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Title: **How cloud-tech companies are leveraging SPACs to fuel growth**

Description: How do cloud-tech companies make the journey from hot startup to hot growth? For a growing number, it's through a SPAC, or special purpose acquisition company, because SPACs may be more willing to make investments that more traditional investors see as risky. In this episode, David Linthicum and Deloitte & Touche LLP's Barrett Daniels discuss how a SPAC works and how some companies leverage SPACs to help them raise capital to grow. Barrett's advice: get your finances and financial tools in order, get the right team in place, get ready for the auditors, and make a strong case. Barrett also thinks it's a good idea for companies to find an experienced, knowledgeable service provider to help guide the SPAC journey.

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Operator:
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David Linthicum:

Welcome back to the On Cloud Podcast, your one place to find out how to make cloud computing work for your enterprise. This is an objective discussion with industry thought leaders who provide their own unique perspective around the pragmatic use of cloud-based technology. Today on the show, we have Barrett Daniels. Barrett Daniels is a Partner based in San Jose—one of my favorite parts of the world—and is the US IPO Services Co-Leader and West Region SPAC Leader for Deloitte & Touche LLP. Hey, Barrett, how are you doing?

Barrett Daniels:
Doing great, thanks.

David Linthicum:
Boy, that's quite a title. So, I see here you've been on a lot of the media outlets, some of the ones I think we've done—some of the ones we share. I've got CNBC, Bloomberg, New York Times, Wall Street Journal, The Economist, Forbes, Fortune, and—to provide insights on the IPO market. So, I guess they reach out to you when they're looking for commentary when someone's taking something public, or the laws are changing, or the process is changing. Tell us what's a week in the life of Barrett.

Barrett Daniels:
Sure. Well, first, thanks for having me—really looking forward to it. So, look, I would say a typical day, especially right now—so you mentioned I'm the West Region—you said S-P-A-C—it's actually—SPAC is sort of the more common terminology. I'm—there's been a recent explosion in them, and so the bulk of my days right now are on calls, just advising companies as to the best way to get from being a private company, to being a public company, and that's through IPO, through SPAC, through direct listing, or whatever the case may be.

David Linthicum:
So, I took a company out a long time ago, like in the '90s, and that's when it was cool to do that. And, man, I got to learn about the process, the ability to kind of do the tour and get the perspectives done, meeting with investors. It's fairly grueling. And then you do a secondary offering, which you go through kind of a micro-version of taking a company out. And I haven't done it in a long time, so what's changed around IPOs in say the last 10 to 20 years?

Barrett Daniels:
Well, I would say in the last ten years we've really seen—just to keep it simple, they've just gotten a lot bigger, and we've seen the threshold for companies being able to go public via an IPO, really the bar has been raised. So, where ten years ago it wouldn't be entirely unusual to having an IPO with a $500 million to $1 billion range, to where today, you realistically need to be this several-billion-dollar, high profile, notable company to really make the splash that you want to make with an IPO.

So, for me that's probably the biggest thing, but if we want to narrow it down to where we've seen significant changes, I would say beginning with the COVID pandemic. The old process, as I'm sure you remember, involved a lot of face-to-face meetings, a lot of big meetings, literally sitting in rooms with 20-something people flipping through pages, which, today, just seems crazy based on everything—all the precautions that we have to take. In addition, you would do roadshows where you'd get on planes, you'd fly all over the world and have back-to-back meetings all day, where you sit in rooms again with lots of people going through investor presentations.

All of that had to change, and not surprisingly it did. When there's money to be made—how do you say it—life finds a way, right? And sure enough, it did. And, so, we've really shifted from a lot of that face to face to a real virtual world in getting these deals done, and it happened quickly and it happened efficiently, and frankly the process is better.

David Linthicum:
So, I'm a CTO of an upstart technology company and we're looking to take ourselves out. And, ultimately, we've had a profitable time of it. We've raised the revenue. We have some interesting technology in a hot space. Moving forward, so there's no more roadshows? No more me sitting in planes for weeks at a time and having endless meetings for weeks at a time, to the point where I'm ready to give up and quit?

