

The Financial Impact of Celebrity Involvement and Stated Specialization in SPACs

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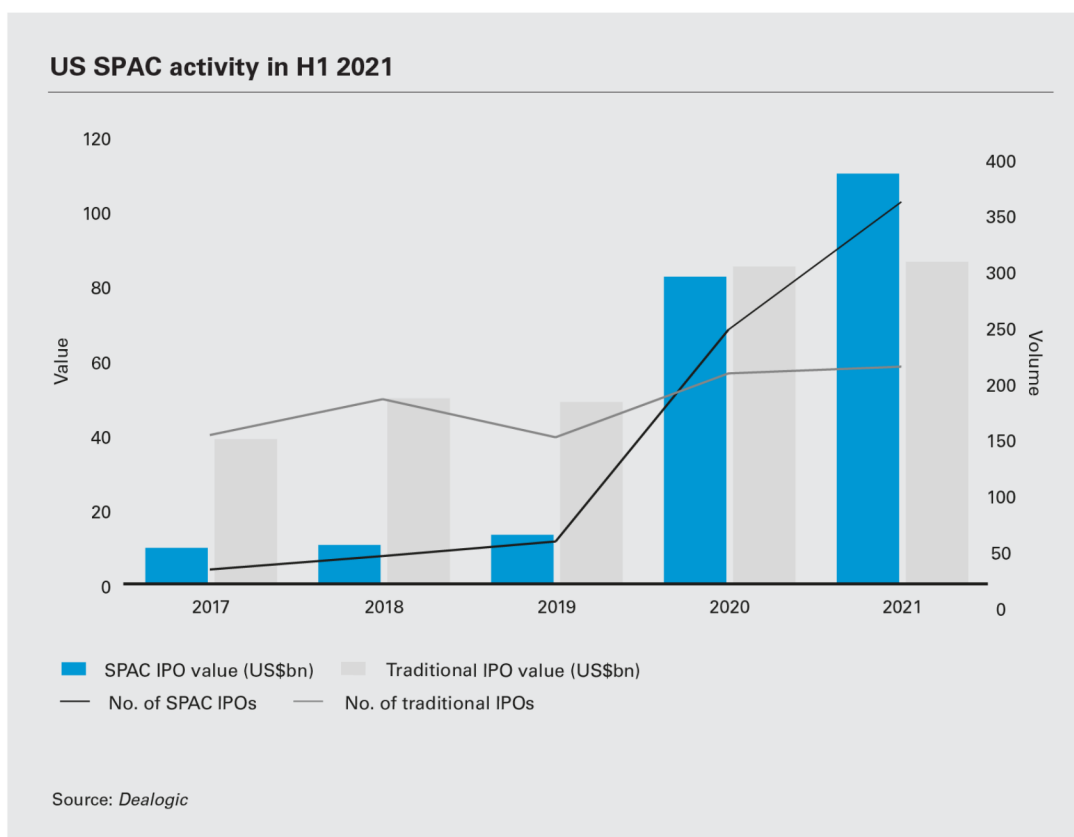
ABSTRACT

This research study is focused on whether celebrity involvement and stated specialization have a positive impact on a Special Purpose Acquisition Company's (SPAC) performance. While previous research has been able to demonstrate a negative correlation between celebrity involvement and de-SPAC stock price performance, the SPAC boom of 2020-21 was marked by an unprecedented number of celebrity attachments to SPAC prospectuses. This paper analyzed thirteen celebrity SPACs against a larger SPAC cohort as well as the S&P 500 Index and determined that while celebrity involvement does correlate to larger stock-price losses in the merged entity, celebrity involvement does have a statistically significant positive impact on a SPAC's ability to successfully identify and merge with a target company. On the other hand, a SPAC's failure to state a specialization (as well as an overcommitted stated specialization) in either target industry or geography was shown to harm the SPAC's ability to successfully identify a target company. Because sponsors are financially incentivized to locate a target company, this paper's findings illustrate an underlying reason for an increase in stated specialization and celebrity involvement in SPACs: to help a SPAC's sponsor successfully find and merge with a target in order to receive the desired financial reward.

I. INTRODUCTION

In the latter half of 2020 and early 2021, Special Purpose Acquisition Companies, or “SPACs,” took the financial world by storm. As shown in Exhibit 1, the number of SPAC initial public offerings (IPOs) increased from 59 in 2019 to 350 in 2021, while the value of SPAC IPOs grew from under \$20 billion to almost \$110 billion over the same period. This massive surge in IPOs during this period was directly attributable to a widening in the pool of capital for SPACs and an increase in SPAC listings.

