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Q1 2022 SPAC Update and Performance

Introducing an index to track public performance of deSPAC combinations

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Introduction

The first quarter of 2022 was incredibly tumultuous both in and outside the financial markets, which has injected a considerable amount of uncertainty about the future into today's investment decisions. This shift in mentality has brought to a screeching halt the "growth-at-all-costs" leanings of the past few years, as high-growth companies across all sectors have seen serious revaluations in the public markets. The current cohort of SPACs and the companies they have taken public have been heavily concentrated in many of these high-growth verticals, and with that, the aftermarket performance of many of these companies has suffered.

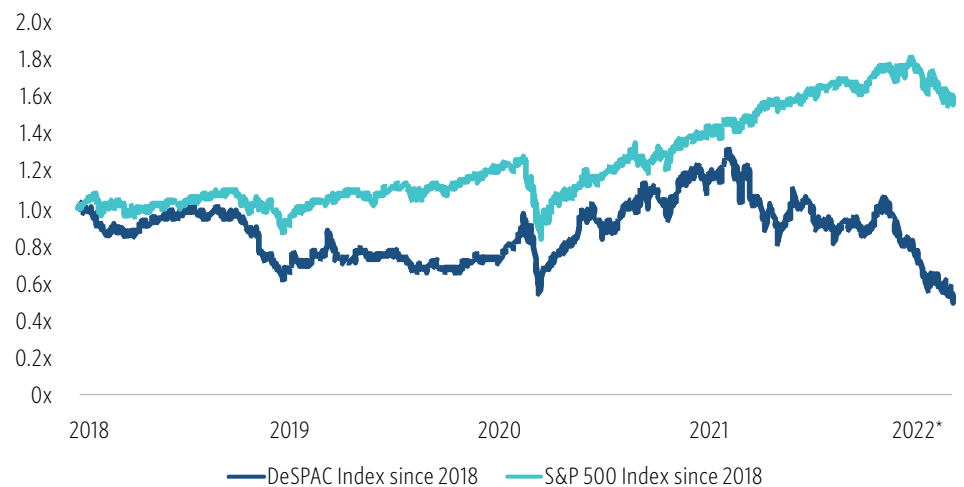
Declining equity prices and the increasingly negative outlook have also slammed the IPO window shut, as we've seen almost no new listings during the first three months of the year, regardless of method. In this note we introduce our new index of deSPAC equities to judge performance of this new segment of recently public companies.

Aftermarket performance

Our [VC-Backed IPO Index](#) was built to track the performance of new public companies that used the traditional IPO method to jump to the public markets. But while the rate of SPAC combinations increased rapidly over the last year, if we only analyzed traditional IPOs, we were missing a significant portion of the public listing landscape. To address this shortfall, we created an index tracking the public performance of deSPAC equities. We've applied much the same methodology to the two indexes to perform similar analyses. As a note, this price index only includes companies after the reverse merger is closed and the ticker is changed, so it does not incorporate any price action that the blank-check vehicle might experience from issuance to announcement to deal closure.

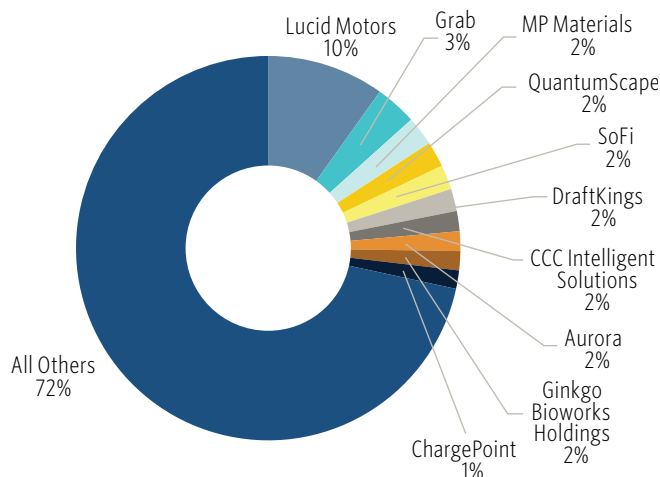
We wanted to start this note with the price performance aspect, as that is the driver of most current market trends regarding new SPAC issuance and deSPAC activity. As can be seen in the accompanying chart, companies that have completed the deSPAC process have significantly underperformed the S&P 500, with the majority of that underperformance occurring during the last year. The recent rout in public markets, which began around the last few trading days of 2021 and has continued through the first quarter of 2022, has steepened the rate of loss for these recently public companies; however, the initial slide in performance started much earlier in 2021. Our deSPAC Index has posted a decline of 47.8% since 2018, as well as a 35.6% drop since the beginning of 2022 relative to the S&P 500's 59.4% gain since 2018 and 10.6% decline in YTD 2022.

