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Short this index

Evan Lorenz writes:

Amassing one million dollars isn't easy, but "[t]he first billion is a helluva lot harder," the late T. Boone Pickens tweeted eight years ago. Good luck imparting that homely truth to the many businesses now rushing to go public via special-purpose acquisition companies. To hear them tell it, their first, fifth or twentieth billions are all but in the bag. A new *Grant's Interest Rate Observer* index of blank-check-abetted public listings is the subject at hand. It's not meant for buying.

Before the bug bit, 2000 was the peak year for IPO proceeds, with 380 companies raising an aggregate $64.8 billion. According to SPACInsider.com, the $81.4 billion collected in 2020 through 243 blank-check offerings has put 2000 in the shade.

The infatuation with SPACs is all the more surprising in view of the undistinguished investment record of that asset class. "A Sober Look at SPACs," a recent paper by Michael Klausner (Stanford Law School) and Michael Ohlrogge (New York University School of Law), examines price performance between 2010 and 2019. Following mergers, the pair found, such acquisition companies on average produced negative one-year returns, ranging from 10% for the 2010 cohort to over 70% for the class of 2014.

More surprising still—or, perhaps, not so surprising—is how quickly SPAC-enabled listings can collapse. Akazoo S.A., a music-streaming company, merged with Modern Media Acquisition Corp. in September 2019. The following May, a special committee of independent board members determined that Akazoo was a fraud. Nasdaq delisted the shares on June 1.

Every SPAC debuts at $10 a share, and for some it's the last they see of a double-digit share price. Thus, Lion Group Holding Ltd., an Asia-focused financial-services company, completed its SPAC merger on June 18 and now trades at $2.12 per share. Hall of Fame Resort & Entertainment Co., the builder of a football-themed resort in Canton, Ohio, merged on July 1 and now trades $1.33 per share. 180 Life Sciences Corp., an early-stage biotech company, merged on Nov. 9 and changes hands today at $2.85.

Promoters sell SPACs to end-run the regulatory rigors pertaining to standard IPOs. Canny investors buy them for the warrants and rights that the shares confer. They make a practice of buying new SPACs for the sole purpose of detaching and selling those warrants and rights. Once a SPAC proposes a deal, shareholders have the right to vote it down; naysayers receive their $10 back in cash. These investors buy into the IPOs with the intention of voting against deals and realizing the value of the warrants and rights. And, in fact, Klausner and Ohlrogge find, some hedge funds do trade SPACs in this fashion—the "SPAC Mafia," as they're affectionately known. The investment strategy earned its purveyors an annualized 11.6% over the 18 months ended June 30.

"One thing that I really liked about

Heaven-sent?

source: The Bloomberg

shorting SPACs is [that] they're acquiring businesses," George Livadas, the portfolio manager of Englewood, Colo.-based Upslope Capital Management, tells me. "In any normal acquisition, you pay a premium to buy a company." In a SPAC acquisition, the market may be willing to pay an incremental premium—only observe how often the original $10 price pops to $15 in the wake of the post-deal announcement. "You effectively get to short them at a premium to the deal premium, which, to me, is bonkers," says Livadas.

With that in mind, we've created the *Grant's* SPAC index. The 10 component companies have completed their mergers with operating businesses or are shortly poised to do so.

. . .

Tattooed Chef, Inc. (TTCF), a maker of frozen plant-based foods which went public on Oct. 15 via Forum Merger II Corp., is index component No. 1.

CEO Sam Galletti told a conference-call audience that his role had changed overnight. As the head of a private company, he tried to earn a profit. As the leader of a SPAC, his job is to go for growth—in particular, in 2021, 50% growth in the top line, to $222 million.

Earnings are taking a back seat. In the fall, Galletti was talking up $30.8 million in adjusted Ebitda next year. Now the chastened CEO is tipping between $8 million and $10 million. At the top end of the range, TTCF would be valued at 167.7 times 2021 adjusted Ebitda. For perspective, Nomad Foods Ltd., a frozen-food heavyweight based in the United Kingdom, trades at 11.9 times estimated 2021 Ebitda.

"So, there [are] the public company costs," said Galletti by way of explanation, "and then, also, the investments that we make to keep up with this tremendous growth and expansion that we have." Who could have predicted that running a public company has costs or that rapid growth requires advertising?

Blade Urban Air Mobility, Inc., a sort of Uber for helicopters, our index entrant No. 2, announced its planned public debut on Dec. 15 via Experience Investment Corp. (EXPC). Like Uber, Blade prefers it assets "lite," so owner-operators fly the helicopters while Blade tends the marketing app.

Founded in 2014, Blade has shone more on the top line than the bottom. Revenue reached $33 million in 2019, up from $2 million in 2014, but Covid-19 has done the business no favors; plague-year revenue is penciled in at $25 million, adjusted Ebitda at negative $6 million. By 2024, says the long-range plan, revenues will have reached $402 million and profits a positive figure.