Exhibit 1: SPAC IPO Volume and IPO Value by Year



While the conversation around SPACs as evidenced in data from Google Trends slowed somewhat in the latter half of 2020, it jumped sharply at the start of 2021. By May of 2021, SPAC IPO value reached \$103.8 billion indicating that global investor appetite for SPACs is still very high. This sustained increase in SPAC IPO value is particularly relevant when considering the ramifications on M&A activity. Upon merging with its target company, a SPAC and its target become a publicly listed company known as a “de-SPAC.” By May 2021, the market recorded 176 M&A deals involving SPACs (thus the formation of de-SPACs) worth in excess of \$386.1 billion.¹ By the end of the 2021 calendar year, de-SPAC activity had increased to a total of 267 announced and 199 closed deals.

In addition to the increased number of M&A transactions related to SPACs, target company size has also been increasing relative to the size of the targeting SPAC. According to Pitchbook, this gulf in target company to SPAC valuation reached an all-time high of 5.3x in 2021. When a SPAC has traditionally aimed to fund a gap in its valuation to successfully take a larger target public, it has done so through private investment in public equity (PIPE) deals. In short, this is a way for SPACs to raise money quickly by giving investors the opportunity to buy company shares at an agreed upon, discounted price. With relation to SPACs, PIPE investors tend to be given non-public information from the SPAC about the target company as well as the opportunity to invest in the SPAC at-or-below its IPO price. As target companies continue to increase in size relative to the IPO value of each SPAC, the need to attract PIPE investors to cover this gap will intensify.

¹ <https://www.whitecase.com/publications/insight/us-leveraged-finance-road-ahead/sustained-spac-surge-reshaping-capital-structures>

Alongside their increased relevance in financial markets and continued media coverage,² SPACs also began receiving an increasing amount of participation from celebrities and sports organizations.³ One potential reason (aside from the additional capital accompanying affluent celebrities) cited for this surge in popularity among this cohort is their ability to generate buzz when courting targets of a potential merger deal.⁴ Due to the increased prevalence of a SPAC in the media (“buzz”), a SPAC may arguably be able to differentiate itself from its competitors in its search for funding and/or a potential acquisition.

From the moment a SPAC goes public, the SPAC will generally have a 24-month window to effectuate a merger with a target company, otherwise all capital will be returned to investors. In addition to the tight window in which the deal must be reached, a SPACs sponsor, who does the vast majority of the work required to list and merge a SPAC, has compelling incentives to close a deal in this timeframe.⁵ In return for its work, a sponsor receives a block of shares in the SPAC, known as the sponsor’s “promote,” at a nominal rate that will amount to 25% of IPO proceeds. A failure to close a deal will force the sponsor to return the promote to investors, hence the strong incentive to successfully discover a target company.

Some economists question whether this type of compensation arrangement is sustainable in the long term. Klausner and Ohlrogge (2020) predict that the SPAC boom discussed above likely will not persist due to a lack of returns for “follow-on” investors at the time of the merger. Because sponsors have such a strong incentive to reach a deal, a sponsor may be willing to accept an inferior target company or a suboptimal valuation instead of allowing the SPAC to dissolve.

² <https://www.nytimes.com/2020/08/25/business/dealbook/spac-ipo-boom.html>

³ <https://news.crunchbase.com/news/athletes-and-celebrities-join-the-spac-boom-sec-takes-notice/>

⁴ <https://www.nytimes.com/2021/03/26/business/spac-athletes-wall-street.html>

⁵ <https://www-cdn.law.stanford.edu/wp-content/uploads/2021/01/SSRN-id3720919.pdf>

One famous example of a rushed deal can be found by looking at the Nikola Corporation. The company went public on June 4, 2020 through a reverse merger with VectoIQ Acquisition Corporation. Like most SPACs, VectoIQ announced that it would merge within two years of its initial public offering.⁶ With an IPO date of May 2018, VectoIQ's sponsor was up against its firm timeline to find a deal when it announced that it had selected Nikola as its acquisition target in March 2020, just 2 months shy of its dissolve date. In June 2020, the merger was approved, and Nikola would begin trading on the Nasdaq under the ticker symbol NKLA. At that time, Alan Annex, co-chair of the legal advisor to VectoIQ, sent an email to the *Business Journal* saying: "This is an example of how a SPAC, coupled with a strong pipe, can be used as an alternative to a traditional IPO. It's faster and give the target more control over the valuation."⁷