PitchBook deSPAC Index vs S&P 500



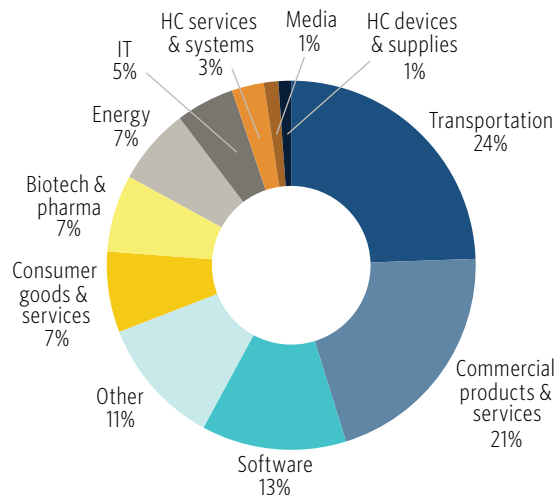
Source: PitchBook | Geography: Global
*As of March 15, 2022

Constituents of deSPAC Index*



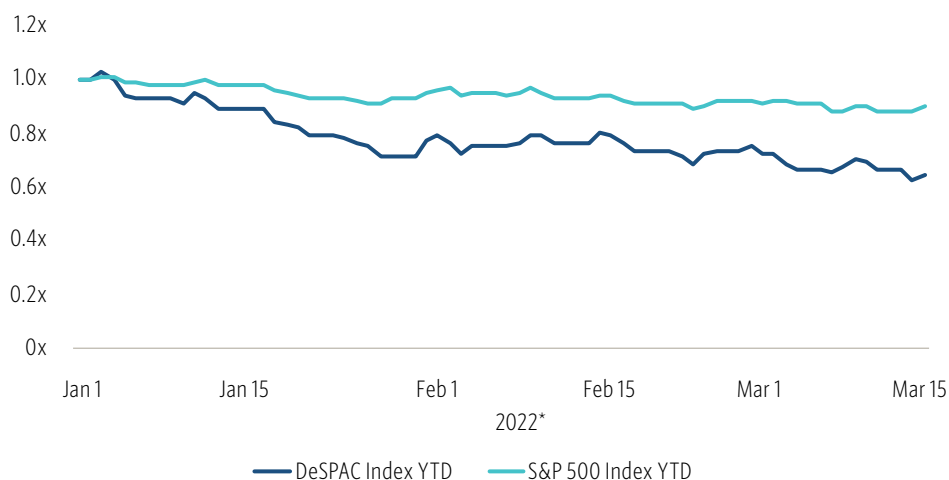
Source: PitchBook | Geography: Global
*As of March 15, 2022

