Special Purpose Acquisition Corporation: The merger of Aldabra 2 Acquisition Corporation and Boise, Inc.

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ABSTRACT

This case study provides a descriptive look into the how a SPAC conducts a merger using the case of the acquisition of Boise, Inc. by the Aldabra 2 Acquisition Corporation. The case describes how SPACs are structured, looks at the frequency in the US market, the IPO of the SPAC, subsequent merger, management and governance. Additionally, the case illustrates how to calculate the return using the unit price, warrant price and stock price.

Keywords: SPACs, Special Purpose Acquisition Corporation, Merger, Reverse Merger

Introduction

A special-purpose acquisition company (SPAC) is an investment whose objective is to acquire another company through a merger. Sometimes referred to as blank-check companies, SPACs are initially shell corporations without operations that do an IPO and use the proceeds to merge with or acquire another company. If the SPAC managers purchase lucrative assets, the original SPAC investors earn large returns. This paper seeks to illuminate the process by looking at the stages through a specific SPAC corporation.

As indicated in Table 1, after the "blank check" companies of the 1970's, came the new version of SPACs starting in the 1990s. SPACs steadily grew from 2004 until 2008 and then declined in 2009 due to the financial crisis. SPACs regained their footing in 2010 and the number of SPACs has remained reasonably steady through June 2015. SPACs will either be trading or withdrawn (or pending). Out of 517 SPACs during the period 1994 – 2015, 336 or 65% are still trading and 153 or 30% were withdrawn, with the remaining 5% still pending.

Benefits of SPACs for shareholders

One benefit to investors in a SPAC is the liquidity. In addition, the status of being a publicly traded company may increase negotiating power in the merger with the target. Once a SPAC completes its IPO, those shares and warrants of the SPAC are sold as units to investors. The advantage of an IPO is that the SPAC sells the stock publicly which raises money bringing in a lot of cash which increases its liquidity, which could be used as needed capital. Going public allows the SPAC to raise additional money in the bond market. However, the SPAC doesn't raise debt - it must put the bulk of its IPO proceeds in a trust committed to the shareholders - debt can only be raised as part of the deal, not by the SPAC and its cash assets. Conducting an IPO increases the company's visibility in various markets.

One of the benefits of SPACs is that they are listed offerings regulated by the SEC. This means they are more transparent than private equity given that they fully disclose their financial statements and any significant actions influencing the company. SPACs are more liquid than private equity given that they have common shares and warrants which can be traded. Investors can increase or decrease risk and return by being able to trade individually the common shares and warrants. For investors who do not have the investable assets to buy a hedge fund or participate in private-equity funds, it allows them to potentially benefit in the takeovers of a private company.

SPACs provide entrepreneurs an exit in some cases, such as going-pubic alternatives to venture investments that raise capital for companies. In fact, many SPAC deals buy operations out of private equity funds, thus returning capital to institutional General Partners and Limited Partners as opposed to initial investors in start-ups. The vast majority of SPAC targets are mature businesses.

Risks of SPACs

In addition to the market risk of IPOs, SPACs' shareholders face limited liquidity, equity dilution due to management shares which are usually 20%, plus there is risk regarding the SEC merger and acquisition process. Analyst coverage may be weak.

There is an expiration date for SPAC transactions of 24 months. If a merger is not completed in the 24 months, the assets will be given back to the stockholders. Thus, there would be no return on the investment. The desired outcome of a SPAC is to merge with or acquire a target within 12 to 18 months of the IPO. An IPO is expensive and the company could lose money (or make a profit) from the deal. In the beginning, a company underprices its stock enticing people to buy it and then increases the price, drawing demand. Management also must pay a close eye to stock price values. When a newly public company enters the market, it is best to know the clients. Aldabra 2 Acquisition Corporation was a success story and after its IPO, the company continued to develop as a US paper and packaging company.

