The SPACs renaissance and the offshore advantage

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In this Update, we consider the recent boom in special purpose acquisition companies, their characteristics, what makes them so attractive to investors (and founders) and the advantages of structuring them in the British Virgin Islands and the Cayman Islands.

The special purpose acquisition company (SPAC) can trace its roots back to the blank cheque companies of 18th century England. The principles remain the same but the model has evolved, and in times of uncertainty (and indeed, the global pandemic), the rebirth of the SPAC model and a surge in the wider alternative IPO space shows increasing investor appetite and confidence.

The SPAC as we know it today emerged in the early 2000s as a quick and cost effective private-equity style offering, to raise capital upfront and buy the operating business later, with the added benefit of capital market protection. At the time of writing, there are approximately 578 SPACs listed on the US markets alone, with around $134.4bn of capital raised, showing a clear and rapid investor confidence in the model.

What are SPACs?

A SPAC is a newly incorporated company (often forming part of a wider, offshore group structure) formed for the purpose of raising funds by way of listing on a public market, through an initial public offering (IPO). The aim is to raise capital which would then be used to acquire either investments or business assets (which could include merging with an existing business at a later date). The SPAC is a shell company and does not have any financial history, business operations or assets at the point of listing. The target business has typically not been identified and the investors are effectively betting on the management team.

A SPAC will have a designated, limited lifespan (typically, 12–36 months) to identify and acquire a target business and/or investments, before proceeding to ‘de-SPAC’, and during which time the investors’ funds are held on trust. Should the SPAC’s objectives not be achieved, the SPAC is usually dissolved and the funds returned to its shareholders. Typically where a target is identified, the shareholders can either agree to the deal, or vote against the deal and get a refund of their investment, or sell their shares and exercise the exit option.

Why are SPACs so attractive to investors?

SPACs are viewed as a much quicker and cheaper path to going public than the traditional IPO route. They raise capital upfront by way of IPO, and buy the operating business or investment later, based on confidence in the prospective management team to identify and close appropriate investment opportunities.

The listing of a SPAC can proceed without the need for target due diligence and investors can take comfort in both the capital market protections and the (typically) very experienced (and sometimes high-profile, including celebrity) management teams, especially so with private-equity SPACs.
This means investors are betting on the ability of the SPAC's management team to quickly identify and close investment opportunities, within clear timescales, and then de-SPAC. In the meantime, investors have the benefit of capital market protections and the liquidity of being able to trade their shares in a SPAC publicly. In times of uncertainty, such as a global pandemic, this flexibility and potential for superior economics makes the SPAC model extremely attractive to both investors, and founders alike.

**What are the advantages of offshore SPAC structures?**

SPACs are increasingly becoming part of the offshore mainstream, and the British Virgin Islands (BVI) and Cayman Islands (Cayman) and are regarded as an increasingly popular SPAC jurisdictions for the US, with wide acceptance on the global exchanges, including the NYSE and NASDAQ.

They are mature offshore financial centres, which benefit from political stability and well-developed common law legal systems, with flexible company law legislation, light touch regulation and modest ongoing maintenance costs.

BVI and Cayman companies are also tax neutral, meaning there is no additional layer of taxes (i.e. no income tax, corporation tax or capital gains tax) at the 'local' level. BVI and Cayman companies also benefit from robust creditor protection and experienced offshore professionals, to act alongside onshore counterparts.

These factors make the BVI and Cayman particularly attractive in the alternative IPO space and especially so for SPACs.

**Further information**

For more information in relation to structuring SPACs in the BVI or Cayman, please speak to your usual Mourant contact. For further detail on BVI and Cayman companies, please refer to our client guides: BVI Companies: A guide and Cayman Islands exempted companies.

**Contacts**