Current industry breakdown of deSPAC Index*



Source: PitchBook | Geography: Global
*As of March 15, 2022

DeSPAC Index performance vs S&P 500 YTD 2022



Source: PitchBook | Geography: Global
*As of March 15, 2022

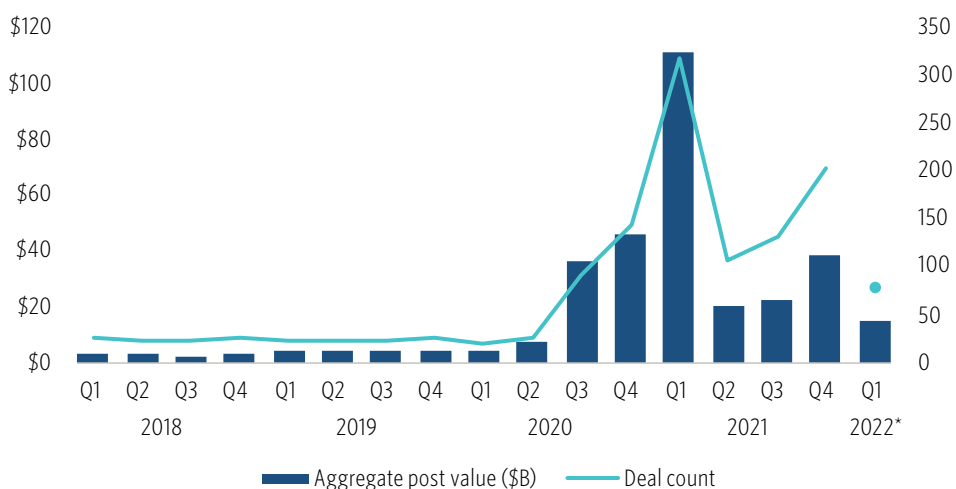
This isn't a condemnation of the SPAC vehicle in its entirety because at the end of the day, the company that merges with the SPAC must execute on its operating plan. That said, many SPAC deals were priced in the valuation climate of 2020 and 2021, which consisted of some of the most elevated multiples in history—especially for companies with growth prospects. However, SPACs have begun to shift their focus toward younger businesses as well as to sectors such as technology and biotech in response to the swelling inventory of private companies delaying IPOs. The valuations in place when many of these SPAC combinations were initiated were, in part, tied to expectations and projections about these companies' financial position. The ability to include future projections in prospectus documentation was billed as a feature to persuade companies to consider a reverse merger with a SPAC; however, shifting sentiment in public markets may have caused this strategy to backfire

on many deSPACed companies. Rising interest rates in response to inflationary pressure and other economic stimuli may reduce the value of those projected cash flows—not to mention recent macroeconomic developments that might dampen growth prospects for some companies.

The picture for this cohort of companies that have gone public via deSPACs remains relatively cloudy, as the macroeconomic headwinds look to be more substantial than some of the short-term blips we’ve seen over the last few years. The onset of a more rational valuation climate should benefit the constituents of this index, as they will be anchored to a more attainable price that might allow for some growth as operations scale. While this may not be ideal for some of these businesses’ private backers, who would seek higher valuations at exit, it should be a positive sign that these SPACs will be able to provide a viable exit route for startups.

Activity

SPAC IPO activity



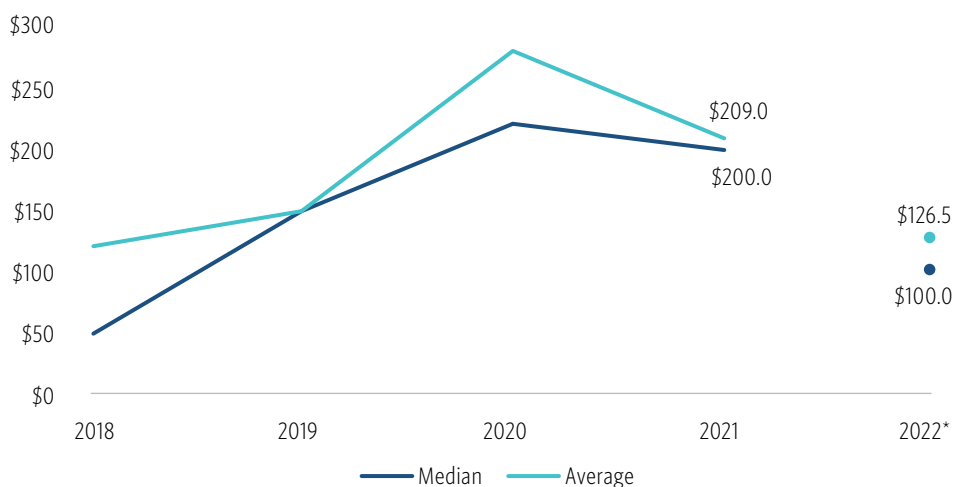
Source: PitchBook | Geography: Global
*As of March 15, 2022

The negative shift in public market performance of deSPACed businesses has translated to a significant slowdown in the pace of SPAC activity in general. New SPAC issuance has retreated in Q1 2022 on both capital and count bases with only 78 SPAC IPOs closing on \$15 billion in proceeds. With these totals, SPAC issuance has posted its lowest quarter since Q2 2020, which was on the cusp of the SPAC renaissance. In addition to the general downtrend in SPAC counts, the median and average SPAC sizes have taken a material dive—the median halved to \$100 million after topping \$200 million in 2020 and 2021.

