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PSTH

Pershing Square Tontine Holdings

INVESTMENT PROPOSAL

DESCRIPTION

PSTH is a SPAC (Special Purpose Acquisition Company) founded by Bill Ackman's Pershing Square with the intent to merge with a private company, taking it public through the purchase of a minority interest in the company. PSTH is not only the largest SPAC to-date but is also larger than most IPO's. It has a unique "tontine" structure which incentivizes long-term holding and as such it has been outfitted with a strong shareholder list of well-renown long-term, value investors.

ACQUISITION CRITERIA

The target company of PSTH is described as a "mature unicorn." They are seeking a company with a "post-merger market cap of \$15B-\$30B" that has "high-quality, high-return on capital" that "generates growing cash flows that can be estimated within a reasonable range over the long term." As of last news from Ackman in Q4 2020, the company is still on track to announce a target in Q1 2021.

CURRENT VALUE

A strong advantage of most SPAC's is that the NAV acts as a floor pre-merger, with PSTH this floor is \$20, implying a maximum drawdown of ~50% pre-merger (assuming shares are redeemed for NAV). Due to the current hype around SPAC's, potential Q1 2021 announcement, unique tontine structure, and overall potential of PSTH, this investment has potential of very large upside and a limited downside.

SPECULATION

The acquisition criteria listed by PSTH, along with comments from speculated targets themselves helps to narrow down the list of potential targets. The addition of Jackie Reses to the board of PSTH, a renown fintech executive from Square, lends credence to the target being a fintech company. There are many rumors swirling of a potential Stripe target, which Ackman has noted they were in talks with at one point. While still mostly speculative, most breadcrumbs at this point lead to Stripe.

