a blank check company, is a company formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring (or merging with) one or more existing private companies. SPACs generally have 18-24 months to complete a business combination. SPAC IPO proceeds are placed in an interest -bearing account, or trust and are simply invested in U.S. government securities (T-Bills), money market securities, and cash until a business combination is completed.



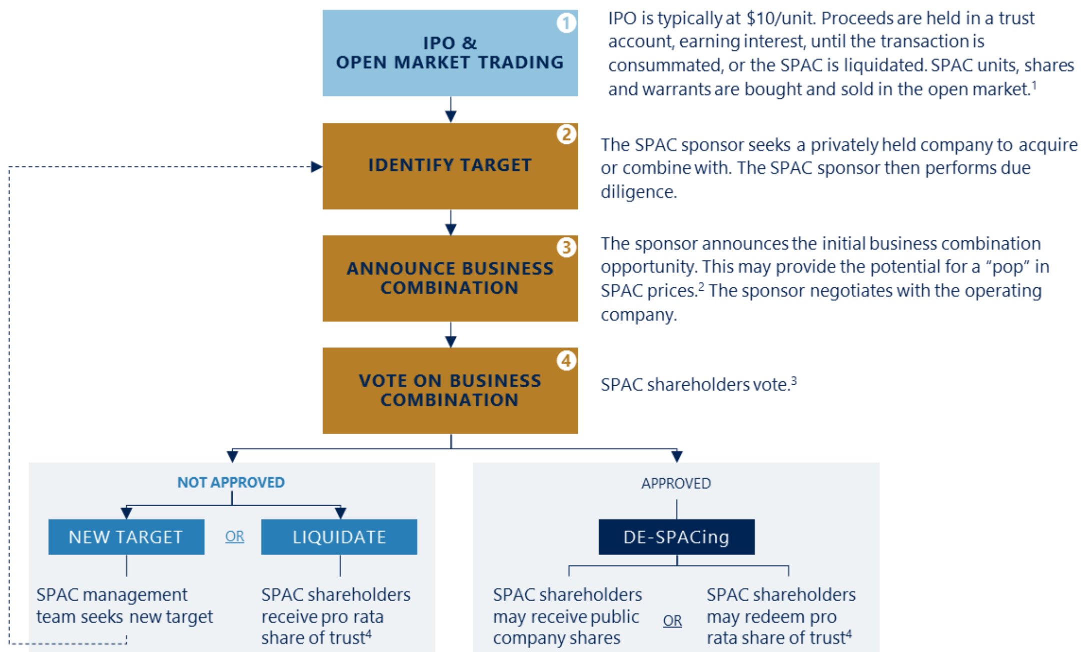
How do SPACs work?

SPACs raise capital to make an acquisition through an initial public offering. A typical SPAC IPO structure consists of a unit, which is made up of common stock combined with a warrant. A warrant gives the holder the right to buy more stock at a fixed price at a later date. Investors who participate in the SPAC IPO are attracted to the opportunity to exercise the warrants so they can acquire more common stock shares once the acquisition target is identified and the transaction closes.

The typical IPO price for a SPAC common stock is $10 per share. The exercise price for the warrants is typically set about 15% or higher than the IPO price. After the IPO, the SPAC's management team searches for a potential acquisition target. During this period, the SPAC stock should trade near its IPO price since the proceeds are held in government bonds, although during market sell-offs, SPAC stocks can fall below the IPO price. SPACs can also trade at a premium to the IPO price if shareholders believe management will identify a compelling acquisition target.

During the time it takes to find a target, a SPAC will usually trade near its cash value, which is usually close to $10. After announcing a merger target, however, investors will evaluate the deal and usually bid the SPAC up. The last phase, the post-merger phase, only occurs after the SPAC closes the deal and the ticker changes. This is the most controversial phase of a SPAC's lifecycle and what is typically reported on by mainstream media – it is why many investors are wary of SPACs. After the ticker changes, investors can no longer redeem their shares for a pro rata potion of the trust and the merger closes.

Four main phases of a pre-merger SPAC



1 Generally, common shares and warrants may be traded individually about 50 days after the IPO.
2 Due to an exuberance in the marketplace, SPACs have traded above their IPO prices ("pop"), but there is no guarantee this will continue. In fact, some SPACs may trade below their IPO price of $10.00.
3 Public stockholders of SPACs may not be afforded a meaningful opportunity to vote on a proposed initial business combination. As a result, a SPAC may complete a business combination even though a majority of its public stockholders do not support such a combination.
4 If shares are purchased in the open market, you are only entitled to your pro rata share of the trust account and not the price at which you bought the SPAC shares on the market.

How to Invest in SPACs?

Robinson Capital manages a Pre-Merger SPAC ETF as well as a SPAC and Income mutual fund. We also are able to manage each of our SPAC strategies as a separately managed account. For more information, please visit: www.robinsonetfs.com and www.robinsonfunds.com

About Robinson Capital

Founded in December 2012, Robinson Capital Management, LLC, is an independent investment advisor specialized in developing traditional and alternative fixed income solutions. Robinson's investment approach employs both fundamental and value techniques to best identify positive risk/reward opportunities and to maintain a consistent and disciplined approach. Robinson Capital also specializes in alternative value investing strategies, particularly through special purposes acquisition companies (SPACs) and closed-end mutual funds (taxable and tax-exempt).

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