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# U.S. SPAC Boom is Poised To Spread To China China

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California-headquartered consumer DNA-testing company 23andMe Inc. this month unveiled plans to go ... [+] © 2021 BLOOMBERG FINANCE LP

China's relatively strong growth has helped to make it a world leader in unicorn companies, or start-ups with more than $1 billion. It's an elite group that includes ByteDance, the parent company of TikTok, Didi Chuxing, a China ride-sharing leader, and Pony.ai, a Toyota-based autonomous vehicle company. The boom in investor demand for SPACs under way in the U.S. is poised to spread to Asia, opening up new channels for funding for these Chinese businesses and new avenues for international investors to buy into their growth.

So says Drew Bernstein, co-managing partner at Marcum Bernstein & Pinchuk in New York. "All the major SPACs are chasing targets in China right now — especially those with pressure to close this year," Bernstein said in an email exchange today. "Chinese companies have strong revenue growth, are highly innovative, have a sizable addressable market, are disrupting business categories, and are even creating new ones. These are the types of companies that investors covet and will heavily compete to acquire."

Bernstein, who has been auditing and advising Chinese companies for more than two decades, warned, however, that U.S. investors need to be clear-eyed about risks before putting money into an Asia-based SPAC. Interview excerpts follow.

Flannery: Asia-based SPACs have accounted for only a small percentage of SPAC activity thus far. Why?

Bernstein: While special purpose acquisition companies (SPACs) have existed since the early 1990s, these investment vehicles have gained popularity in recent years. On a year-to-date basis, 151 SPACs have raised $41.3 billion. In 2020, 248 SPACs raised $75.5 billion. While in the past, most SPACs were taken public by boutique investment bankers and raised tens of millions of dollars, today nearly every "bulge bracket" firm has led a SPACs deal, with proceeds up to hundreds of millions or even billions of dollars.

China is watching the U.S. market closely. China's big opportunity is for Chinese companies to be prime targets for sponsors. All the major SPACs are chasing targets in China right now — especially those with pressure to close this year. There is a finite time frame for SPACs to close a deal before they have to return their money back to investors. Therefore, investors want to make a deal happen and sooner rather than later. I expect that China will start to form its own SPACs once it sees the results of the current SPAC market, and the share of China-backed SPACs will significantly shift upward. Additionally, the chase to target Chinese companies will become especially tight once Chinese SPACs sponsors begin to form at a higher clip, which again will be dependent on the early success of the U.S. SPACs.

Flannery: Why are China companies a good SPAC target?

Bernstein: Given there are 600 unicorns worldwide, with half from China, it is essential to target them in order to acquire valuable companies and close a deal quickly. Chinese unicorns and pre-IPO companies get significant attention and can drive value for the SPAC. Chinese companies have strong revenue growth, are highly innovative, have a sizable addressable market, are disrupting business categories, and are even creating new ones. These are the types of companies that investors covet and will heavily compete to acquire, as they are likely to be more qualified as well as ready for a SPAC deal.

**"I expect that China will start to form its own SPACs once it sees the results of the current SPAC ... [+] MBP**

To attract a deal, Chinese companies still need to earn and retain investor trust — quickly. Financial information must be prepared, transparent, and reliable. Corporate governance protocols and strong management teams need to be in place as foundational support. Pre-IPO and unicorn companies tend to be positioned to move quickly because they are already preparing their financials and reviewing and improving their systems.

Flannery: What are the pros and cons of the availability of more Asia-based SPACs for global investors? Last year, for instance, there was criticism of disclosure rules for U.S.-listed Chinese companies.

Bernstein: SPACs relatively low-risk structure — combining the ability to recoup the initial investment at their discretion with the opportunity to participate in the upside of a privately negotiated deal — is attractive to many investors. As with all deals, an investor in an Asian-based SPAC will need to conduct strong due diligence. To be successful, especially in the U.S. market, Chinese companies need to comply with regulations and have their financials in order. The area Chinese companies — and subsequently Asian-backed SPACs — need to prove themselves is corporate governance - need credibility of financials and the management teams to earn and retain investor trust and sustain performance as a public company. Whether the target is a U.S. or foreign company, the SPAC will be responsible for ensuring that any company it acquires adheres to U.S. capital markets standards as part of the acquisition process. Those standards include speed to market, negotiated valuation and public market expertise. Risks include dilution, reputational risk, and investor rejection.


Charles Lu, founder of China's Luckin Coffee, gestures while speaking during the company's initial ... [+] © 2019 BLOOMBERG FINANCE LP

Flannery: As I mentioned, the Trump administration raised concerns about disclosure rules for Chinese-listed companies on U.S. exchanges. Where do you think that discussion is headed now that the Biden administration is in office?

Bernstein: With new leadership comes change and likely clarity. No matter what the rules, as long as a company understands them, they can be positioned to comply.