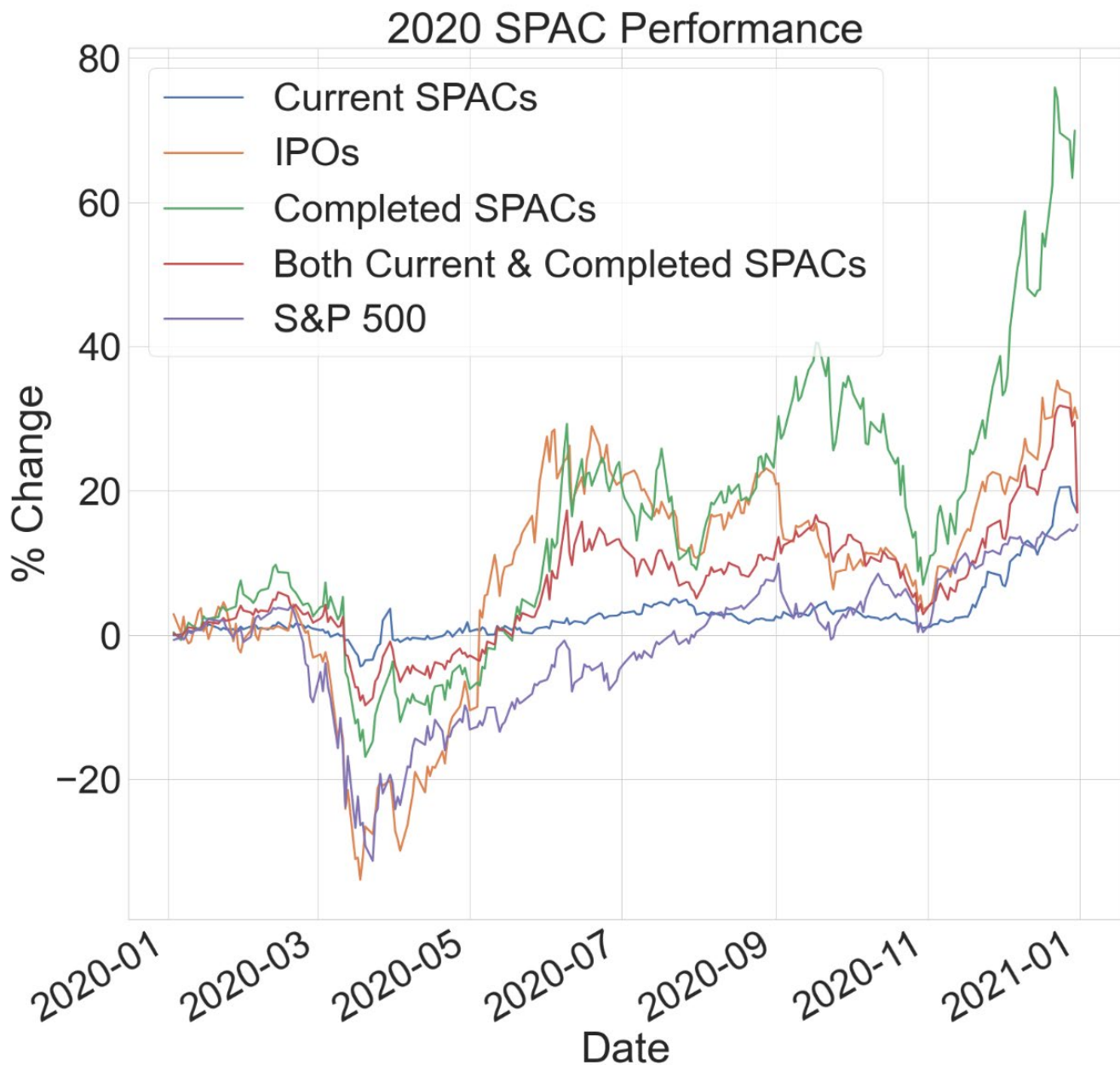
Preface on SPACs

SPACs (Special Purpose Acquisition Companies) are “blank check companies” which serve as an alternative route to taking private companies public. SPACs initially are funded with cash placed in an interest-bearing account. This cash is eventually used to purchase, either all or in part, a private company. It is through this merger that the private company is then taken public, with the SPAC’s ticker changing to that of the new company. SPACs have many advantages over traditional IPO’s for private companies looking to go public. First, the process is generally faster and less expensive. Secondly, there are benefits to having a SPAC with a strong management team to guide in the difficult public transition. Funding is also guaranteed, with a set amount of cash invested once the deal is done, which is not the case for IPO’s. For investors, SPACs offer many advantages as well. SPACs nearly always have a clause in the prospectus which allows shares to be redeemed pre-merger for the NAV, which is the value of the cash holding in the SPAC plus interest, or another specified amount. While this does not mean that the market value of shares will not go below the NAV, it does mean that shares can always be redeemed pre-merger per the terms of the prospectus for the NAV, so the NAV in this case serves as a floor. SPACs generally have 2-years to finish a deal, if a deal is not reached in this time then shareholders will be paid back their investment at the NAV plus interest. Since SPACs are listed at NAV value, generally long before a target is announced, retail investors are given an advantage by being able to invest early and at a low price. This is compared to traditional IPO’s, where retail investors are often given lesser priority after the company is listed, with investment banks sometimes driving up the IPO price well above the initial target range, all before retail investors get the chance to invest. The main downsides to SPACs are opportunity cost and deal risk. This is why when it comes to SPACs, investing in competent, proven, and transparent management is vital.

Preface on SPACs

In 2020 SPAC performance was strong, particularly among completed SPACs, with a mean cumulative return by year end of ~70%, with pre-merge SPACs returning ~17%..

This number is extremely impressive considering the S&P 500's ~15% performance over the same period.



