SPAC Market Trends

A 2021 Analysis

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INSIGHTS

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COHEN & COMPANY

Introduction

During 2021, SPAC market conditions changed markedly from overly exuberant in the first two months of the year to one of malaise in the subsequent six months. "Seeking[1]" SPAC prices went from trading well above (highs of $11.50) the $10 cash in trust price to below ($9.80) reflecting reduced optimism in sponsors' ability to find suitable merger targets. In that same time frame, markets assigned significantly lower values to associated SPAC warrants.

(1) The "Seeking" phase in the SPAC lifecycle begins following the separation date of common and warrant in the "IPO" phase and ends with a proposed business combination- the "Announced" phase

As SPAC common shares underperformed in the secondary market, demand for SPAC IPOs declined and underwriters and sponsors sought solutions to get new issues placed.

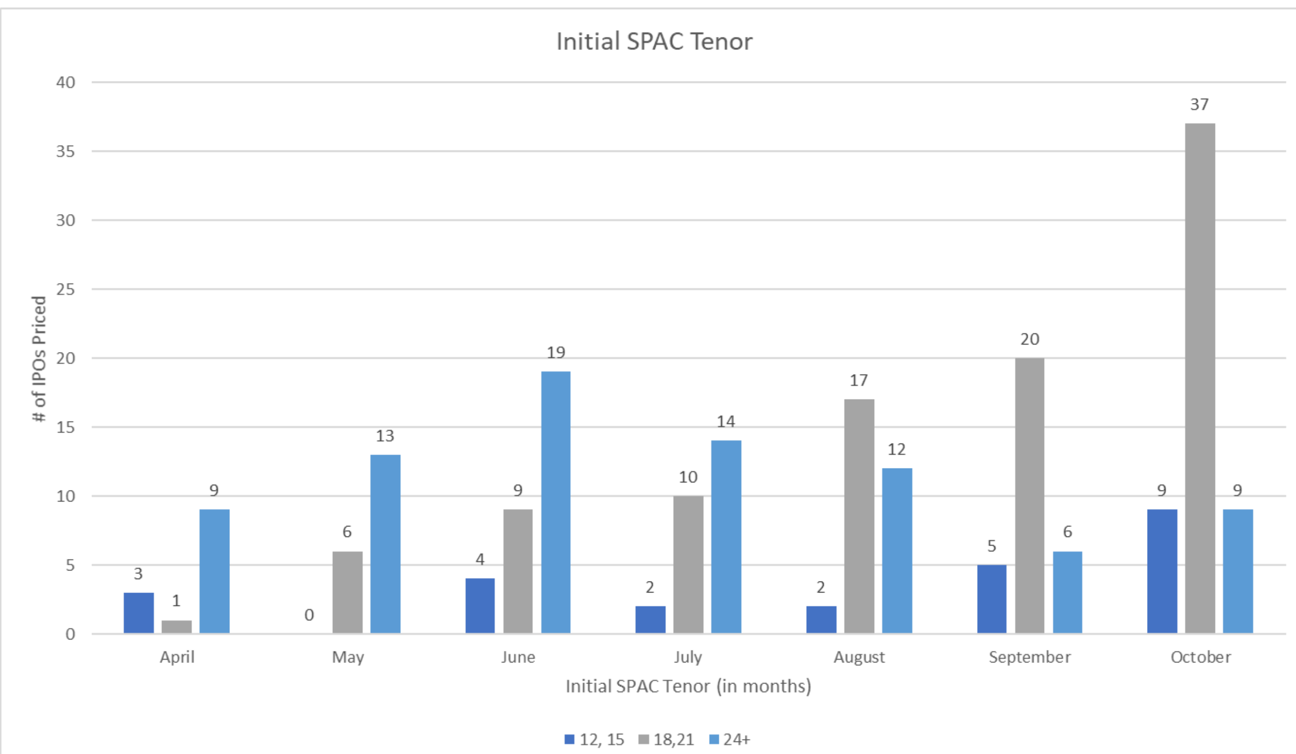
Initially, they began offering a portion of the sponsor shares in exchange for large investor IPO orders (10% IOIs) which for a time helped to get some new issues placed. However, the large investors who participated in these subsidized new issues soon realized that an almost immediate 2% markdown on their SPAC unit position was not being offset by the potential future value in the sponsor shares which could take many months, perhaps years to realize or worse, expire worthless.

