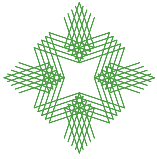


Wealth Enhancement Advisory Services™

August - September 2021

The Oakwood Team

IPOs, SPACs, and Direct Listings

Companies elect to go public for access to greater fundraising opportunities, improved liquidity for investors, and/or a lower cost of capital. More recently, however, investors have considered the implications related to how companies go public.

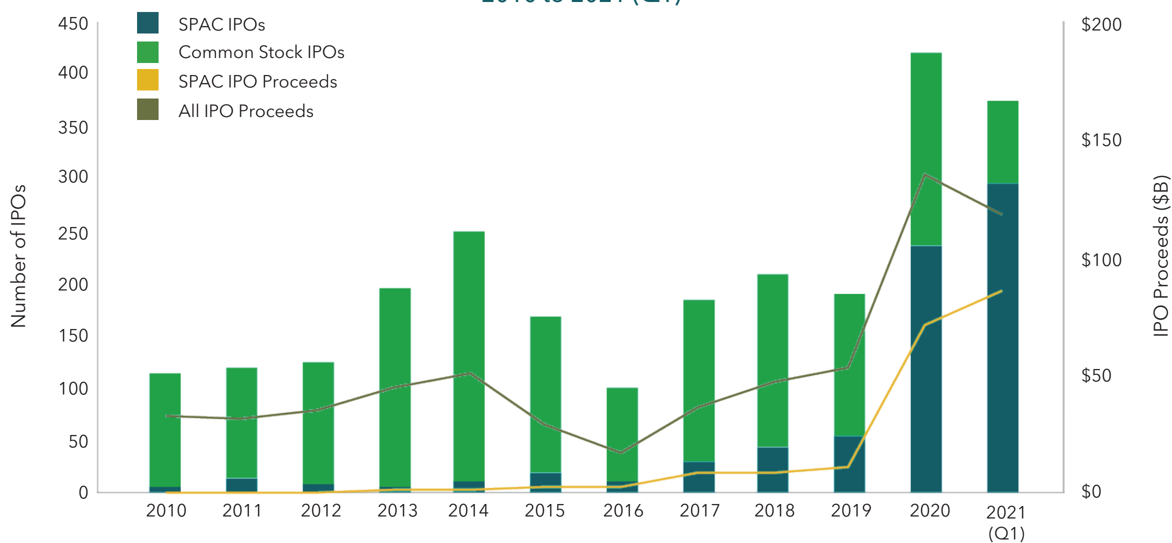
Historically, the most common path to enter public markets has been through an initial public offering (IPO), and while IPO activity continues to be strong, entryways such as direct listings and special purpose acquisition companies (SPACs) have drawn recent attention.

In this monthly view, we discuss three paths to going public.

Traditional IPOs: A company wishing to issue new equity hires an investment bank to provide underwriting and advisory services for the offering. The investment bank helps pitch the company to potential investors to drum up demand for the shares, and subsequently formulate the initial number of shares and price that reflect investor interest. IPOs represent the most familiar path to public markets.

SPACs: A SPAC is a modern version of a "blank check" company designed to use cash raised in an IPO to merge with or acquire an operating company. When the target is a private company, the transaction works like a reverse merger, allowing the private firm to enter the public market.

SPAC activity rose to new heights in 2020 and continued to outpace historical levels through the first quarter of 2021. As shown in the bar graph, this SPAC activity



Source: Dimensional using Bloomberg data. Sample includes all U.S. common stock and SPAC IPOs with a minimum offering price of $5 for which data is available.

exceeded concurrent common stock IPOs in both volume and proceeds, as well as the aggregate SPAC totals over the preceding 10 year period.

The money raised in a SPAC IPO is held in a trust until a target company is identified and a subsequent business combination takes place. However, if no deal occurs within a specified period, typically two years, a de-SPAC transaction takes place, which means the SPAC is liquidated and the cash held in the trust is returned to shareholders.

Direct Listings: In a direct listing, a private company lists its equity shares directly on an exchange, without conducting an underwritten offering. Recent modifications to the eligibility requirements by both the NYSE and NASDAQ served to expand direct listing access. While there have only been a handful of direct listings in recent years, the process continues to evolve and may attract additional entrants.

Choosing an Optimal Path

Private companies must evaluate and choose a desired path for going public that is based on their objectives and constraints.

While each route is characterized by unique terrain, regardless of the path chosen, the end result is a new public company trading in competitive and liquid equity markets.

We can take comfort in the fact that, whether a company takes the road less traveled or follows the beaten path, we can rely on the drivers of expected returns — size, relative price, and profitability — to point the way forward.

Contact us with any questions or comments

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