The Aldabra 2 Acquisition Initial Public Offering

In February 2007, Aldabra 2 Acquisition Corporation was formed through an IPO of 3 million units at $10/unit with 1 share of common stock and 1 warrant. SPACs are issued as units which typically sell for $8-10 and include one common share and one warrant. The Aldabra 2 initial public offering raised $414 million. The final prospectus was for 41 million units.

Trading in SPACs usually occurs on the Nasdaq or American Stock Exchange with units, detached common shares and warrants. In January of 2008, the SPAC of Aldabra 2 traded on the American Stock Exchange with the units trading under the ticker AII.U, the common stock trading under AII and the warrants trading under the symbol AII.WS.

To calculate the rate of return on a SPAC, the performance includes the common share price plus the value of the warrants. On January 16, 2008, the closing price of Aldabra common stock and warrants was $9.70 and $2.68, respectively, as shown in Table 2. The one year stock and warrant return to Aldabra 2 was 23.8%, which compares favorably to the S&P 500 and Russell 2000 indexes, which yielded 5.49% and -2.75%, respectively.

Merger & Acquisition

The merger of the SPAC must meet certain specifications in terms of market value and shareholder approval. The target of the SPAC must have a market value that is 80% or more of the SPAC's value and approval of a majority of shareholders with at least 60 – 80 % voting yes.

In February 2008, Aldabra 2 Acquisition Corporation purchased Boise Cascade from Madison Dearborn Partners for $1.7 billion. Boise Inc. was a major packaging and paper-company in North America. On February 25, 2008, after completion of the SPAC, Aldabra 2 changed their name to Boise Inc., a US-based manufacturer which produces paper and packaging, products, operates mills and corrugated-products plants, and two distribution centers. French for "wooded" (boisée), Boise was formed in 2008 from the paper and packaging assets of Boise Cascade.

The Founders and Underwriters of Aldabra 2

Aldabra 2 was founded by Nathan Leight and Jason Weiss who were also the founders of Terrapin Partners, LLC, a private equity and asset based firm which invests in technology, healthcare, real estate, among other areas companies primarily based in the US. Aldabra 2 was organized under the laws of the State of Delaware on February 1, 2007 and had until June 19, 2009 to consummate a business combination.

The deal between Aldabra 2 and Boise Inc. was relatively large, raising about $360 billion. This is considerable given most SPAC acquisitions raise less than $200 million. The underwriters for the IPO of Aldabra 2 were Lazard Capital Markets and Pali Capital. Aldabra 2 paid the underwriters $12.42 million as a fee for the underwriting cost.

Warrants

According to the Aldabra 2 Acquisition prospectus, each warrant was exercisable for one share of common stock at an exercise price of $7.50. On January 16, 2008, the closing price of Aldabra warrants was $2.68, thus warrants were "out of money." Warrants may expire worthless if there is no possibility of profiting by exercising them. Stock warrants are issued directly by Aldabra 2. When a warrant is exercised, the Aldabra 2 stock is purchased. Exercising a warrant increases the total number of common stock shares outstanding.

The warrants became exercisable on the later of the completion of a merger or acquisition and one year from the date of the prospectus dated June 19, 2008. The Aldabra 2 warrants expired at 5:00 p.m., Eastern Time, on June 18, 2011, four years after the date on the original prospectus.

The Aldabra 2 warrants had the option of being cashed in at a price of $.01 per warrant during the exercise period. However, there was an additional stipulation that the warrants could be exercised if and only if, the last sales price of Aldabra 2 common stock equals or exceeds $14.25 per share for any 20 trading days within a 30 trading day period ending three business days before redemption.

Aldabra 2 Management

SPACs are run by a management team comprised of managers with previous private equity, mergers and acquisitions and/or operating experience. As compensation, they usually receive 20% of the equity at the time of offering, excluding of the value of the warrants. The management typically purchases warrants or units (usually 3% to 5% of the public offering) from the SPAC in a private placement immediately prior to the offering. In the event of liquidation, this amount will be distributed to the shareholders, meaning the management will lose this amount.