Source: SPAC Research, spacresearch.com and Cohen & Company Asset Management

Beginning in June and accelerating in subsequent months, underwriters and sponsors revived a structure which had been used successfully in previous periods of reduced SPAC IPO demand: shortening the tenor until trust termination and increasing the value of the initial cash placed in trust. In the graph below, which highlights the shortening initial SPAC tenor, note that less than one third of the IPOs priced in April had shorter initial tenors than 24 months, while in September and October more than three quarters had short tenors.

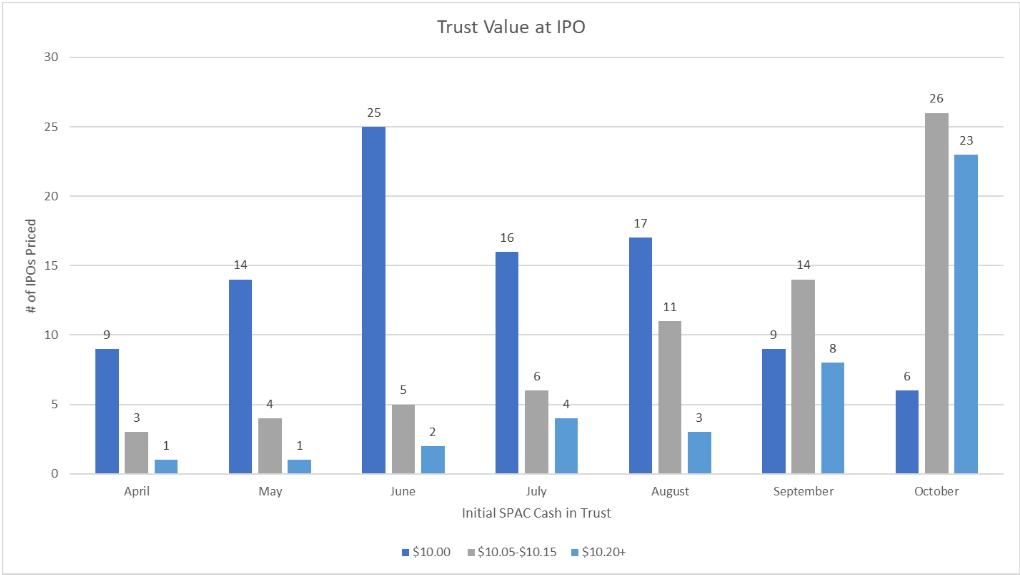
Early 2021 IPO structure: $10 cash held in trust; 24 months to liquidation with 3 month T Bill rates of .06%- a discounted secondary market price of $9.815 would be required to produce a yield to trust termination of 2%.

Mid 2021 IPO structure: $10.20 cash held in trust; 12 months to liquidation with 3 month T Bill rates of .06%- a secondary market price of $10.00 would produce a yield of 2%.



