THE ACTIVIST REPORT
13D Monitor
Volume 10 Issue 9 September | 2020

10 Questions with Don Duffy

Don Duffy is the President of ICR and co-runs the firm. Since 2001, he has worked to build ICR's industry teams and corporate culture, driving the firm's rapid global growth. Don is a leading expert on IPOs, Special Purpose Acquisition Companies (SPACs) and other complex corporate transactions. Don has led teams that have advised hundreds of companies on IPOs, mergers, acquisitions and other complex corporate transactions. Prior to ICR, Don spent over a decade as a portfolio manager and research analyst specializing in public and private investments in the consumer and technology industries. Prior to joining ICR, Don co-founded the asset management firm Meyer, Duffy & Associates and Meyer Duffy Ventures. Don also served on multiple public boards, and has chaired audit, compensation and special committees. Don received a B.A. in Finance from St. John's University.

13DM: ICR has been doing a lot of work in the SPAC area. Tell us a little about this practice area. As a strategic communications and advisory firm, how does ICR work with clients to add value throughout a SPAC transaction?

DD: Overall, we're focused on preparing the Company from the start, pre-announcement, through the marketing period, closing the merger, then of course to effect a smooth transition to a publicly listed company. First, ICR works with the SPAC and the Company to deliver a highly impactful deal announcement. This is critically important and very different than an IPO because of how you are able to communicate with the media and investors. We advise on media and investor messaging, targeting, tracking to optimize the transaction. We then create and execute a comprehensive investor, analyst and media targeting program throughout the marketing period. The end result is an optimal transaction.

13DM: After a target acquisition has been identified and a deal negotiated, the acquisition company must quickly transition to the public market. What role do PR and proxy advisory firms play in supporting a successful execution?

DD: PR is much more important when the transaction is announced. Although companies need to consider ways to keep investors informed during the de-SPAC period, so PR can play a strong ongoing role.

Proxy advisory is an emerging issue. SPAC sponsors do not take shareholder voting for granted. However, complex deal structures or overlooking the importance of Environmental, Social & Governance (ESG) considerations of investment funds can backfire. Proxy advisory firms are watching these deals more closely, and these firms are weighing in more frequently with SPAC merger vote recommendations as the deal size and institutional interest grows. Shareholder vote recommendations and governance oversights can complicate the process immediately prior to close.

13DM: What is the de-SPAC process and why is it important?

DD: A successful listing of a SPAC IPO is just the beginning of the process. After a target acquisition has been identified and a deal negotiated, the "de-SPAC" process begins. To be successful, SPACs need an experienced team of advisors that understands the de-SPAC process, the industry of the target business, the challenges related to announcing an acquisition and communicating to all your constituents (SPAC shareholders, sector focused institutional investors, analysts, employees, key business partners, the media, etc.), and the shareholder vote process. It's important to maximize awareness of and market the deal by properly targeting the media, institutional investors, retail investors, and research analysts that cover the sector. While traditional IPOs involve SEC-mandated limits on communication, SPACs are permitted to engage in all forms of marketing and communication to generate interest in the transaction. SPAC sponsors should not take shareholder voting for granted.

13DM: What is driving the current resurgence of SPAC issuance? Is this a trend that is in its late innings or do you see SPACs as a long term option to access the public markets?

DD: SPAC IPO issuance has accelerated as improved deal structures, high quality SPAC sponsors and blue chip institution-

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al investors converge. While recent filings may have peaked, I don't see things slowing down materially because the buyers of SPACs are essentially buying a "riskless" security. You ultimately own a share of stock that's backed by cash in a trust account, and if you don't like the acquisition the SPAC sponsor has negotiated, you can choose to redeem at the shareholder meeting and take your money back. Ultimately, the market will only peak when the pool of good companies dries up, based on what I can tell, there are a lot of unicorns still out there. The reality is this increased activity and broad acceptance of SPACs has transformed the IPO market, especially for corporate issuers (and their PE and VC owners), where SPACs provide greater certainty for a transaction, including a negotiated "clearing" price, with more liquidity to owners versus an IPO. PE and VC firms have warmed-up to this structure because of the range of flexibility it has versus an IPO.

13DM: As the level of SPAC issuance increases, what can SPAC issuers do to differentiate themselves?

DD: I think two things. First, SPAC issuers need to establish a reputation for mastering the de-SPAC process, as I described earlier. The more of a track record they can demonstrate to target businesses and the institutional community, the easier it will be for them to complete transactions Second, they need to ensure the target company is ready for life as a public company. Once the merger closes, the target business essentially becomes the successor public company, and to be successful it's important for every management team to hit the ground running as a new public company. SPAC sponsors should ensure the companies have the investor relations and public relations capabilities along with public company infrastructure in place.