Management hopes that Boeing Co. or Airbus S.E. will develop an electric vertical take-off and landing aircraft (eVTOL), basically a drone for people. The anticipated 2025 introduction of eVTOLs is expected to boost revenue to $857 million by 2026, when the company believes it will generate $326 million in adjusted Ebitda. Of course, the eVTOL arrival date is not guaranteed, nor is it certain that Blade would be able to convince eVTOL owners to sign up for its network over, say, Uber's, or, indeed, over anyone's.

Among the wave of companies going public via SPAC are business models that have never succeeded before. Our third entrant, Virgin Galactic Holdings, Inc. (SPCE), which merged with a blank-check company on Oct. 25, 2019, does Blade one better, altitude-wise. It aims to ferry passengers to outer space and back.

On Dec. 12, the Galactic aborted its first such flight from its New Mexico spaceport owing to problems with the ignition sequence. Two days later, Chairman Chamath Palihapitiya sold 3.8 million SPCE shares for net proceeds of $97.8 million. On Twitter, Palihapitiya explained: "I sold these shares to help manage my liquidity as I fund several new projects starting in 2021. I remain committed and excited for the future of SPCE. Just wanted to be transparent."

Here's more transparency. On Dec. 17, the company filed a prospectus for insiders to unload an additional 113 million shares, including 33.8 million more by Palihapitiya. Pending blast-off to the great beyond, Galactic is scratching out a six-figure subsistence as a U.S. government contractor. It commands a $6.4 billion market cap.

On Dec. 16, our fourth index component, AST & Science, LLC, an early-stage satellite cellphone company, agreed to merge with New Providence Acquisition Corp. (NPA) in a pending transaction. Existing satellite cell-service plans start at $39.95 per month for 10 minutes of talk time and require costly specialized phones. AST, which currently has no satellites aloft, believes it can offer services for as low as a dollar a month on ordinary cell phones. It targets revenues of $16.4 billion by 2030, which will require the launch of 336 satellites. Assuming the deal closes (it's slated for the first quarter), AST would be valued today at $2.2 billion.

SPAC mergers tend to flatter commodity businesses, including AppHarvest, Inc., a grower of fruits and

Grant's Interest Rate Observer SPAC Index

ticker	company name	share price	market cap.* ($ mns)	industry
TTCF	Tattooed Chef, Inc.	$25.86	$1,684.0	frozen food
SPCE	Virgin Galactic Holidings, Inc.	25.47	6,408.1	space travel
NPA	New Providence Acquisition Corp. (AST & Science, LLC)	12.04	2,185.9	satellite communications
NOVS	Novus Capital Corp. (AppHarvest, Inc.)	16.74	1,730.9	greenhouses
EXPC	Experience Investment Corp. (Blade Urban Air Mobility, Inc.)	10.80	891.0	helicopter taxis
NKLA	Nicola Corp.	16.83	6,464.2	automotive
QS	QuantumScape Corp.	131.67	49,611.8	batteries
LAZR	Luminar Technologies, Inc.	37.37	12,105.5	lidar
FSR	Fisker, Inc.	15.69	4,350.2	automotive
RIDE	Lordstown Motors Corp.	20.52	3,384.8	automotive

* Pro forma for deals that have not yet closed.

sources: company reports, the Bloomberg

vegetables in high-tech greenhouses situated in Central Appalachia. Index entrant No. 5 anticipates a ramp-up in revenue growth to $376 million in 2025, from $25 million in 2021 and zero in the first nine months of 2020, thanks to its pending merger with Novus Capital Corp. (NOVS). Based on the pro forma share count from the deal presentation and Novus's $16.74 share price, AppHarvest may shortly claim a prospective market cap of $1.7 billion, or 4.6 times projected 2025 sales.

No sector has seen more SPAC tie-ups than the auto industry. Some 19 electric-vehicle (EV) makers, charging stations, specialized-parts manufacturers or what-have-you have climbed aboard the blank-check train. Bullishness especially infuses the 10 that forecast $1 billion or more in revenue within four years, compared with less than $50 million today. Have they not heard of T. Boone Pickens?

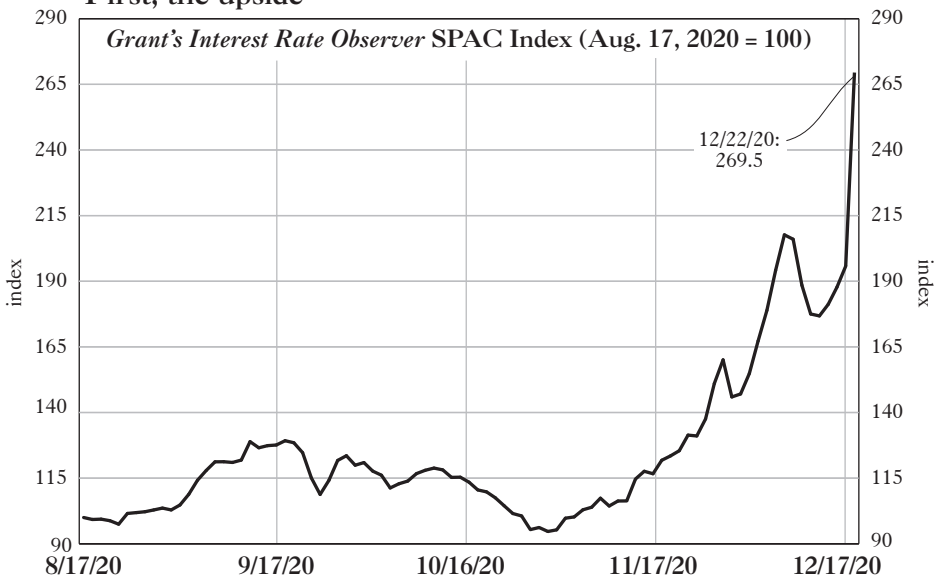
Nikola Corp. (NKLA), index nominee No. 6, which featured in this publication two weeks ago, aims to manufacture vehicles powered by hydrogen fuel cells and targets $3.2 billion of sales by 2024, up from the less than $1 million made this year from installing solar panels on the roof of the home of its now-departed founder and chairman, Trevor Milton. The market pretty clearly expects more from Nikola—you can conjecture as much from its $6.5 billion market cap.

