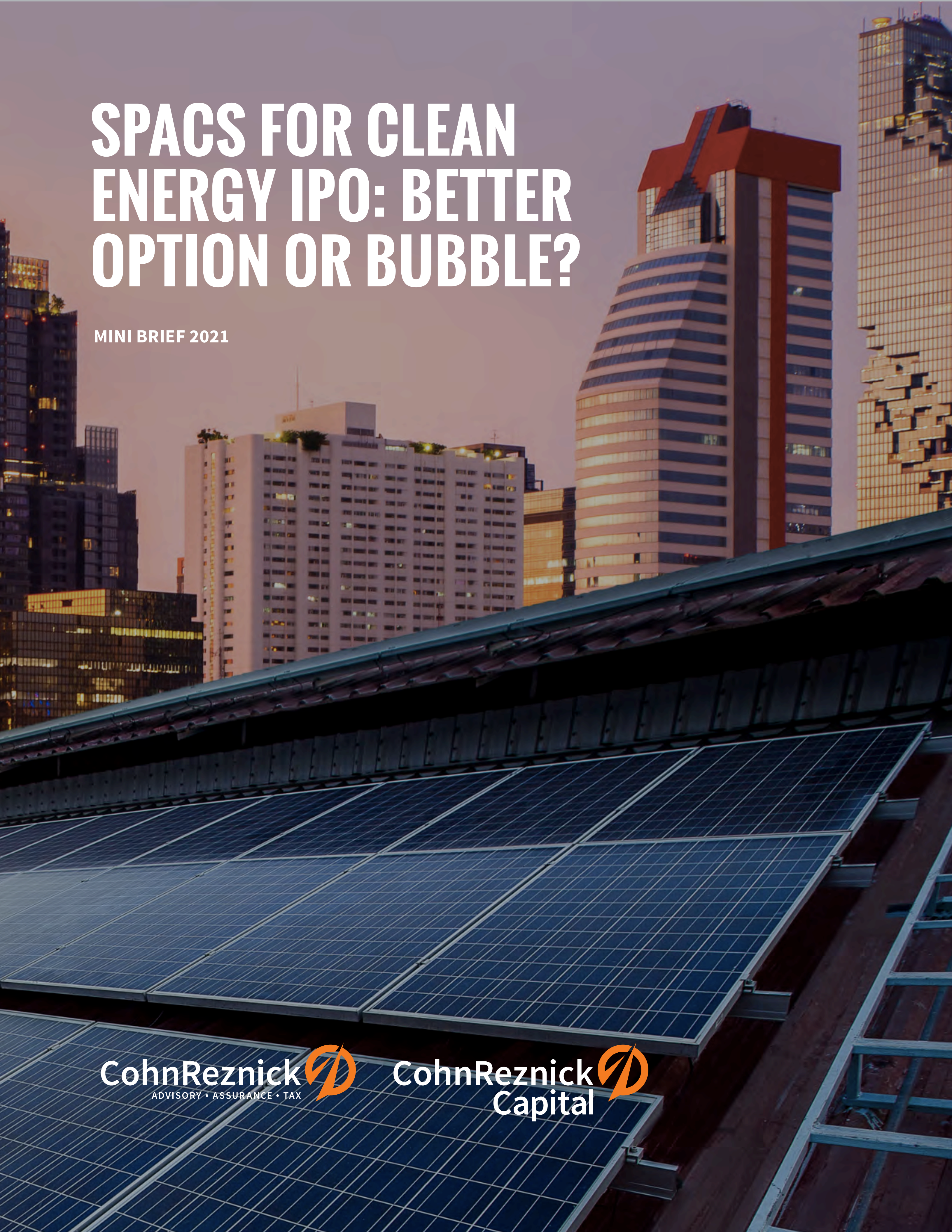

SPACS FOR CLEAN ENERGY IPO: BETTER OPTION OR BUBBLE?

MINI BRIEF 2021

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"ALTHOUGH SPACS HAVE BEEN AROUND FOR DECADES, THEY EXPERIENCED IMMENSE AND SUDDEN POPULARITY IN 2020."

More and more privately held clean energy companies are hungry for the vast amounts of capital available on public markets. 2020 saw the clean energy industry take part in the explosive resurgence of an alternative pathway to public markets – special purpose acquisition companies, also known as SPACs.