While SPAC IPOs have found more success than traditional IPOs during the first three months of 2022, this distinct pullback from sponsors speaks volumes for the reduction in the marginal supply of capital for growth opportunities, as institutional backers have shifted to portfolio management rather than the risk-on priorities of the last couple years. These deals enable us to see the changing sentiment around

SPACs in real-time, as the lackluster performance of SPACs already seems to have disrupted the flow of fresh capital from institutional allocators. Activity in the next few quarters will likely continue to be muted, as these headwinds seem to be longer-term, and as we've previously noted, there likely remains an oversupply of unattached SPACs on the market, so some reversion was likely already necessary.

Median and average SPAC IPO size (\$M)



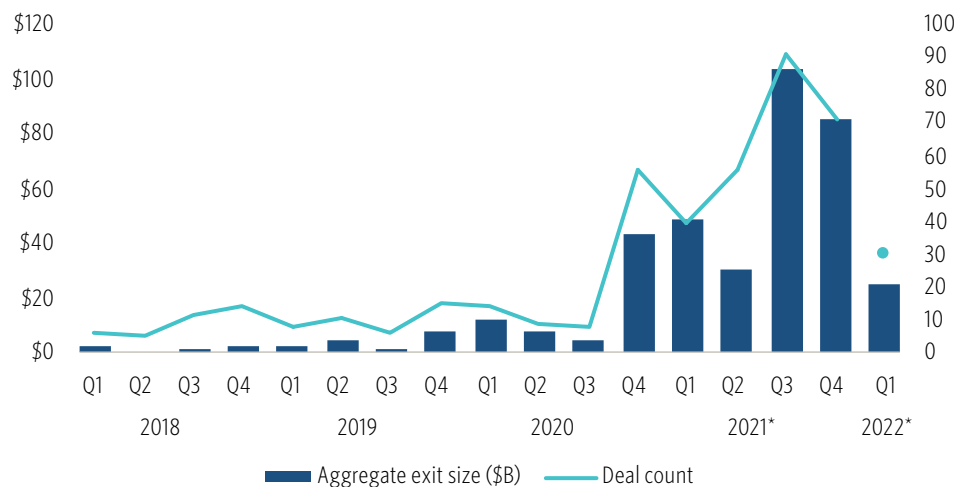
Source: PitchBook | Geography: Global
*As of March 15, 2022

The cooling off of new SPAC IPOs has been paralleled by a similar chill in SPAC combination activity—just as momentum was starting to build in Q3 and Q4 2021. Only 30 deSPAC events closed during the first quarter of 2022, which also heavily correlates to the volatile public markets. In the same way that companies pull IPO plans rather than list during a negative pricing environment, we believe potential SPAC targets may opt to delay or forgo any negotiations until there is a clearer picture of the markets. Further, many recent SPAC combinations have been plagued by extremely [high redemption rates](#) at the time of the merger, forcing them to enroll a completely new investor base during that critical juncture. This problem was partially solved by concurrent PIPE deals, which were a mainstay of 2021 deSPAC transactions, but those deals have become harder to obtain.

The possibility that fresh PIPE capital from well-capitalized institutions will dry up is a worrying sign for the ongoing health of the SPAC market, as these institutions represent a class of investor with a much longer-term focus, which is key for a smooth transition to a public entity. The proportion of SPAC combinations including PIPEs dropped to 50% of those 30 deals in Q1 2022 after climbing as high as 80% for the same types of deals completed in 2021. The size of these PIPEs also has seen a slide relative to 2021, as the median PIPE size nearly halved to \$100 million after sitting at \$192.5 million in 2021. We anticipate SPAC combinations will continue to flow as markets adapt to current conditions and the logjam of SPACs scrambles to make a deal as their deadline to make an acquisition approaches.