With its $49.6 billion market cap and $131.67 share price (up from $10, in just four months), QuantumScape Corp. (QS) is the star of the SPACosphere. Our seventh index stock, which merged with a SPAC on Nov. 27, has developed (in its own words) "the only lithium-metal solid-state battery with OEM validation." When market-ready, the new mousetrap promises better energy density, charging time, lifespan and safety compared with standard electrolytic batteries.

QuantumScape was founded in 2010. Its post-deal bank account may hold more than $1 billion. Volkswagen sits on the board. With more than 200 patents under its belt and a management team drawn heavily from Stanford University's scientific graduate schools, the company is formidable to the eye.

But not everyone is impressed by its technology. On Dec. 9, Alliance-Bernstein analysts led by Mark Newman produced an analysis that found little to commend QS's products in comparison with competing batteries, and they slapped the shares with a "sell" rating.

First, the upside



source: The Bloomberg

And while QuantumScape may one day live up to its commercial promise, major auto manufacturers are not waiting around for that to happen. According to a Dec. 10 Nikkei report, Toyota Motor Corp. has a battery up its sleeve that will double EV range and will recharge from empty to full in 10 minutes, compared with the more than six hours required today. If so, Toyota would threaten not only QS, but also Tesla, Inc., among other EV aspirants. At the current share price, Quantum is valued at 7.7 times revenues—that is, projected 2028 revenues.

Remove the human from the driver's seat and a car is on its own. Lidar, a 60-year-old technology that combines light and radar, is the automakers' preferred human substitute. A lidar-equipped car beams lasers at obstacles. By gauging the return time of those laser images, it calculates the distance between itself and whatever lies ahead.

At least five lidar makers have either gone public or are awaiting their turn in the SPAC queue. Our eighth index entrant, Luminar Technologies, Inc. (LAZR), is the largest of the quintet, with a $12.1 billion market cap, and the priciest, with a ratio of market cap to 2024 forecast sales of 29 times. Beyond those superlatives, Luminar can lay claim to another. The most precocious lidar CEO, Arthur Russell, founded the company when he was 17.

Luminar, which foresees a "total addressable market" of more than $150 billion in 2030, up from less than $5 billion today, is counting on a 130% annual rise in revenue through 2024, for a grand total of $418 million. Even if that impressive sum were attainable, however, growth might well downshift thereafter. Intel Corp.'s Mobileye division is aiming to start buying Luminar's systems in 2022, according to a Dec. 15 *Automotive News* dispatch. Be that as it may, Mobileye plans to launch its own lidar product in 2025 with the boast that it can make for a "few thousand" dollars what Luminar is currently charging $10,000–$20,000 for.

Rounding out our automotive SPAC index constituents are Fisker, Inc. (FSR), No. 9, and Lordstown Motors Corp. (RIDE), No. 10. Fisker, with a stock-market price tag of $4.4 billion, aims to enter the electric SUV market. In the approximate financial equivalent of zero to 60 in less than two seconds, Fisker projects its revenue line to zip to $13.2 billion in 2025 from zero in 2020.

Lordstown, valued at $3.4 billion, aims for a more deliberate pace than Fisker's. From no top line in 2020, management is pointing to $5.8 billion

of sales from its projected line of EV pick-ups in 2024.

Manias eventually run themselves ragged. You'll recall the 2018 cannabis boom that Tilray, Inc., a medical-marijuana company backed by tech grandee Peter Thiel, rode to a share price of $214 and a market cap of $20 billion, in just two months following the IPO. The latest quote is $8.46, despite a proposed merger last week with Aphria, Inc. that would give the combined businesses a 20% share of the medical-marijuana market.

In this light, it's noteworthy that Collective Growth Corp., a SPAC that completed its IPO on April 30, initially targeted private companies in the cannabis industry. On Dec. 11, Collective Growth changed course to disclose a definitive merger agreement with Innoviz Technologies Ltd., a lidar maker that anticipates $5 million in revenues this year.

The grass is greener on the other side, it seems.

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