Barrett Daniels:
Yeah.

David Linthicum:
As I remember doing that ten years out of college was quite an experience. So, what would my experience be like now if I was taking a company public as a CTO or a CEO or a CFO, out on these roadshows?

Barrett Daniels:
Sure. I mean, funny enough, it's just considerably more efficient, and I don't hear anybody complaining about not being able to go on the roadshows anymore, or not being able to spend all-nighters at the printer flipping through pages and ticking and tying everything. It's all done via calls, and it all gets done quite well, and a lot it from the confines of your own home. So, it really has become a smoother process in many ways and just considerably more reliant on technology and things like systems.

And I'd even move that over to the company side, where, previously, a lot of these deals were done just with brute force, really, just add more arms and legs and just have people cranking these things out. But nowadays, again, that's just become a lot more challenging. So, you see companies instead moving more towards implementing various systems that can help—just help streamline a lot of this process. So, in many ways, it's just accelerated what was probably going to happen anyway. And the process is still hard. I mean, there's still a ton of work to be done. But it is getting done more efficiently and just in a friendlier way, if you will.

David Linthicum:
Yeah, as long as I don't have to get on an airplane. So, has this just been around the pandemic, or has this been something that's been building ongoing?

Barrett Daniels:

No, it's been building and ongoing, but I would say probably the biggest change is this recent explosion in SPACs. So, just for some context, these things have been around for a million years, but they've just gone crazy in recent years. I would say in 2009 and 2010, there were less than ten of them, right? And then even fast-forward to 2016, I think there were less than 20 of them.

And in terms of money raised, it's gone totally crazy. It went from 2019, we had $13 billion raised, to 2020 we had $80 billion raised, and already in the first quarter of '21 we've surpassed the $80 billion that was raised in all of 2020. So, I've been doing this IPO and taking companies public for about 20 years, and this isn't two times busier than it's ever been; it's ten times busier than it's ever been. So, it's really—it's a busy time. It's an exciting time.

David Linthicum:
So, Barrett, what's a SPAC and how do I build one?

Barrett Daniels:
Sure. So, a SPAC is a special-purpose acquisition company, which the name itself doesn't really mean much, but they're commonly referred to as a blank check company. So, ultimately, it is a shell company that goes public and raises money with the sole purpose of finding a target or target companies to acquire and take public through a reverse merger. And the way these things get started is a person or people put together a management team, usually hook up with a sponsor, the more high profile the better. So, your big banks are now involved, and VCs are getting involved. And then you go out and you do an IPO. So, the SPAC is actually going to go through a roadshow. It's going to do all the stuff that you typically do. And it's going to raise a big chunk of money as part of that, so let's say $100 million to, some have even raised several billion. And then that management team has 18 months to two years to search the world to find that perfect company to take public via a SPAC.

David Linthicum:
So, what's the benefit of me leveraging a SPAC kind of a model versus me just doing it myself?

Barrett Daniels:
Well, I think it depends, right? A SPAC isn't for everybody, and an IPO isn't for everybody. And what we're seeing is certain industries are really taking to the SPACs. We're seeing a lot of EV, and a lot of these space companies, and things like flying taxies—a lot of speculative investments are going that way. And there's various reasons for it, right, but some of it could be they just don't feel like an IPO suits them. Maybe they'll have a harder time telling a story on the road. And in the SPAC process you don't have to negotiate with all sorts of retail and institutional investors.

Instead, you're basically just negotiating with that management team, so it does make that process a little bit easier. It makes the pricing discovery a little more transparent, and a lot of companies like it. But what we're seeing is still the bigger companies, the more mature companies, they tend to stay on the IPO, or at least direct listing path for now, but that could change, right? We don't really know how this SPAC thing is going to play out. It would seem pretty certain that they're here to stay, but you know, are we in some sort of crazy bubble, or at a top is sort of the discussion of the moment, and it's very unclear at this point where we are there.

David Linthicum:
So, moving forward what should the technology leaders out there, the people who have—not necessarily the big public-cloud companies, but say the companies that's half a billion to a billion dollars' valuation, which isn't exactly a hobby company, but it is something you can take out into the market. So, what should they consider in terms of how to take it out and how to leverage a SPAC, and even how to leverage you?