SPACs provide a way for companies to go public without following the more rigorous initial public offering (IPO) route. With SPACs, hedge fund or private equity investors raise capital for an IPO of a New York Stock Exchange (NYSE) or Nasdaq-listed shell company. The funds are then put in a trust that can only be used to acquire targeted private companies in order to take them public within 24 months.

Although SPACs have been around for decades, they experienced immense and sudden popularity in 2020. According to SPACInsider, nearly 250 SPAC IPOs totaling $83 billion were completed in 2020, an increase of 320% over 2019.

Clean energy SPACs have been particularly plentiful. According to data compiled by Wood Mackenzie, 28 SPAC-acquired companies involved in the energy transition were trading on public markets as of spring 2021, including electric vehicle (EV) manufacturer Proterra, behind-the-meter battery company Stem, battery manufacturer Eos Energy Storage, and EV charging network provider ChargePoint.

28 energy transition SPAC-acquired companies trading on public markets

$1.1B median market capitalization

In this paper, we explore the rapid rise of SPACs as a vehicle for companies involved in the energy transition to access public markets, the trends of SPAC activity across different clean energy sectors, and core considerations for companies pursuing the SPAC approach.

WHY SPACS ARE SO HOT NOW

Key differences in the valuation process are driving clean energy companies to embrace SPACs over traditional IPOs or private markets as a means to raise capital.

Higher valuation. While the private market for renewables is more competitive than it has ever been, the industry is still nascent enough that there are very few companies with a sufficiently long track record of success to attract high private-market valuations. Clean energy companies are increasingly interested in SPACs because they can deliver higher valuations compared to what is available in the private market. This is driven by a combination of factors, including a limited supply

"AS OF SPRING 2021, WOOD MACKENZIE IDENTIFIED OVER 50 SPACS LAUNCHED OR ANNOUNCED TO TARGET ENERGY TRANSITION AND DECARBONIZATION SECTORS."

of high-quality target companies, the ability for the SPAC to leverage the transaction with debt, and the growth potential of the targeted companies.

Private-market valuations of renewable energy companies primarily focus on a company's development pipeline over a two- to four-year horizon, largely ignoring the going concern of the business and the value of its platform.

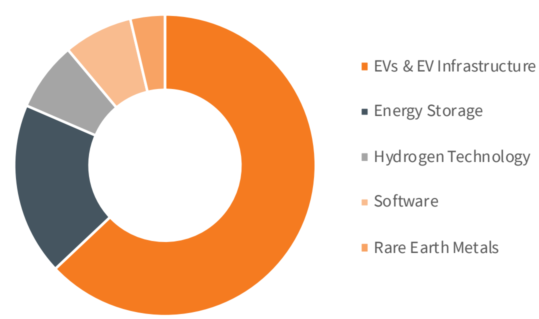
Valuation certainty. When a SPAC acquires a target company, it offers a binding purchase price that the target company can use to compare with other offers. If the company opts to be acquired, they know what their proceeds will be and the ownership interest. This is in stark contrast to an IPO, where there can be a wide range of valuation throughout the underwriting process and the formal launch of the IPO.

In an IPO, a company's valuation can fluctuate based on investor sentiment right up to the date the stock goes public. By contrast, the valuation of a company going public through a SPAC is determined in private and insulated from the vagaries of the market.

UNPACKING THE MARKET OF CLEAN ENERGY SPACS

The majority of clean energy SPAC deals in 2020 were for companies providing technology and equipment. EVs and charging infrastructure led the surge in SPAC activity, followed by energy storage technology – both sectors with fast-growing markets and rapid technology innovation.

Clean Energy SPACs by Market



Source: Wood Mackenzie

Many of the clean energy companies up for SPAC acquisition share similar characteristics – they tend to focus on hardware development and deployment, often have an existing base of customers, and are generally seeking a new influx of capital in order to enter new markets and become profitable.

"SAVVY MANAGEMENT OF SPAC IPO PROCEEDS IS CRITICAL, ESPECIALLY FOR RENEWABLE PROJECT DEVELOPERS."

