If one is looking for evidence of an unequal “K shaped” economic recovery stemming from the COVID-19 pandemic, the IPO market is a shining example of Wall Street’s success amidst widespread hardship across “Main Street” America. According to the Georgetown Center on Education and the Workforce, unemployment figures remain elevated above pre-pandemic levels across groups of Americans with different educational levels, genders, races, ages, industries, and occupations.[1] In spite of this, public markets have not only fully recovered from pre-pandemic levels - they are substantially outperforming their pre-pandemic performance. For instance, as of February 25th, 2021, the Dow Jones Industrial Average is more than 2,000 points above its pre-pandemic peak. Likewise, the S&P 500 index is nearly 500 points above its pre-pandemic peak.

In the midst of this unlikeliest of bull markets, companies have been pursuing public market access at record levels. This appears to have bucked the trend of an increasing push for privatization. By 2019, private equity net asset values had grown seven-fold since 2002 amidst a drop from 5,100 to 4,300 publicly traded firms over the course of the same period.[2] *(See Figure 1)*

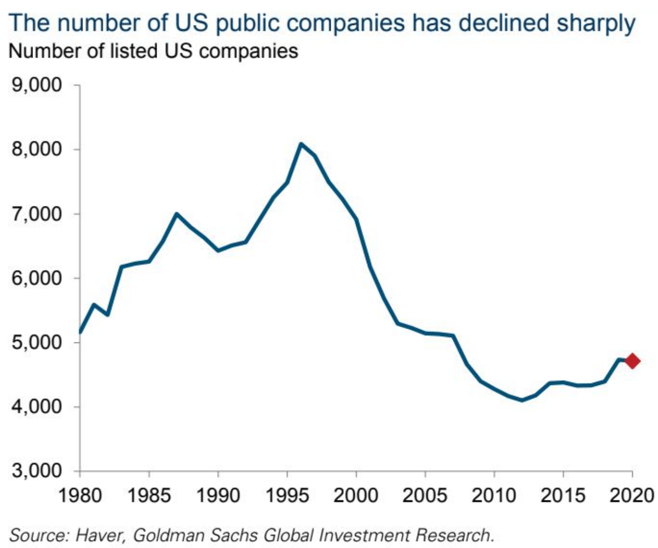


*Figure 1: Number of US public companies*

However, the pandemic appears to have stopped the shift from public to private markets dead in its tracks. Instead, the latter half of 2020 saw IPO records smashed. According to FactSet, Q3 2020 saw a record 208 firms going public with sustained momentum in Q4 with 168 IPOs.[3] As a result, firms raised more than $70 billion and $50 billion in Q3 and Q4, respectively.[4] *(See Figure X)*

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[1] https://cew.georgetown.edu/cew-reports/jobtracker/#unemployment-tracking

[2] https://www.mckinsey.com/~/media/McKinsey/Industries/Private%20Equity%20and%20Principal%20Investors/Our%20Insights/Private%20markets%20come%20of%20age/Private-markets-come-of-age-McKinsey-Global-Private-Markets-Review-2019-vF.ashx

[3] https://insight.factset.com/u.s.-ipo-market-spacs-drive-2020-ipos-to-a-new-record

[4] https://insight.factset.com/u.s.-ipo-market-spacs-drive-2020-ipos-to-a-new-record

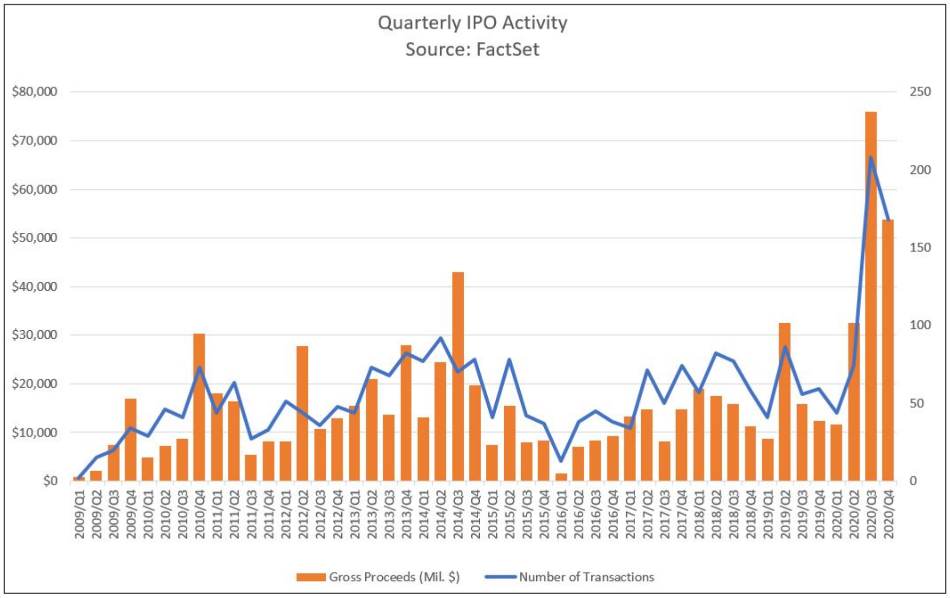



*Figure 2: Quarterly IPO Activity.*

The explosion in IPO activity in the latter half of 2020 was more than enough to propel the year towards record annual IPO activity. As shown in *Figure 3*, total IPO activity in 2020 was roughly 60% more than in 2014, the year that saw the second most substantial IPO activity within the previous decade.