At first, this strategy seemed to have been proven correct as NKLA's share price skyrocketed from \$10 per share to a high of \$65.90 per share on June 19, 2020 (two weeks after the merger was approved). Unfortunately, in September 2020, the Securities and Exchange Commission (SEC) and Department of Justice (DOJ) launched investigations into securities fraud allegations; and ultimately, Nikola's founder and former CEO was charged with three counts of criminal fraud and two counts of securities fraud. Since then, the rushed de-SPAC's share price has dropped to \$7.48, and the biggest winner in this transaction can be said to be VectoIQ's sponsor and initial investors who were able to exit prior to the investigations.

With the proliferation of PIPE financing, SPACs are less likely to be subject to a hostile veto by a majority shareholder. Prior to the increased prevalence of PIPE, hedge funds and other investors would purchase a majority of shares to veto a deal in an effort to force a SPAC to alter

⁶ <https://www.sec.gov/Archives/edgar/data/1731289/000104746918003835/a2235755z424b4.htm>

⁷ <https://www.bizjournals.com/phoenix/news/2020/03/03/nikola-going-public-after-a-merger.html>

the proposed merger terms in favor of the fund⁸. However, the widespread availability of PIPE funds has enabled SPACs to occasionally bypass the majority vote previously required for approval of the merger. As discussed by Pinedo and Hirshberg (2022), SPAC PIPE transactions remain essential to a successful de-SPAC, but structuring these deals requires financial creativity and a willingness to adapt. In addition to attempts to minimize or reverse redemption decisions, sponsors can aim to obtain backstop commitments to avoid a large percentage of redemptions from tanking a deal.

Other negotiation tactics, such as an insistence on a private placement conducted by the target company can help catalyze a merger transaction through the decreased need for additional funding. While changes to economic terms for SPAC sponsors and potential SPAC regulation will likely contribute to the evolution of SPAC PIPE transactions, it is clear that sponsors will continue to seek new and creative ways to attract target companies and successfully negotiate a de-SPAC.

II. BACKGROUND & MOTIVATION

After DraftKings become a publicly traded company listed on the NASDAQ via a SPAC merger with Diamond Eagle Acquisition⁹, a wave of blank check companies sought to enter the sports industry through investment in private sports teams, sports technology companies, and sports betting ventures. An industry that was once reserved for billionaire owners had opened its doors to an entirely new investment vehicle: SPACs. Perceived by the public as a public vehicle