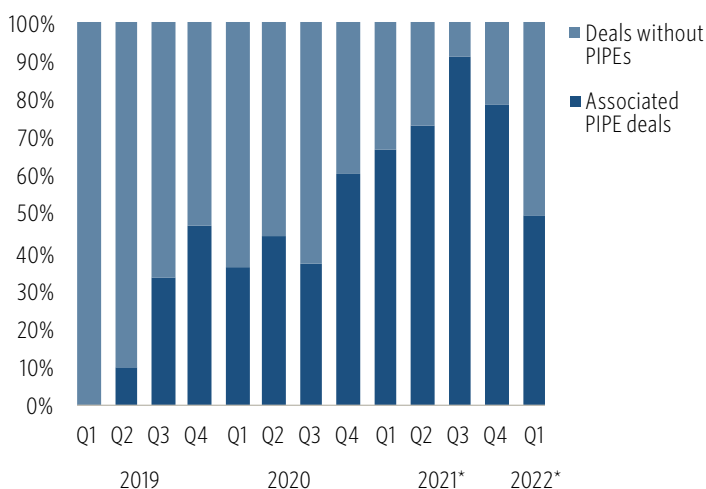
Regardless of any acceleration in deSPAC activity, we expect to see an uptick in SPAC liquidations as a significant portion of the swelling inventory of deal-less SPACs fails to complete a deal in time. We've already begun to see some movement to this effect as Burgundy Technology Acquisition Corp (NASDAQ: BTAQ) recently announced its liquidation and return of capital to shareholders. The dearth of potential target companies compared to the frenzy of SPAC issuances was always going to cause some market distortions, and the possibility that the bull market for growth assets might end will only accelerate the number of SPACs that fail to find a target.

Completed SPAC acquisition activity by quarter



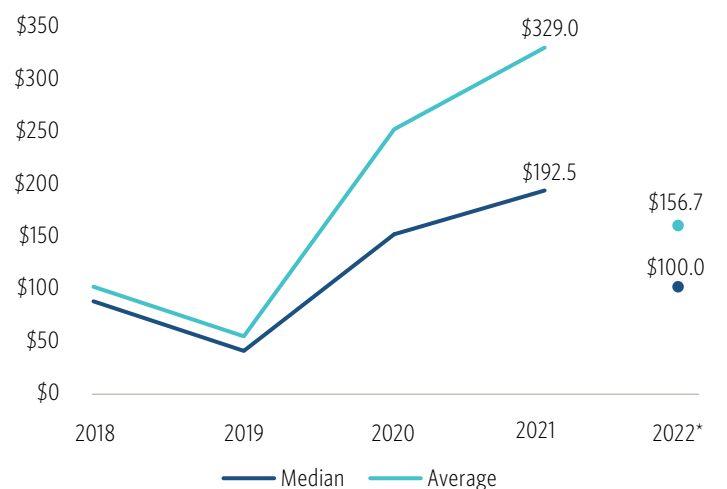
Source: PitchBook | Geography: Global
*As of March 15, 2022

SPAC acquisitions by share of PIPE participation



Source: PitchBook | Geography: Global
*As of March 15, 2022

Median and average SPAC PIPE deal size (\$M)



Source: PitchBook | Geography: Global
*As of March 15, 2022

Index methodology

To introduce the product, we are diving deep into the rationale behind the methodology to fully explain what the different indexes are displaying.

Population

- Every VC-backed or PE-backed SPAC combination included is listed on the New York Stock Exchange and NASDAQ, regardless of company headquarter location. We chose this broader scope to better reflect the investments of the SPAC market participants, who may have diversified strategies by investing across geographies, sectors, and sponsor types.
- Companies must debut with a post-money valuation of more than \$50 million to be considered for inclusion.

Reconstitution

- Newly listed companies that fit the criteria are included on the first day of the quarter after they close the reverse merger and change their ticker and continue to be included until the first day of the quarter after they have been trading for two years. For instance, a company that completed an IPO in February 2018 would have been included during the March 31, 2018, rebalance and dropped at the March 2020 rebalance.
- In addition to normal deletions from aging out of the two-year window criteria, companies will also be removed from the index following an acquisition or bankruptcy or if their market cap falls below \$50 million at any rebalance. If the event falls in the middle of the quarter, these companies are removed at the next rebalance date.
- All index weights are rebalanced quarterly or in the event of an interperiod addition or deletion.
- Companies can also be added earlier to the index if their market capitalization on the close of their first trading day is at the 95th percentile or greater of the current set of index constituents. This helps make the index more responsive to large deSPAC transactions.

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