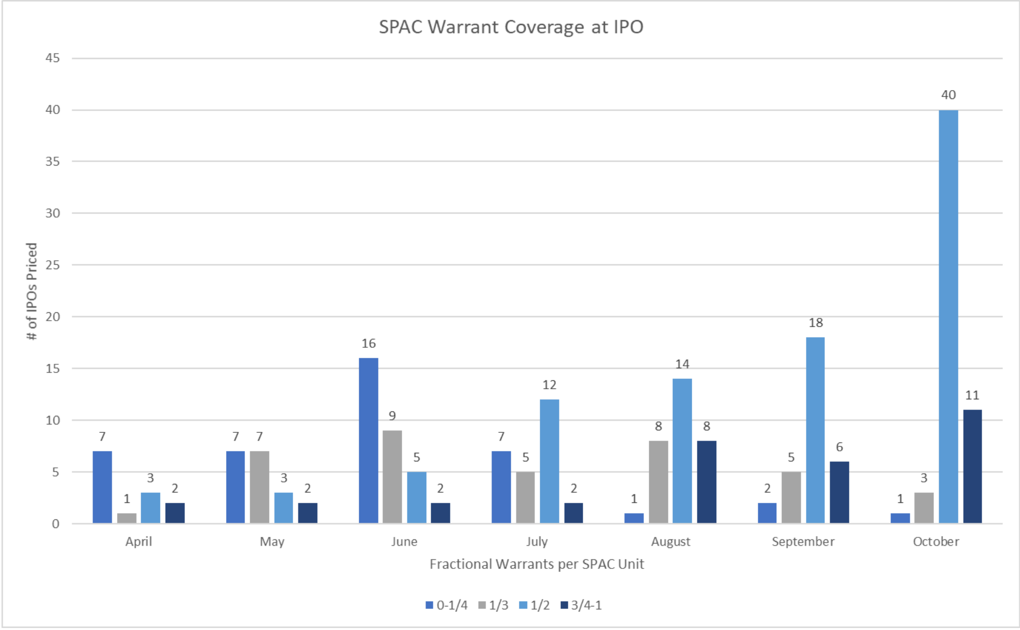
Source: SPAC Research, spacresearch.com and Cohen & Company Asset Management

The graph below highlights the increased cash in trust. Note that more than 70% of the IPOs priced in the second quarter started with $10 cash in trust, while in September and October, more than 70% of the IPOs priced started with $10.05 or more.



Source: SPAC Research, spacresearch.com and Cohen & Company Asset Management

To further enhance demand for SPAC IPOs, underwriters and sponsors also have increased warrant coverage ratios to the benefit of investors. In the second quarter, SPAC units typically consisted of a common share and one quarter or fewer warrants. Now, the dominant new issue SPAC IPO structures typically contain one half or more warrants.



Source: SPAC Research, spacresearch.com and Cohen & Company Asset Management

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The resulting effect of these structural changes has been to increase the yield and structural appeal in the SPAC unit at the new issue price, to bolster demand from investors for IPO offerings and to enhance aftermarket follow through and to produce positive price performance.

Source: SPAC Research, spacresearch.com and Cohen & Company Asset Management

Conclusion

In conclusion, SPAC sponsors and underwriters responded to reduced SPAC IPO demand by making structural improvements in tenor, cash in trust and warrant coverage. These changes have resulted in more advantageous new issues for investors with higher initial yields, better structures and the potential for improved IPO aftermarket price performance.

About Cohen & Company

Cohen & Company is a financial services company specializing in fixed income markets and, more recently, in SPAC markets. It was founded in 1999 as an investment firm focused on small-cap banking institutions but has grown to provide an expanding range of capital markets and asset management services. Cohen & Company's operating segments are Capital Markets, Asset Management, band Principal Investing. The Capital Markets segment consists of fixed income sales, trading, and matched book repofinancing as well as new issue placements in corporate and securitized products,and advisory services, operating primarily through Cohen & Company's subsidiaries, J.V.B. Financial Group, LLC in the United States and Cohen & Company Financial (Europe) Limited in Europe. The Asset Management segment manages assets through collateralized debt obligations, managed accounts, and investment funds. As of September 30, 2021, the Company managed approximately $2.2 billion in primarily fixed income assets in a variety of asset classes including US and European trust preferred securities, subordinated debt, and corporate loans. As of September 30, 2021, 55.7% of the Company's assets under management were in collateralized debt obligations that Cohen & Companymanages, which were all securitized prior to 2008. The Principal Investing segment is comprised primarily of investments the Company holds related to its SPAC franchise and other investments the Company has made for the purpose of earning an investment return rather than investments made to support itstrading, matched book repo, or other capital markets business activity.

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