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Today's Special

**BLANK-CHECK COMPANIES ARE BOOMING.
IS IT A BUBBLE IN THE MAKING?**

TOMLINSON LOW INTEREST RATES SEND INVESTORS INTO MADCAP IDEAS, PERSONALITY CULTS, VOLATILE ASSETS
COMMENTARY VENTURE CAPITAL, DEALS GROW, BUT IS HOUSTON A STARTUP CITY?

SPOTLIGHT

SHOPPING SPREE

John J. Maxfield
CORRESPONDENT

Every financial bubble has a muse. It was tulips in 1636; shares of the South Sea Co. in 1720; railroad securities in 1793; internet stocks in 2000; and mortgage-backed securities in 2008.

Today we have SPACs, special purpose acquisition companies – shell companies financed by investors for the sole purpose of merging with other companies as a shortcut to the public markets.

There's no shortage of people willing to proselytize the virtues of what are effectively blank-check companies. But are the esoteric vehicles a responsible investment for ordinary investors? Or are they like so many passing fads in the past that incinerated unsuspecting investors' wealth?

Time will tell.

Few people have more experience in this area than Tilman Fertitta, entrepreneurial polymath and billionaire owner of the Houston Rockets.

Fertitta revealed at the beginning of February that he would take two of his companies – Golden Nugget Casino and the Landry's restaurant chain – public in a deal with New York blank-check company FAST Acquisition Corp. that valued the businesses at \$6.6 billion.

Blank-check companies are fueling an M&A wave

"I look forward to returning my company to the public marketplace," Fertitta said at the time in prepared remarks. "After taking the company private in 2010, we accomplished a lot. However, in today's opportunistic world, I determined that in order to maximize the opportunities in the gaming, entertainment and hospitality sectors, it was preferable to take my company public."

Blank checks typically go public at a price of \$10 a share. FAST Acquisition was no exception, and its now trading at just below \$13 (the merger with Fertitta's businesses has yet to close).

This will be Fertitta's fourth SPAC, though it's the first in which he merged one of his businesses into a blank-check company led by third-party investors.

His first experience came in 2016, when he worked with Jefferies Financial Group to form Landcadia Holdings, a blank-check company that raised \$250 million in an initial public offering, or IPO, in June of that year.

It took two years for Landcadia to settle on a target before, in May 2018, announcing a proposed merger with Waitr, a fast-growing Louisiana restaurant platform for online ordering and secondary on-demand food delivery.

It was both an experiment and opportunity for Fertitta and Jefferies' CEO Rich Chandler.

"Jefferies has broad knowledge of businesses that are out there that could be attractive as a public vehicle, while we have a strong merger and acquisitions skill set here at Landry's, and Tillman is a consummate dealmaker," said Rick Liem, chief financial officer of Landry's Restaurants. "It was a way for them to do a deal together and just sort of see how it played out."

For shareholders, it's been a rocky ride. After peaking at \$14.15 per share in March 2019, Waitr's shares have since dropped below \$3.

Fertitta and Jefferies' second collaboration came at the end of 2020.

This time, Fertitta was on both sides of the transaction. He and

Blank-check continues on B10

Rick Liem is the chief financial officer of Landry's Restaurants, which is going public again.





Steve Gonzales / Staff photographer

“A lot can change in the market, and a lot can change with your company over that time (it takes for the IPO process).”

Taylor Landry of Hunton Andrews Kurth LLP

Blank-check from page B8

Jefferies formed the blank-check company Landcadia Holdings II, which later acquired Fertitta’s Golden Nugget Online Gaming, a leading online gaming and digital sports entertainment company.

Golden Nugget’s stock has fared better. After initially spiking to more than \$25 per share, it’s currently around \$17.

A third Landcadia blank-check has agreed to merge with HMAN Group Holdings Inc., parent company of Hillman Group Inc., a Cincinnati-based hardware and home improvement distribution business, in January of this year.

“In the early years, I believe, SPACs were used to take non-descript Chinese companies public,” Liem said. “I think they had sort of a bad aura about them because of that. Today, you have really credible people sponsoring these businesses.”

Although these types of companies have only recently entered the common investor vernacular, they’ve been around for years. David Nussbaum, a Wall Street lawyer and investment banker, created the first SPAC in 1993. For most of the time since then, however, they largely lurked in the shadows of the financial world.

