Twitter Thread by Daniel Johnson



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Here’s a SPAC thread covering some basics for new followers. I will pin this to my profile if you want to share to anyone interested in SPACs.

SPAC timelines consist of these stages:
IPO – SPAC raises cash and begins trading as a unit. The cash is placed in Trust.
Searching phase – After IPO, the SPAC management team looks for a company to merge with. This is typically 24 months but can be shorter depending on the SPAC

LOI/Rumor – A letter of intent is announced publicly or Bloomberg/Reuters etc. breaks news of a rumor that a SPAC is close to a deal with a target.

The LOI/rumor stage does not always happen, most go straight to a definitive agreement. Rumors should only be considered to have value if from a trusted news source, internet rumblings are pure speculation. During this stage, a deal can still fall apart and not be signed.

Definitive agreement (DA) – deal officially inked. The SPAC begins filing paperwork with the SEC to have the merger approved to take the target company public. This process typically takes 4+ months after the DA is announced.

The SPAC trades as a projection of the target company during this period. Each weekend, I update and pin to my profile the status of all SPACs with a DA and where they are in this SEC filing timeline.

Merger date – a date is set for a shareholder meeting to announce the results of the SPAC shareholder approval vote. Shareholders must vote to approve the deal or not by this date. The shareholder may also elect to redeem the net asset value (NAV) of the shares.

If a shareholder redeems, they vote to not hold through the merger + receive the cash value of their shares back. This feature creates a “floor” for a SPAC before the merger is complete. Poor deals face heavy redemptions and the target company receives less cash than expected.

Key terms with SPACs
Unit – A new SPAC IPO is in the form of a unit typically. This is denoted by a U on the end of a ticker. A unit consist of a share and a warrant (or fraction of one). The unit is broken out to the share and warrant 52 days after IPO typically.

Share – Voting shareholder. Each share has a floor at NAV.
Warrant – Terms vary by SPAC, the most common is that they convert 1 warrant to 1 share at a price of $11.5 and expire 5 years after merger date. Ratios can vary greatly by SPAC so refer to the prospectus.

Regular postings from my account – daily top gainers/news, weekly SEC filing update, link to every new DA investor presentation/press release, and monthly target screens based on the investor presentations presented by management.

There is approx. 225 SPACs searching for a target, 50 with a DA and 80 in pre-IPO stage (as of 1/1/21). Please remember to properly research targets as you would any investment and know how SPACs work. The floor is your friend when considering going long and managing risk.

2021 should be another busy year of SPAC transactions given there will be 300+ searching shortly. I am planning a new thread soon surrounding SEC filings to provide insight there so stay tuned!