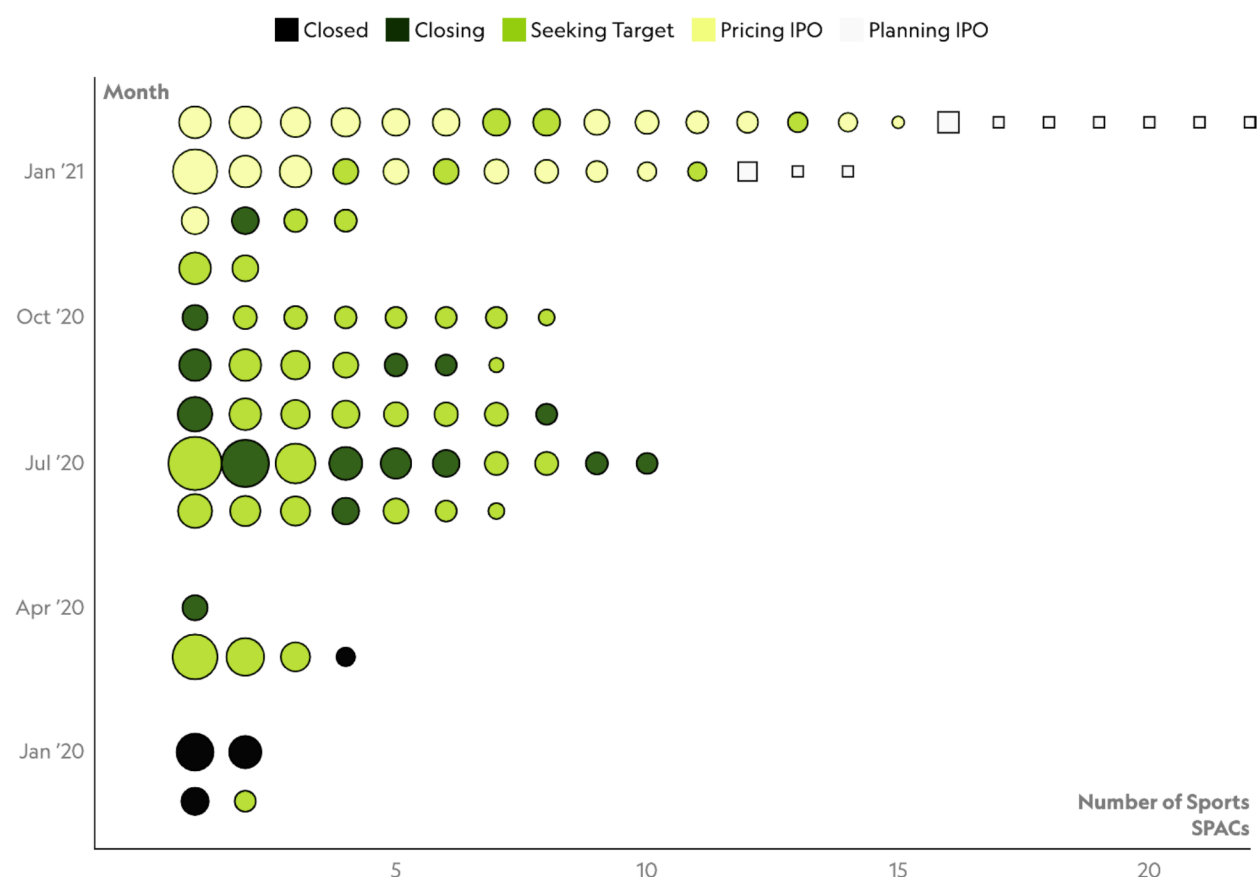
⁸ <https://www.sportico.com/feature/spac-special-purpose-acquisition-company-sports-1234616048/>

⁹ <https://www.renaissancecapital.com/IPO-Center/News/68109/DraftKings-lists-on-the-Nasdaq-following-SPAC-merger;-up-more-than-5-in-ear>

for private sports investment, SPACs held the allure of the media, the public, and sports executives alike.

Sportico, an online business publication, identified 102 SPACs with a sports connection or sports focus, and 35 sports-related SPACs were reportedly formed in 2021 with a combined IPO value of \$9.1 billion.¹⁰ More impressively, over \$20 billion in sports-related IPO value was generated in 2020 via public listing of 53 sports figure or sports-related SPACs. As demonstrated by Exhibit 2, a large number of those listed SPACs have since closed, though roughly \$13 billion in sports-SPAC funding continues to seek investment.

Exhibit 2: Sports Related SPACs by Month



Source: Sportico

¹⁰ See Coffey (2021).

For a traditionalist industry so reliant on connections, relationships, and a well-established *modus operandi*, an explosion of deals utilizing a lesser-known financial instrument was highly unusual. Even more unusual was the involvement of athletic, star-studded talent like Shaquille O’Neal, Alex Rodriguez, and Serena Williams in this new wave of SPAC investment.

III. PREVIOUS RESEARCH: CELEBRITY INVOLVEMENT

Klausner and Ohlrogge (2020) discuss one of the key features of SPACS, which is that the shareholders of a SPAC have the right to redeem their shares when the SPAC proposes a merger. The redemption price for these shares is the IPO price of the SPAC plus interest that has accumulated in a trust. In addition to the interest and original IPO price, shareholders that redeem their shares keep the warrants and rights that were part of the SPAC IPO deal. Klausner and Ohlrogge (2020) have analyzed the return for this group of original shareholders and have found, “among the 2019-20 Merger Cohort, the mean annualized return for IPO investors that redeemed their shares was 11.6% – for a risk-free investment.” This structure heavily incentivizes sponsors and existing SPAC investors to support a merger, even when the merger would be financially ill-advised.

As celebrity involvement in SPACs has increased in recent history, regulators are beginning to issue warnings against investing in SPACs just because of famous backers.¹¹ In an Investor Alert, the SEC (2021) points out the different risk profile that can be borne by a celebrity’s portfolio, and it advises the public to “never invest in a SPAC based solely on a celebrity’s involvement or based solely on other information you receive through social media,

¹¹ <https://www.sec.gov/oiea/investor-alerts-and-bulletins/celebrity-involvement-spacs-investor-alert>

investment newsletters, online advertisements, email, investment research websites, internet chat rooms, direct mail, newspapers, magazines, television, or radio.” The fact that the SEC has begun to issue warnings to the general public about investing in SPACs has led industry insiders to speculate on the future of the industry.¹² While not the topic of this paper, it will be interesting to note how celebrity attention, when combined with widespread adoption of the SPAC IPO, will affect the SEC’s level of scrutiny when it comes to this market.