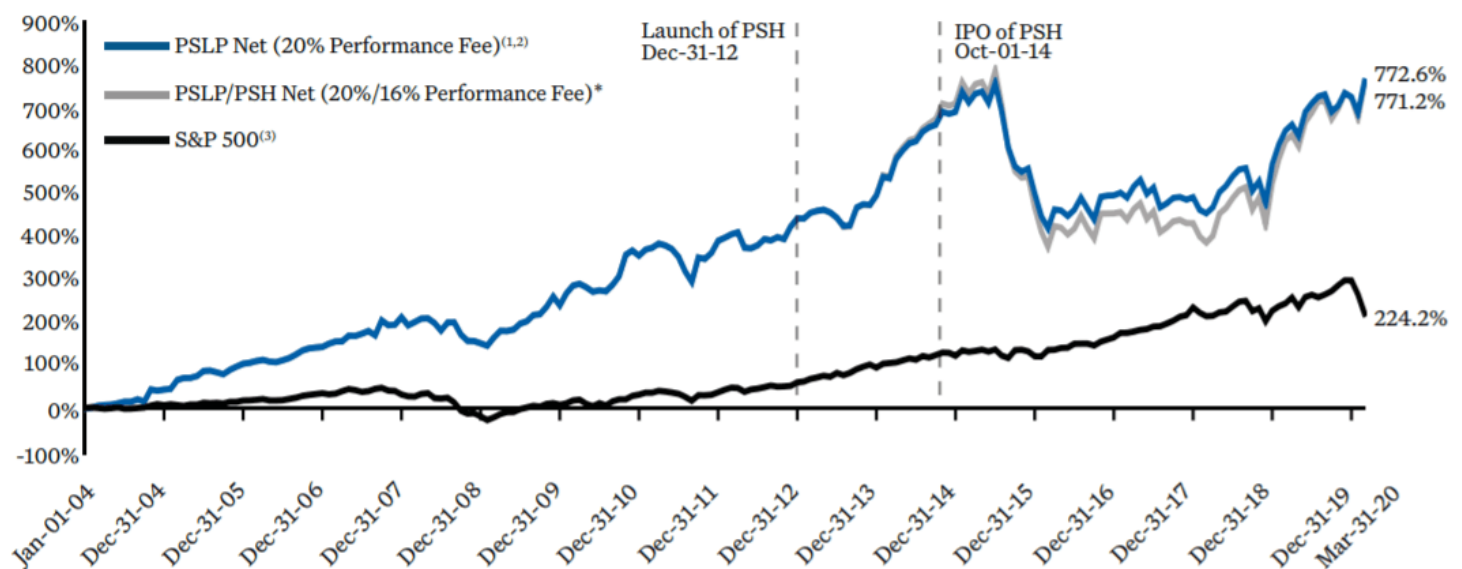
PSTH Structure

PSTH is funded with \$4B in initial capital with the ability to expand this to \$7B. This makes PSTH the largest SPAC ever and one of the largest IPOs of all time. The NAV is \$20 while warrants have an exercise price of \$23. One of the strongest benefits to PSTH in comparison to other SPACs is its “tontine” structure which incentivizes long-term holding by lowering the amount of redemptions. This is done by the issuance of 2/9 warrants per share held through the merger, with the possibility to receive more proportional to the number of redemptions (i.e., if half of all public shares redeem, remaining shareholders will receive an additional 2/9 warrants, amounting to a total of 4/9 warrants). The prospectus also designates that the sponsor will not be given the opportunity to purchase 20% of the stock at nominal price, but rather at market value and will not be salable, transferable, or exercisable until after three years of the date of the initial business combination. This clause will prevent dilution of shareholders. The current price of PSTH at ~\$30 per share puts PSTH at a max drawdown of ~50% when the \$20 NAV is considered as a floor, assuming shares are redeemed at NAV.

The Management Team

PSTH was founded by Bill Ackman's Pershing Square Capital Management, with PSCM's team serving as the main support for the SPAC. Bill Ackman serves as the chairman and CEO of PSTH, with Ben Hakim as CFO. The board consists of: Lisa Gersh, a media executive, Michael Ovitz, a former president at Walt Disney, Joseph Steinberg, a chairman of the board at Jeffries Financial Group, and Jackie Reses, former head of Square Capital. This management team is very strong and should aid in PSTH securing an exceptional deal. Pershing Square has a strong performance historically, with ~770% return from Jan. 2004 to April 2020. With one of the most important factors when investing in a SPAC being its management team, PSTH presents itself as a component and qualified group which adds confidence that a favorable deal will be made. The Pershing Square team also led the SPAC in 2012 which took Burger King and Tim Hortons public, which included Warren Buffett as a PIPE investor. This deal was a success for the Pershing team and the experience should aid them with PSTH.

Pershing Square Holdings, Ltd. and Pershing Square, L.P. ("PSLP") Performance vs. the S&P 500



Notable Investors

PSTH has accrued many notable long-term, value investors and currently has 70.17% institutional ownership. This helps add stability and confidence to the SPAC and affirms a view of long-term instilled by the management team. Some notable investors that are publicly disclosed as of last 13-F filing in Q3:

- **Guggenheim:** A global investment and advisory firm.

Shares Held	Market Value	% Ownership	% of Portfolio	AUM
22,000,000	\$ 499,180,000	11.00%	3.60%	\$310B

- **Baupost Group:** Baupost is headed by Seth Klarman, a notably successful value-investor.

Shares Held	Market Value	% Ownership	% of Portfolio	Portfolio Value
17,500,000	\$ 397,075,000	8.75%	4.28%	\$9.25B

- **Ontario Teacher's Pension Plan Board:** A highly regarded pension fund known for its strong long-term investment picks. It has an annualized return of 9.7% since its inception over 30 years ago.

Shares Held	Market Value	% Ownership	% of Portfolio	AUM
11,325,000	\$ 256,964,000	5.66%	4.05%	\$204.7B

- **Soroban Capital:** NYC-based hedge fund.

Shares Held	Market Value	% Ownership	% of Portfolio	Portfolio Value
11,325,000	\$ 256,964,000	5.66%	2.59%	\$9.9B

- **Wells Fargo:** Large asset management division of Wells Fargo. As of their 2/9 13F filing Wells Fargo has increased their position by 184,218 shares.

Shares Held	Market Value	% Ownership	% of Portfolio	AUM
9,985,813	\$ 276,807,000	4.99%	0.07%	\$607B

- **Blackstone:** An "alternative" investment fund with its main focus on private equity and property.