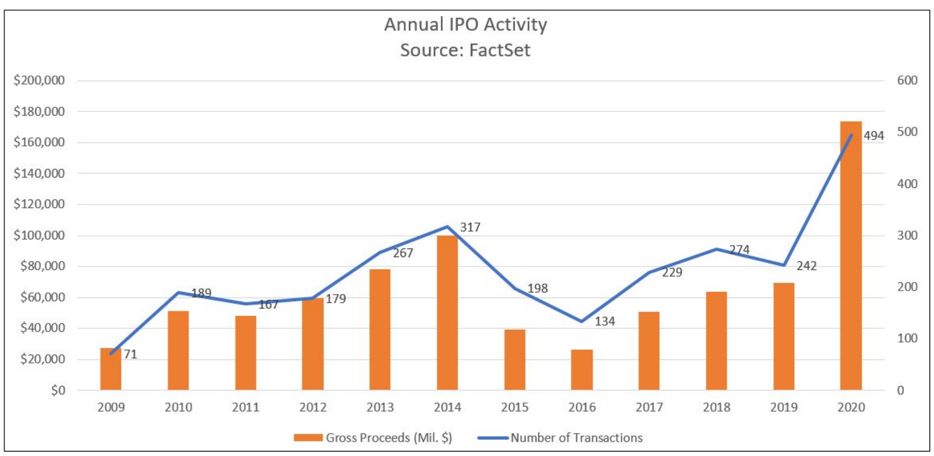



*Figure 3: Annual IPO Activity*

Among this explosion in IPO activity, Special Purpose Acquisition Companies (or SPACs) have spearheaded the drive towards public market funding. Of the $70 billion and $50 billion raised through “IPOing" in Q3 and Q4, respectively, the majority of Q3 and nearly half of Q4 capital was raised via the SPAC process. Likewise, 50% of total IPO processes in 2020 were related to SPACs (see *Figure 4)*.[5]

[5] https://insight.factset.com/u.s.-ipo-market-spacs-drive-2020-ipos-to-a-new-record

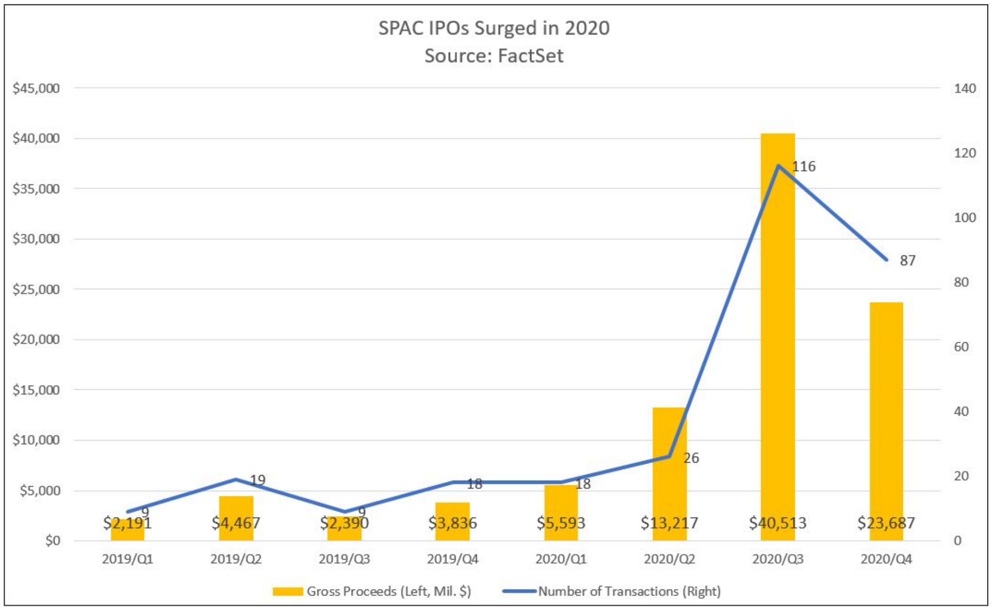



*Figure 3: SPAC IPOs*

With several vaccines rolling out along with substantial progress towards full economic recovery, it remains to be seen whether SPACs will remain an incredibly popular method for firms to gain access to public capital markets. This report will analyze the history of SPACs, the SPAC process, and the reasons underlying their recent rise in popularity. Moreover, this report seeks to discuss the advantages and disadvantages of pursuing a SPAC process as well as the types of firms that appear to perform the strongest after undergoing the SPAC route to access public funding.