To date, there has been research and growing evidence that celebrity run, advised, and/or endorsed SPACs perform negatively on the stock exchange. Of the 33 SPACs tied to famous public figures, 21 SPACs posted negative returns for 2021.¹³ However, a negative trend in a SPACs stock price is only a partial indicator of the SPAC’s performance. The sector as a whole performed abysmally in 2021, as shown by the following graph (Exhibit 3) of SPAC Index and De-SPAC Index (a grouping of 25 companies that went public via a SPAC merger) in relation to the S&P 500 Index. This paper aims to answer whether the analysis presented above (21/33 celebrity SPACS posting negative returns for 2021) is relevant in comparison to other SPACs and the overall market, rather than simply a directional trend.

¹² <https://www.mrllp.com/blog-spacs-their-current-status-and-the-future-of-regulation-megan-penick>

¹³ <https://www.bloomberg.com/news/articles/2021-12-16/celebrity-spacs-leave-famous-winners-looking-more-like-losers?srnd=premium&sref=ruqU2M2M>

Exhibit 3: SPAC and De-SPAC Indexes relative to the S&P 500



Given the sector's poor performance, it is the expectation, rather than a surprise, for a majority of SPACs in a cohort to experience negative returns. SPACs tied to celebrities should be measured against the SPAC index for a more accurate representation of relative performance.

Of the 33 SPACs that have been tied to public figures, this paper will narrow its analysis to the SPACs involved with non-expert celebrities. In its quarterly market report for US SPACS, Aranca, a business research and advisory firm, makes the distinction between three types of celebrity-led SPACs: 1) finance personalities, 2) business personalities, and 3) celebrities/politicians.¹⁴ While Bloomberg's research includes the first two categorizations of

¹⁴ https://www.aranca.com/assets/uploads/resources/special-reports/Growing_Popularity_of_Celebrity-Led_SPACs.pdf

celebrity-led SPACs, their inclusion negatively impacts the relevance of the data given the financial skills of a famous businessman are largely equivalent to his/her less famous peer. The third category of celebrity-led SPACs, as delineated by Aranca, is characterized as, “not coming from a finance/business background, but mainly valued for their network or ability to assess the SPAC target.” This paper intends to answer the question of whether the celebrity network, when accompanied by little financial skill, is worth the inclusion in the SPAC for the purposes of increasing the likelihood of attracting a potential target company.

Previous research conducted by Pawliczek, Skinner, and Zechman (PSZ, 2021) provides evidence that managers with SPAC experience, as well as former CEOs and celebrity sponsors raise more funds than management teams lacking these characteristics. However, in their research, number of Twitter followers was used as a proxy for celebrity status, but no attempt was made to distinguish between celebrities with financial experience. For example, Richard Branson, British billionaire entrepreneur and founder of the Virgin Group, is given the same celebrity weight as Ciara (the musician) due to their respective number of followers (12.6 million and 11.5 million respectively).

Despite the lack of differentiation between celebrities with and without financial expertise, PSZ (2021) find that celebrity involvement positively impacts total funds raised through a SPAC IPO with a $p < .01$ is significant and demonstrates value added to the sponsor. If raising funds for the SPAC IPO is the foremost responsibility of the sponsor, then finding a suitable target for the SPAC must follow as his/her secondary responsibility. Because the value proposition to the sponsor of finding a suitable target company is so high, a demonstrated increase in the likelihood of finding such a company would be an increased layer in the benefits to a celebrity name attached to a SPAC. In other words, total funds raised through a SPAC IPO is

merely the first step in the sponsor's journey to capture value. The secondary step is whether these additional funds, or the involvement of a celebrity on the board and/or marketing efforts, can be translated into an increased likelihood of finding a suitable target company with which the SPAC can merge. This paper aims to look for the second step in this value creation chain.