Shares Held	Market Value	% Ownership	% of Portfolio	AUM
500,000	\$ 11,345,000	0.25%	0.044%	\$619B

The Q4 13F filing is due to be released on 2/16 which will give more insight into current investor's positions.

Target & Speculation

We have some hints as to possible targets for PSTH. First, we have the following acquisition criteria listed in the prospectus: “Simple, predictable, and free-cash-flow-generative,” “formidable barriers to entry,” “Limited exposure to extrinsic factors that we cannot control,” “strong balance sheet,” “minimal capital markets dependency,” “large capitalization,” “attractive valuation,” and “exceptional management and governance.” PSTH is looking to purchase a stake in a company, not the entire company. We have more context given throughout interviews with the media, with Ackman specifying:

- PSTH seeks a 15-20% stake in a “mature unicorn” with a 10B+ valuation.
- The team has spoken with private equity-controlled companies as well as family-owned companies, with the highest probability of a deal being with the former.
- He states that they have been in talks with fintech and consumer companies.

Some companies that PSTH has been confirmed or rumored to be in talks with so far:

- ~~Airbnb~~ **Airbnb** – Confirmed – Pre-IPO valuation \$47B: Has already IPO'd.
- **Bloomberg** – Rumored: Bloomberg denies talks while Ackman says he admires them, and the company is a good fit in their target criteria. Despite their denial, Bloomberg should not be taken off the list of potential targets, as it is still very much in the realm of possibility.
- **Stripe** – Confirmed - \$100B: Ackman says he really likes the company but does not feel they are prepared to go public currently. Stripe is the internet's favorite choice for a potential target, valued at \$100B at their last funding round, this would put them at the upper helm of PSTH's target stake, but is certainly still possible. The potential for a Stripe merger is aided by the board's addition of

Target & Speculation

Jackie Reses who, being the former chair of Square Capital, has extensive experience in the Fintech industry and would be a strong aid in a potential merger. Jackie certainly stirs up these rumors on twitter, liking many Stripe-PSTH related tweets. Also, not long after Ackman's comments on Stripe not being ready to go public, there began an influx of job postings by Stripe, with positions that could be related to going public. Stripe is ran by the Collison twins, therefore making it a family owned company. A potential blow to this theory is a reply from Patrick Collison, CEO of Stripe, to a twitter user who congratulated him on the deal, to which Patrick responded "No such deal!". Patrick could have simply been stating that the deal is not yet finished, however this comment should be taken into consideration when speculating on a target.

More possible targets that meet PSTH's criteria:

- Fidelity – \$109B - Investment company
- Starlink - \$81B – Satellite internet service provider
- Subway – Unknown Valuation – Restaurant Chain

While as of now there is only speculation, since there is no official word on a target, it is likely there is more insight given at the Pershing Square Capital Management annual investor meeting on 2/18, particularly with the release of the PSTH 13F on 2/16. It is important to note that Ackman has stated that the estimated timeline for finding a target is in Q1 2021, and as recently as Nov. 2020 that "nothing they have experienced to date suggests that we won't meet our expected time frame."

Sources

Prospectus:

https://www.sec.gov/Archives/edgar/data/1811882/000119312520197776/d930055d424b4.htm#toc930055_1

Details on Structure:

<https://pstantine.com/>

<https://www.businesswire.com/news/home/20200722005466/en/Pershing-Square-Tontine-Holdings-Ltd.-Announces-4000000000-Initial-Public-Offering-at-20.00-Per-Share>

<https://assets.pershingsquareholdings.com/2020/08/28125504/Pershing-Square-Holdings-Ltd.-June-2020-Interim.pdf>

<https://spacalpha.com/insights/analysis-of-tontine-warrants/>

Target Description:

<https://www.bloomberg.com/opinion/articles/2020-06-23/bill-ackman-wants-a-mature-unicorn>

Compilation of Current Investors from 13F Filings:

<https://whalewisdom.com/stock/psth>

Information On Investors:

<https://fintel.io/i/baupost-group-llc-ma>

<https://www.guggenheimpartners.com/firm>

<https://www.otpp.com/investments/performance>

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<https://fintel.io/i/soroban-capital-partners-lp>

<https://www.blackstone.com/the-firm/>

Bill Ackman Interviews:

<https://www.youtube.com/watch?v=GmaCarSyBk4>

<https://www.youtube.com/watch?v=5E1alimrqt0&feature=youtu.be>

PSH Performance Chart:

<https://seekingalpha.com/article/4358226-pershing-square-tontine-holdings-spac-worth-watching>

PSTH Institutional Holdings Data:

<https://www.nasdaq.com/market-activity/stocks/psth/institutional-holdings>

SPAC Data & Charts:

<https://github.com/hayden4r4/SPACs>