Barrett Daniels:
Sure. So I would be surprised if a lot of these companies aren't hearing from SPACs already. I mean, there's something like 400 of them out there searching for targets, and by some estimates, there could be several hundred more by the end of the year, and I've even seen up to 1,000 going out in 2021. So, if a company has not yet been approached, and they are in that ballpark, there's a very good chance that they will be.

So—and when it comes to—I'll call it public company readiness, for 99 percent of people, there's no difference between a SPAC and an IPO. It's all the same as just getting ready to be a public company, getting ready for the cadence and the rigor that comes with having to file documents with the SEC every quarter, every year. And, so, in many ways that's not going to change. But what we do tend to see is that the SPACs are going after companies that are a little less mature and a little earlier than what we've been seeing in the IPO space. And what comes with that is you usually have smaller teams at the companies, maybe less sophistication, and so they are needing additional support to just help supplement everything that needs to be done through the process.

So, that's ultimately what me and my team do, is they come in and we help on the other side of the table than the auditors, help them get through the audits, make sure it's all streamlined, help prepare all the S1 and the other documents that need to be prepared, along with the F pages and things like that. So, it's still—it's a pretty grueling process, and the reason I focus on finance and accounting is these are the areas that tend to be measured in, let's say weeks, months, and years, right, in terms of needing to get them done, where a lot of the other stuff around the IPO process can be done considerably quicker.

David Linthicum:
So, how does this affect the retail investor, people who had ultimately invested on what these groups are taking out?

Barrett Daniels:
Well, hopefully it's better because a lot of the—there is an argument to say that the reason for this recent SPAC explosion has been mispricing of IPOs recently. And we've seen a lot of IPOs do what's called “pop” on day one, where there's an argument to say that they've left a lot of money on the table. And the SPAC really does avoid that. And, so, for people that weren't super-excited about leaving money on the table through the IPO process, the SPAC process really fits nicely into their thought process.

David Linthicum:

So, this is good for the people who are taking out companies; this is good for the retail investor because they have access to things that they typically couldn't get to that quickly—and that was, by the way, a big complaint after the bubble burst a long time ago when a lot of the IPOs were more difficult to get out. The retail investor didn't have access to invest in some of the hotter technologies that were out there. What are the downsides?

Barrett Daniels:
Well, the downside of the SPAC is that it is generally more speculative, because we are talking about companies and industries that haven't quite matured yet, or companies that are still earlier and working through their product, and maybe it's not entirely clear if they're ready for the show. So, if we have a lot of companies go out and just start fumbling right out of the gates, that could impact the broader markets, which would be troubling. And then, also, I think probably the bigger concern is around the SPACs and how many of them there are, and are there enough who match up with all the SPACs out there that are searching right now?

And, I think at this point I'm not terribly concerned. But if there are 1,000 more SPACs coming out over the next year, I do start to get worried, to think where are these companies going to come from, because right now, by various counts there's 500 unicorns out there in the world, right? And, of course, this is super oversimplifying it, but let's say those are sort of the nice companies that belong public. But if there's 1,500 SPACs looking for company ies to take public and there's only 500 unicorns, then we're just getting down to smaller companies—and not that smaller is bad.

For a long time, small companies went public and there was no concern. But it does start to get to a place where, how is this all going to play out, and if it plays out poorly, what does that mean? Now, at the same time, it could play out brilliantly, and maybe these companies are really nice companies, and there is no difference in terms of how good their product is going to be; it's just a little bit earlier. We just don't know yet. It's just still waiting to—TBD, if you will.

David Linthicum:
Yeah, what I see in the marketplace, and I've been observing it for the last 30 years, is there seems to be a lot of creativity and innovation that's been occurring in the last three years, typically based on cloud technology. So, they're not necessarily building clouds—probably not a great idea because people have already saturated that space—but they're building technology to complement clouds. And, ultimately, that's where the market potential is moving forward. Is that where the SPAC folks are focusing on, or are they focusing on another area of the technology space?

