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PitchBook Analyst Update

Alternative exits tilting mainstream

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Credits & Contact

Analysts
CAMERON STANFILL Analyst
cameron.stanfill@pitchbook.com

Contact PitchBook
pitchbook.com

RESEARCH
reports@pitchbook.com

EDITORIAL
editorial@pitchbook.com

Since publishing our 2018 themes, there has already been a fair amount of activity in SPACs, especially in the technology and VC space. In January, True Wind Capital (a technology-focused middle market PE firm) sponsored a SPAC called Nebula Acquisition, which went on to raise $287.5 million. The stated goal is to source an acquisition of a technology company valued from $500 million to $2.5 billion. For True Wind Capital, or any financial sponsor of a SPAC, this structure essentially is a tool to raise a pool of capital outside of their traditional fund (and from public investors) to go after one attractive deal.

Most recently, FanDuel is reportedly close to completing a reverse merger with Platinum Eagle Acquisition Corp., a SPAC run by veteran Hollywood executives Jeff Sagansky and Harry Sloan, who previously have launched three other SPACs, all of which focused on acquiring media companies. Platinum Eagle raised $325 million in its IPO in mid-January, which adds a bit of speculation about the ultimate structuring and valuation at which the deal will execute, since FanDuel was valued at over $1 billion in the private markets, most recently by BluePointe Ventures, M13 and Hercules Capital in May 2016 during their Series E1 round. It should be noted that in the two most recent financing rounds investors received favorable deal terms, like a 1.5x liquidation preference and participation rights, which may have boosted the headline post-money valuation.

If the transaction is completed, it will essentially be a ~$325 million VC financing for FanDuel that simultaneously brings the company public. This will likely translate to the SPAC shareholders collectively owning a significant percentage; however, it is unlikely to result in a shift in control at FanDuel this new capital would still be a minority position based on the company's last private market valuation. The sponsors may still have the opportunity to influence company strategy in a manner similar to a VC or activist investor. Alternatively, the company's valuation may be materially lower due to regulatory challenges related to the FanDuel business model, or the sponsors could raise a substantial amount of debt to purchase more shares with cash rather than exchanging shares/issuing equity (which dilutes their ownership) to gain a majority stake in the business.