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13DM: Which sectors are most conducive to SPAC IPOs and how are institutional investors responding?

DD: SPAC IPOs have accelerated in sectors such as technology, where VCs want better liquidity solutions without the pricing inefficiencies of an IPO. Fintech has also been a very successful vertical. In the last few months, there has also been a flurry of deals in the electric vehicle sector, based on the success of Telsa and the massive market opportunity to convert (ICE) internal combustion engines vehicle owners to EV owners. What's fascinating is that the structures are also evolving and improving, attracting substantial backing from institutional investors who like the transparency, access, and investment options of a SPAC transaction versus a traditional IPO. High quality SPAC sponsors are finding great merger partners, and investors prefer the structure both because it allows for greater and more direct diligence with the company and because they are able to buy stock freely in the open market after the deal is announced, not beholden to the investment bank equity capital markets process, which most often favors a few select institutional investors.

13DM: SPACs are sometimes criticized as a back door way to go public with less transparency. Is that the case?

DD: Maybe a decade ago, but certainly not today. Ten years ago SPACs were often associated with acquiring businesses that weren't ready for life as a public company. More recently, however, SPACs are being sponsored by highly credible executives and M&A experts, with substantial institutional or private equity sponsorship. You could argue there is actually more transparency.

13DM: What are some of the advantages of SPACs over IPOs?

DD: SPACs have a substantial structural advantage. As I said earlier, for corporate issuers, SPACs provide greater certainty for a transaction with more liquidity to owners versus an IPO. Institutional investors prefer the structure because it allows for better diligence with the

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company. They get to talk to management teams multiple times. They get a webcast, they get a deck, they have access to management teams, etc. Unlike an IPO, where they're getting a 1-hour meeting, they have multiple months where they can do multiple calls. I think the biggest factor that comes up is the company is typically giving some level of forward-looking guidance, and institutional investors like the fact that management teams are putting a stake in the ground. In addition, great long-term investors have access to the PIPE or they can move quickly after a SPAC merger announcement and buy as much stock as they want in the open market. That's a big differentiator.

13DM: What advantages do successful and well-established activist investors bring to sponsoring SPACs?

DD: By their very nature they are hands-on investors. So as a SPAC sponsor, they are now in the driver's seat to buy a business, much in the way they try to buy into the business of a public company. Institutional quality asset managers with established profiles - whether activist, constructivist, or more traditional long term investors - bring a combination of credibility, awareness, and experience. Credibility helps in attracting potential combination partners, SPAC investors and long term fundamental investors during the de-SPAC process. Driving awareness is critical once a combination target is announced. Driving media coverage of the deal and the value proposition of the go-forward company is a big factor in a successful de-SPAC. Firms with established brands and relationships can leverage those connections during this critical phase of the process. Lastly, and maybe the most critical factor activists bring is a keen ability to identify and articulate how the company is going to unlock and maximize value for shareholders. Activists are good at isolating the true value drivers and focusing management teams on what is going to maximize value.

13DM: What thematic elements would make a company more appealing and better suited for a SPAC acquisition?

DD: First the company needs to be ready to be public. Everyone must remember when the merger closes, the target business is a public company. Senior management, and particularly the company's finance/accounting infrastructure, needs to be public-company ready. Second, ideally access to the capital the SPAC provides should drive growth and improve shareholder returns – meaning the business should benefit from having access to more capital. Third, businesses are better suited for a SPAC if they have a strong underlying investment case – something that's going to get investors excited.

13DM: Pershing Square recently launched the largest SPAC IPO to date, Pershing Square Tontine Holdings, in many ways changing the game. They notably deviated from standard market terms with terms and an incentive structure that far better align the goals of stockholders with those of the sponsor and potential merger partner (https://www.cnbc.com/2020/07/22/bill-ackman-and-tontine-holdings-rewrite-the-terms-for-spacs.html). How do you think this $5.5 billion launch will change the SPAC market?

DD: I don't think it will change the SPAC market. I just think it demonstrates that SPACs can be an attractive solution across many market cap ranges.

PSTH breaks from the industry norms on a few fronts, most notably the IPO size and its unique warrant structure, features designed to encourage buyers of the IPO to hold the stock through the merger vote, and thus discourage redemptions. This is what makes SPACs so unique, they can come in "different shapes and sizes" in order to appeal to a broader institutional investor universe.

PSTH is targeting a mid-to-large capitalization acquisition, so they have to find a larger unicorn, likely in the $10 billion+ enterprise value. The good news is there are a number of these companies out there, and Bill Ackman and his team have an exceptional track record of driving shareholder value. Many people may not recall, but he was a key investor in the original Burger King SPAC deal, which has done incredibly well.

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