Barrett Daniels:
Oh, no, no, I think they'd be more than happy with that. I think right now—so the SPACs do go public with an industry, or a type of company in mind, but that doesn't mean they can't shift, right? They can go out and actually use that money to acquire any company they want; it just has to be a certain size. So, I don't think it's necessarily tied to the industry. It's just something that's going to excite that management team and, ultimately, make them believe that it's something that the markets will be excited about.

David Linthicum:
So, how do they evaluate a company without a deep technical understanding and the ability to kind of predict where the market's going? Or is this typical speculation that's been going on for years? You're going ahead and making some bets, and hopefully they come in.

Barrett Daniels:
Yeah. Look, in many ways it's not terribly different than just a VC, just from a public point of view. And you think about it in that regard, that's a little scary, right, because VCs typically know that a big chunk of their portfolio is going to go to zero, and it's focused on the ones that are going to be the grand slams and the homeruns that go through. So, maybe we're just going to see more of that with the riskier investments that come with some of these earlier companies. But I've got to say—look, I've probably talked to 40 companies in the last couple of months just thinking about this process, and it's helped me be less worried. These companies are nice companies, and I don't have concerns about them. They are if anything just smaller and earlier than what we're seeing. And I think there's a great chance that they ultimately do well. Now 40 companies is very different than 1,000, and so we'll see. But by and large I'm optimistic. I'm more optimistic than I was, let's say, a couple of months ago when this was really going crazy just because of the quality of the companies that I've been talking to.

David Linthicum:
Yeah, and moving forward if I'm going to take a company public, walk me through the steps, and how do I be successful in doing so?

Barrett Daniels:
Yeah, sure. I like to think about in phases, and, depending on how long you have, you can really focus on these phases. So, if you come to me and say, "We want to be public in six months from now," sort of phase one is out the window, right? But if a company comes to me 18 months, 12 months out and really believes, "Hey, we're going to be public in 12 to 18 months; what should we be doing?" Phase one to me is always some combination of the team and the systems and building out a really good roadmap. Make sure you get proper FP&A tools in place.

And then really make sure that you have the right team, and when I'm thinking about a team for a potential IPO company, I hear a lot of people talk about we want somebody with IPO experience, and I think that's the different way to approach it. It's like you need a controller who's been with a public company and really does understand the rigor that comes with being that public company, so finding that key finance controller. Of course, finding a good CFO who's going to wow people on the roadshow and really be able to tell the story well, and then things like SEC reporting and making sure that you have just all the pieces in place to help you get there, based on the timeline you need.

And then beyond that, probably the biggest thing to me—and I love to say the one thing that's slowed down every IPO since the beginning of time is the audit. So, focusing on making sure the audits go as smoothly as possible, that you're prepared for them, that you get the team out there early and that you're ready for them when they show up—all of these things that sound super easy but are almost never done, right? And then you move on to making sure you've got all your valuations in place, you have a good FP&A team, your legal team is queued up, you have a good story to tell, you start to get your IR function in place, you start to think about corporate governance, what your board's going to look like. Do you have an audit committee chair? All of these kinds of things even before you start drafting the S1 and, ultimately, having to worry about segments and EPS and rev rec and things like that.

David Linthicum:
So, one last question, kind of a selfish question: How important is the technical story versus the business story? In other words, how important were things that I said versus the CFO or the CEO?

Barrett Daniels:
I think the business story is everything.

David Linthicum:
Hey!

Barrett Daniels:
[Laughter] Sorry.

David Linthicum:
Go ahead.

Barrett Daniels:
I mean, look, it's got to be compelling, and it's got to show a bright future, because, look, every—so the thing that excites Wall Street more than anything, is growth, and it's always been growth, and I suspect it will always be growth. And that's because it's hard to find. And it's typically something that's easier to find in public companies and as companies go public. So, I think that the story needs to sync up and really be super-compelling and just enough to excite folks.

David Linthicum:
Yeah, absolutely. And, Barrett, normally I learn maybe five percent new things when I have guests on the show. This time I learned 100 percent new things as I had no idea how this stuff works, and now I'm ready to advise a company in how to—at least who to approach to understand how to take a company out.

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