<u>What is a SPAC and How Does a Company Go Public Through a SPAC?</u>
There are three primary paths for firms to gain access to public markets: an IPO, a direct listing, or a SPAC. Traditionally, firms use the Initial Public Offering (IPO) process. This entails offering new shares of a previously private company with the assistance of an investment bank(s) to facilitate an extensive underwriting and due-diligence process. After this extensive undertaking, the company issues its shares at a predetermined price on an IPO date *(Figure 5)*.[6]

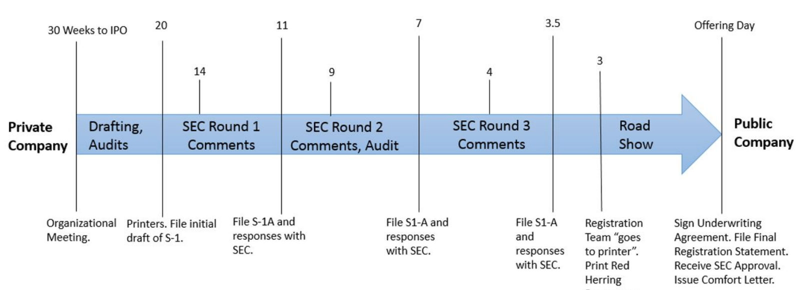
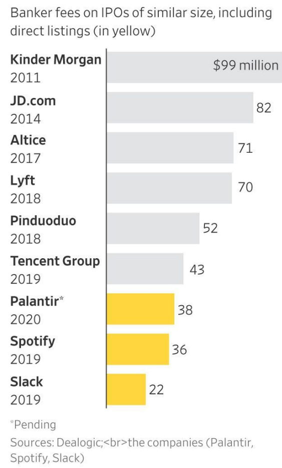



*Figure 5: SPAC IPO Process*

[6] https://www.ipohub.org/overview-of-an-ipo/

On the other hand, a direct listing omits the extensive underwriting process. In many regards, skipping the underwriting process can be seen as riskier; however, the business can realize potentially higher share prices. Typically, a direct listing is advised for firms that are already widely used and have straightforward methods for generating revenue, such as Spotify or Slack.[7]




The process of utilizing Special Purpose Acquisition Companies (or SPAC) to gain access to public markets involves components of both the IPO and direct listing process. Initially, a separate "blank check" company goes public through an IPO. For the purpose of semantics, it is worth noting that this "blank check" firm is known as *the* SPAC. The SPAC follows the typical underwriting process of a normal IPO, but the proceeds are placed into a trust and invested in riskless securities (such as Treasury bills). This differs from a standard IPO as a "legitimate" company would use the proceeds from the IPO to finance business operations. Next, the SPAC has a couple years to merge with a functional business (or otherwise it typically liquidates based on the terms laid out in its S-1 and the funds are given back to its investors). *(See figure 6 for a timeline)*[8]

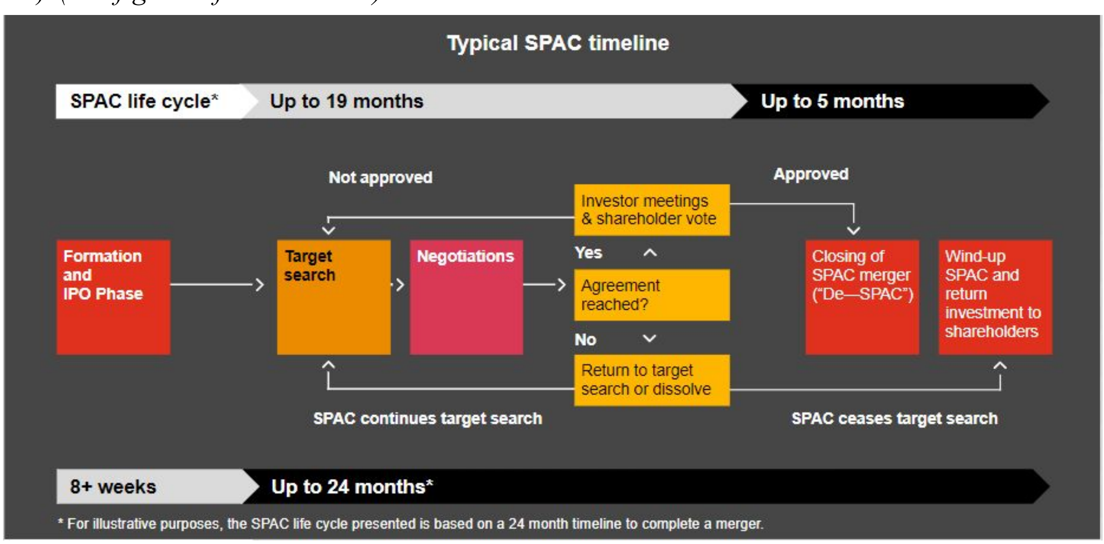



*Figure 6: SPAC Timeline*

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7 https://corporatefinanceinstitute.com/resources/knowledge/finance/direct-listing/#:~:text=Two%20notable%20companies%20that%20have,how%20the%20company%20makes%20money.

8 https://www.pwc.com/us/en/services/audit-assurance/accounting-advisory/spac-merger.html