So far, there has been much less SPAC activity targeting renewable energy developers than clean technology companies. There is a reason for this: The growth that can be achieved by cleantech companies with relatively low capital expenses (CAPEX) is much higher than what is possible by large-scale renewable developers of wind and solar. In order to finance their capital-intensive project development, renewable energy companies often rely on tax equity, which goes through cycles and can impair the ability of developers to achieve their revenue growth projections.

THE FUTURE OF CLEAN ENERGY SPACS

Clean energy SPACs will likely experience another record-setting year in 2021. As of spring 2021, Wood Mackenzie identified over 50 SPACs launched or announced to target energy transition and decarbonization sectors, with over $15 billion in total funding at time of IPO. What may be even more important than the number of SPACs is the fact that their emergence will likely drive a more competitive valuation dynamic for proven renewable energy developers.

Discussions about SPACs almost inevitably include some level of skepticism that their fate may mirror that of renewable YieldCos, another avenue for public investment that attracted intense interest a decade ago in the clean energy sector but saw share prices and popularity dramatically slump by the mid-2010s.

However, there are important distinctions between SPACs and YieldCos. Perhaps the most important is that YieldCos deliver a dividend back to investors, which puts a premium on cash flow and new deal generation. SPACs don't promise investor dividends and instead deliver growth capital to target companies. This difference is important: Going public via SPACs allows companies to heavily reinvest to fuel their growth.

Over the longer term, the demand from public investors, corporations, and individuals will continue to fuel clean energy transactions in the public markets. Last year, Goldman Sachs released a report projecting that clean energy investing will account for a quarter of all energy spending in 2021 and surpass investments in oil and gas for the first time. Potential policy support from infrastructure legislation, carbon pricing, and tax policy could accelerate investments as well. Institutional investors are increasingly interested in financing companies with a strong ESG (Environmental, Social, Governance) footprint that offer climate solutions, and SPACs open up more opportunities for public markets to serve this sector.

How important SPACs are as a piece of the long-term public market investment puzzle remains to be seen. In the short term, however, there is a ripe moment of opportunity for promising companies – especially in the cleantech sector – to take advantage of the high demand among SPACs for clean energy companies.

NAVIGATING THE SPAC PROCESS

It takes preparation and sophistication to take advantage of the initial opportunities presented by SPACs, as well as the ongoing demands of being a public company.

Governance and reporting. On an administrative level, companies going public via SPACs need to prepare for the additional responsibilities that come with being a listed company. This involves the painstaking work of adjusting internal policies, procedures, and controls to be ready once the company is listed on the NYSE or Nasdaq.

Commercial considerations. In order to perform well as public companies, businesses have to show consistent quarterly earnings. This means they need to precisely manage the sale of projects and their commercial operations dates (CODs), a task that has been historically difficult in project-based, cyclical industries.

Strong project management. Savvy management of SPAC IPO proceeds is critical, especially for renewable project developers. SPAC valuations are based on an underlying revenue story, which translates into a velocity of projects successfully being developed in the future. Achieving that growth requires CAPEX. Determining how much of the SPAC IPO proceeds should deliver shareholder liquidity and how much is needed to fuel ongoing growth is a delicate, but important, balance.

Experienced service providers can answer these upfront questions and help SPAC target companies take full advantage of the market demand. Without experience in public transactions, companies may struggle to manage the extremely tight deadlines and the coordination across multiple functions and stakeholders required throughout the process of going public. In order to facilitate a successful public transaction, many companies are outsourcing this critical project management function. An experienced advisor can help accelerate the due diligence required to become a public-ready company and help maximize valuation potential.

Accounting treatment considerations. As SPAC transactions have soared, more guidance and clarity have emerged regarding accounting for various capital transactions, many that involve the sponsors. Key areas that SPAC registration statements need to focus on include:

- Accounting for private placement and public warrants
- Sponsor working capital loans with rights to convert into private placement warrants
- Forward purchase agreements to purchase additional equity at the time of consummation of a deal (PIPE)
- The ability to support projected results of the targeted company

OUTLOOK

Beneath all the hype generated by the boom in clean energy SPACs, there is a real window of opportunity for well-positioned companies – working with the right advisory expertise – to fuel tremendous growth through the SPAC pathway to public markets. Even if the market for SPAC transactions slows down, the long-term growth opportunities for clean energy and ESG-driven companies are robust and will offer other pathways to public markets.

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