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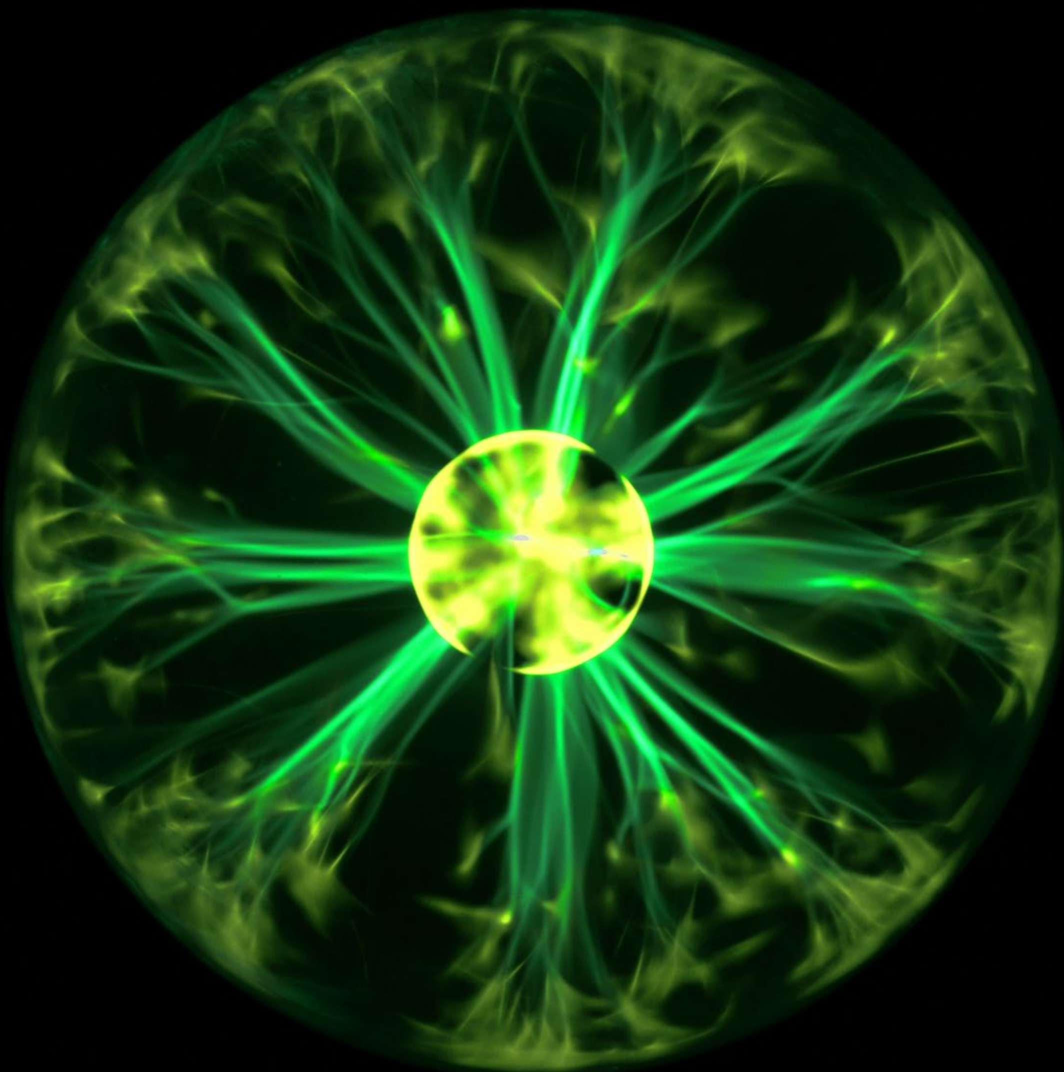

What the SPAC revolution means for private equity firms

Preparing portfolio companies to go public through a SPAC merger

The SPAC revolution

The acceleration of special-purpose acquisition company (SPAC) IPOs and the desire to complete deals with target companies means many venture or private equity (PE)-backed portfolio companies may be public sooner than previously expected. The number of companies that are immediately ready for a SPAC transaction may be low, demand is high, and the same is true for the advisers and other external professionals who typically carry out a SPAC transaction.