From 2009 until 2016, an average of fewer than a dozen blank-check companies went public each year, according to Statista. The trend accelerated over the next three years, growing from 34 in 2017 to 59 in 2019.

Then the dam broke.

Two hundred and forty-eight SPACs were created in 2020. And this year is on pace to eclipse last year’s record in just the first quarter.

“I think part of the change with the numbers of SPACs is just gen-

erally the market conditions,” Liem explained. “They’ve added huge amount of liquidity into our financial system which needs somewhere to go,” he continued, referring to the fiscal and monetary stimulus enacted over the past year to help assuage the coronavirus crisis.

Longer-term trends may be at play as well. “The number of companies that are actually listed has shrunk fairly significantly over the last 15 years or so,” Liem said. “So this could be a reversion to the mean in terms of the number of public companies.”

The ostensible appeal, said Taylor Landry, a partner in the Houston office of Hunton Andrews Kurth LLP, is that SPACs enable a company to circumvent the traditionally arduous process of taking a company public.

Ordinarily, if a company wants to list its stock on a public exchange, it has to hire lawyers and investment bankers, choose which stock exchange to list on, complete audited financial statements, and dispatch its executives on a grueling two-week roadshow to gin up interest in its securities.

That’s expensive. And the process takes time, typically four to six months.

“A lot can change in the market, and a lot can change with your company over that time,” Landry said. “We saw this a lot two, three, four years ago. You would submit two or three filings for an IPO and, whether you were in the energy industry or a different industry, the market conditions would go sideways, and the window would close, and your financial statements would go stale.”

Why would a company subject itself to this when it could simply merge with an already formed blank-check company?



Karen Warren / Staff photographer

Taylor Landry, a partner in the Houston office of Hunton Andrews Kurth, says SPACs have an appeal.

The latter have to go public, too, but the process is faster and simpler because they have no history of performance, Landry said. Then, once one is formed, it has 18 to 24 months to make an acquisition or else it must return the money to investors.

Yet, while SPACs are promoted as a streamlined alternative to an IPO, the comparison masks an important nuance, said Evan Niu, senior technology specialist at the Motley Fool.

If they were simply an alternative to an IPO, then a substitution effect should be evident in the data. As SPACs increased in volume, IPOs should correspondingly decrease.

But the data tell a different story.

Two hundred and sixty-one IPOs were filed last year, excluding blank-check companies, according to Renaissance Capital, a purveyor of market-related research. It was

the highest number since 2014 and roughly in line with the longer-term trend.

The spike in SPACs, in other words, hasn’t been accompanied by a drop in IPOs.

But if these blank-check companies aren’t just another route for an established company to go public, then what else are they? The answer, Niu said, is that they’re also an alternative avenue for a company to secure venture capital, which tends to occur earlier in a company’s lifecycle and is therefore more speculative.

It isn’t unusual for a company without earnings to go public. One of the most celebrated IPOs last year was Snowflake, a cloud-based data-warehousing company founded in 2012.

Its shares more than doubled in price on Sept. 16, its first day of trading, even though it hadn’t earned a profit in either of the two previous years.

But Snowflake did have revenue. And its revenue was growing fast.

This contrasts with many of the companies being purchased by blank-check companies nowadays, which have no history of actual sales. They’re marketing a vision, not a proven track record of performance.

Look no further than Nikola Corp., an electric truck maker that rocketed to a multibillion-dollar valuation after going public via SPAC last year.

The appeal was undeniable. A 2017 promotional video showed a sleek semi-truck barreling down an empty highway at dusk.

There was just one problem. To move, the truck had to be rolled downhill. “I guess you’re seeing how the sausage is made,” one of its board members told Bloomberg.

Since peaking at nearly \$80 per share last June, Nikola’s share price has since dipped below \$15, a roughly 81 percent decline.

In recent weeks, the demand for SPACs seems to have cooled, with the IPOX SPAC index falling at one point by 20 percent, satisfying the technical definition of a bear market. Still, with even more liquidity entering the economy by way of the latest round of stimulus checks, it’s too early to say the boom is over.

Either way, you can’t have a boom without an eventual bust.

Tulips prices couldn’t stay in the stratosphere forever. Nor could shares of the South Sea Co., over-hyped railroad securities, speculative internet companies or subprime mortgage-backed securities.

Gravity eventually prevails – just ask Nikola.