In general, the management team receives no salary and does not participate in a liquidating distribution if it fails to consummate a SPAC. Oftentimes, the SPAC management pays the expenses if there is a liquidation of the SPAC because a suitable merger was not found.

For the Aldabra 2 SPAC, Nathan Leight (chairman of the board) and Jason Weiss (chief executive officer, secretary and director) purchased 3,000,000 warrants at $1.00 per warrant for a total purchase price of $3,000,000. Thus, Mr. Leight and Mr. Weiss had their own money at stake in the SPAC. In terms of compensation, there were payments of $7,500/month to Terrapin Partners which owned Aldabra 2.

Governance

Once a target for acquisition or merger is located, stockholders in the SPAC are given information regarding the target business, including financial statements. A SPAC shareholder has three choices after a merger is proposed. The shareholder can approve the merger transaction, sell their shares on the secondary market, or veto the merger and redeem their shares. On February 5, 2008, Aldabra 2 held a meeting of the stockholders to vote on the acquisition of Boise Cascade, L.L.C. in New York City to approve or reject the proposed merger.

The funds in the trust are only released only when a merger is approved or a deal is not consummated within 24 months of the initial offering. The Aldabra 2 Acquisition of Boise wouldn't have gone through if 40% or more of the IPO shareholders had voted against the acquisition.

Acquisition of Boise by Aldabra 2

Aldabra delivered at closing cash and stock equal to $1,625,000,000 plus Boise's cash and cash equivalents, approximately $38,000,000, plus or minus the amount by which the estimated net working capital of Boise was greater or less than $329,000,000, and plus the amount by which Aldabra's and its subsidiaries' estimated net working capital was less than $404,350,800, in each case estimated as of 11:59 p.m. (Boise, Idaho time) on the day before the closing, according to SEC documents. At least $1,210,000,000 of the total purchase price had to be paid in cash. From an accounting standpoint, following the closing, the estimated amounts were compared against the actual amounts with adjustments payable through the issuance to Boise of additional shares of Aldabra common stock or the return by the seller and cancellation of shares of Aldabra common stock held by the seller.

Conclusion

SPACs provide the liquidity event at the end of a private equity transaction that allows pre-IPO shareholders to exit. Private equity in turn provides opportunities for entrepreneurs to raise capital, as some private equity investments are made in business ranging from start-ups, to small and medium sized enterprises, as well as investing in established companies in older industries. Private equity helps the entrepreneurial process and thus stimulates the economy. Returns to private equity investors can be quite attractive relative to alternative investments, although they are not without risk. The case of the Aldabra 2 investment in Boise serves as an example of how a successful SPAC works.

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Appendix

Table 1: Prevalence of SPACs in the US (1994-2015)

Year	Number of SPACs	Trading	Withdrawn	Pending	Percent trading
1994	1	1			100
1999	5	4	1		80
2000	3	1	2		0
2001	1		1		0
2002	1	1			0
2003	0				n/a
2004	5	5			100
2005	27	16	11		59
2006	45	30	15		67
2007	60	27	33		45
2008	49	3	46		6
2009	4	3	1		75
2010	42	36	6		86
2011	82	62	20		76
2012	66	52	14		79
2013	49	43		6	88
2014	50	42	2	6	84
2015 until June	26	10		16	38
	517	**336**	**153**	**28**	

Table 2: Aldabra 2 price performance:

1 year stock and warrant return from Feb. 2007 – Jan. 2008:

Aldabra 2 SPAC:	23.8%
S&P 500:	5.49%
Russell 2000:	-2.75%

Closing Price of Aldabra common stock + Closing Price of Aldabra warrant:

$9.70 + $2.68 = $12.38

Aldabra 2: 1 year stock and warrant return from Feb. 2007 – Jan. 2008:
(12.38-10)/10 = 23.8%