Not all target companies are ready for the de-SPAC process. They may have a promising business and an experienced management team, but lack awareness of the key milestones and action items necessary to complete a deal. If PE managers are expecting to take advantage of SPAC opportunities, they may need to help their portfolio companies anticipate impediments.

Asking the right questions

PE managers need to understand a principle: **Speed matters.** The pace of SPACs is pressurizing the deal environment. PE firms need to be careful not to let themselves, and especially their portfolio companies, get squeezed by the supply of capital into a process that affords little room for error or mistake. Consider as well that SPACs are shifting their gaze to international targets, where the challenge of executing a de-SPAC transaction is even more complex.

All PE firms need to be asking tough questions about the readiness of their portfolio companies. A quick checklist would include the following:

- Completion of SEC and PCAOB audited financial statements
- Access to outside advisers
- Quality, timeliness, and readiness of financial reporting and forecasting processes
- Management experience with financial and control requirements
- Quality, experience, and diversity of directors
- Understanding of the de-SPAC process

Completion of SEC and PCAOB audited financial statements

What we are seeing right now suggests that many portfolio companies are potentially underprepared. One common problem is that portfolio companies' audits may not be done to Securities and Exchange Commission (SEC) or Public Company Accounting Oversight Board (PCAOB) standards, and their auditors may not be SEC-independent and/or registered with the PCAOB. But switching auditors can take time, and delays in being able to provide the requisite audited financial statements can potentially chill a deal.

Access to outside advisers

Successful de-SPAC execution requires extraordinary focus and work, plus outside support. That support is increasingly difficult to source: Many accounting, legal, tax, and other advisers essential to the transaction are fully subscribed. PE firms need to plan early, build out their network of advisers, and involve those advisers early in the process.

Quality, timeliness, and readiness of financial reporting and forecasting processes

Companies typically have established some of the processes and systems for basic financial reporting to their investors. These are often insufficient to form the scaffolding of a more SPAC-ready financial reporting approach replete with dedicated and experienced people, independent systems of reporting, and mature, disciplined processes for closing out a financial quarter. Such scaffolding also makes possible the kind of forecasting essential to financial reporting systems; incoming financial and operational data must enable management to react quickly and update investors in a timely manner. This cannot be built overnight, and it often must be built from scratch.

Management experience with financial reporting and control requirements

Relatedly, many target companies will need to build their capacity to meet financial reporting and planning requirements. These requirements, of course, include those set by the SEC and the investing public, the standards of a PCAOB-compliant audit, and all processes necessary to close a financial quarter and report earnings and results in a timely way.

Quality, experience, and diversity of directors

One asset any PE firm can bring to this challenge is its network. Consider building a portfolio of board members, CFOs, and others to plug into key roles at SPAC-ready organizations. Look for those who can bring a diversity of experience and identity to these transactions. These new independent board members may prove valuable in future transactions. After all, even if a portfolio company is going to be exiting via a SPAC, PE will hold a major stake in the emerging firm. Those who support the de-SPACed entity may be useful in a PE firm's larger network.

Understanding of the de-SPAC process

Of course, don't overlook the value of education and preparation in your portfolio. Perhaps only a few of your portfolio companies will be targeted via SPAC. Preparing your portfolio companies to be familiar with the process and recognize the challenges in execution and the risks attached to the work ahead can be key to a successful transaction. PE firms treat management development as a core competency; SPAC readiness should be treated as part of that education and development process.

Conclusion

Amid all this, PE firms will need to consider how SPACs are an opportunity to monetize their portfolio in addition to a form of competition, since SPAC candidates may also be PE portfolio targets. The kinds of companies that attract PE funding and support may well choose the SPAC route instead. PE firms can make a compelling argument that SPACs can fast-track the public company launch, but it can't replace the essential growth process that great PE managers design.

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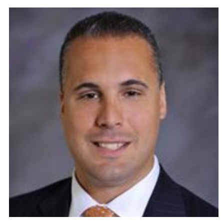

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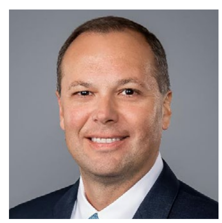

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