

What to Expect When You're SPAC-ing

In the rush to close the deal, don't forget about the Board

By Lindsay Trout, Dominick Rodriguez



Building the right board is a challenge under the best of conditions. When there's a multi-billion dollar countdown clock ticking away, the anxiety and potential for error skyrocket.

Many investors and companies find themselves in that very spot now, thanks to a recent surge of SPACs -- Special Purpose Acquisition Company. A SPAC is a shell company with no commercial operations that is formed specifically to raise capital through an IPO for the purpose of acquiring one or more existing businesses. In many cases, the Sponsor has no interest in being part of the management team. Upon acquisition, the Target becomes a publicly traded company (this process of incorporating the target company into the SPAC is sometimes called a De-SPAC), providing access to the public equity markets and liquidity for investors. SPACs were originally used to acquire industrial companies but now are also focusing on the technology sector and beyond.

SPACs typically have about 18 months to complete an acquisition; otherwise they must either return the proceeds to investors or receive an extension. Estimates are that there are currently over 200 active SPACs which represent \$70+B of capital that needs to be engaged within two years. What's more, many new SPACs are being created.

These companies need to quickly build proper boards and many need to make changes in key executive positions. At Egon Zehnder, we have seen the challenge of this process up close. In many cases, private boards are not prepared for the rigors of public scrutiny. They lack diversity. The boards are naturally not aligned to the guidelines and regulations of public companies. Investors and executives move quickly to remake boards, working to an extremely tight deadline. The intensity of creating a board under these circumstances recalls the child's toy *Hungry Hungry Hippo*, as players pound their game boards hoping to be lucky enough to collect enough marbles to win.

But Board assembly is no game. What Sponsors and Targets should know about assembling a Board under SPAC deadlines:

Expect the search to be challenging.

Identifying and assessing Board candidates is not a simple task. No longer can companies rely on their "connections' connections" to lead them to the best possible candidates. Companies may find themselves under pressure to seat a Board that is more diverse, more engaged with ESG issues and better able to represent new perspectives. Sponsors and targets must consider the competitive dynamics in the talent market and be attentive to which talent will add to their cultures.

Expect a Board with strategy skills.

Board members today must grapple with increasingly complex forces, such as Covid & activism. Boards are no longer just compliance bodies. Boards of SPACs should

expect a near-term focus on succession planning, risk management as well as change management as the company adapts to the cadence, transparency and reporting practices of a publicly listed entity.

Expect the Board experience to be COVID-changed.

The SPAC trend comes on the heels of the global pandemic – an experience that continues to reverberate in businesses worldwide. At Egon Zehnder we have seen the impact first hand. Says director Greig Schneider: “We’ve now had two virtual board meetings. From a culture perspective, how a board gels, how they work together, how a board meeting plays out, the things that happen in the room and at the dinner and all of these little, subtle things that impact the effectiveness of them working as a team, it’s not the same. It can’t be the same when you’re doing it remotely.” Many Boards, particularly those assembled quickly and without social connectivity, are in an “evolving state.” The board may be operational but may not have had the opportunity to get to know management and sincerely get to know each other. The dynamics and the impact are constrained, he says.

None of these are unique to the SPAC experience. They represent the pressures facing all Boards. But for sponsors and targets working against the clock, crafting the best possible board – and setting it up for ongoing success – risks being overlooked.

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Our more than 500 Consultants in 68 offices and 40 countries form one powerful, collaborative team. Our services include: leadership development, individual, team and organizational effectiveness, CEO search and succession, executive search and assessment, Board advisory, and cultural transformation.

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