IV. CELEBRITY INVOLVEMENT: DATA SELECTION

As mentioned, despite the lack of financial expertise brought to the table by a celebrity, his or her network may be valuable on its own merits. Given the lucrative business of redeeming SPAC shares prior to a merger, perhaps celebrities serve a second function: publicity and/or access. If celebrity involvement can be demonstrated to increase the likelihood of a SPAC merging with a private company, then the value of this involvement is self-evident. A sponsor that can attract a celebrity to the SPAC will do so purely to avoid returning the sponsor shares to the investors by effectuating a merger through the help of the celebrity network.

Table 1 (below) includes each SPAC that has become involved with a non-expert celebrity during the celebrity-led SPAC surge, the names of each non-expert celebrity, and the sum of all involved celebrities' social media following (derived from the sum of all celebrity Twitter and Instagram followers that are involved with the SPAC).¹⁵

¹⁵ <https://www.wsj.com/articles/the-celebrities-from-serena-williams-to-a-rod-fueling-the-spac-boom-11615973578>

Table 1: Celebrity Involvement in SPAC by Social Media Following

SPAC	Celebrity Name	Celebrity Industry	Social Following	IPO Value
Digital World Acq	Donald Trump	Politics, Media	112,100,000	\$287.50M
Dune Acquisition	Stephen Curry	Sports (Basketball)	55,500,000	\$172.50M
Disruptive Acquisition Corporation I	Robert Lewandowski, Saul "Canelo" Álvarez, Patrick Mahomes, Naomi Osaka, Justin Verlander	Sports (Soccer, Boxing, Football, Tennis, Golf)	53,480,000	\$250M
Bright Lights Acquisition Corp.	Ciara	Music	42,200,000	\$200M
BowX Acquisition Corp.	Shaquille O'Neal	Sports (Basketball)	37,800,000	\$420M
Forest Road Acquisition	Shaquille O'Neal	Sports (Basketball)	37,800,000	\$300M
Infinite Acquisition Corp.	Kevin Durant	Sports (Basketball)	32,100,000	\$276M
Jaws Spitfire Acq	Serena Williams	Sports (Tennis)	24,900,000	\$300M
Mission Advancement	Colin Kaepernick	Sports (Football)	6,200,000	\$345M
Slam Corp.	Alex Rodriguez	Sports (Baseball)	5,100,000	\$575M
NewHold	Andre Agassi, Peyton Manning, Steffi Graff	Sports (Football, Tennis)	735,000	\$194.9M
Andretti Acq	Michael Andretti	Sports (Moto Racing)	77,500	\$230M
RedBall Acquisition	Billy Beane	Sports (Baseball)	12,300	\$575M

Source: A. Ramkumar, *Wall Street Journal*, March 17, 2021.

While a few of these celebrities do not have a strong social media following (e.g. Peyton Manning and Billy Beane), they are well known public figures that may attract similar, if not more, media attention than other celebrities on the list. Social media following is used as an objective proxy here for popularity/status, though it is not a perfect measure. It is also important to note that while popularity/status is generally considered a positive, it can also generate an outsized negative response as demonstrated by The Change Company walking away from a proposed merger with Mission Advancement Corp due to a lack of PIPE investment and more importantly, noncooperation by Mission Advancement Corp's celebrity sponsor, Colin Kaepernick.¹⁶

In addition to 13 celebrity-led SPACs, the control group against which these analyses will be made is a cohort of 562 SPACs with IPO dates between January 31, 2019 to January 31, 2022. These SPACs were selected using all available data from SPACResearch.com and any SPACs with missing data were excluded from the sample. Within the entire data set of 575

¹⁶ <https://www.wsj.com/articles/colin-kaepernick-spac-deal-collapses-testing-celebrity-halo-11640373559>

SPACs, 349 SPACs are in the “Pre-Deal” phase, 70 SPACs are currently “Live” (target announced and merger is in process), 153 SPACs are “Closed” and have successfully merged, and 3 SPACs were “Liquidated” without a completion of a successful merger.

V. CELEBRITY INVOLVEMENT: METHODOLOGY & RESULTS

To begin the analysis of celebrity involvement on SPAC merger success, the SPAC data was first analyzed from the top, down. For the purpose of this top-down analysis, a “successful” SPAC will either be in the Live or Closed phase, whereas an “unsuccessful” SPAC will be in the Pre-Deal phase. The distinction between successful and unsuccessful is predicated on the idea that a sponsor is incentivized to effectuate a merger in order to retain its shares and warrants. Of the celebrity-involved cohort, 62% of SPACs were “Successful,” while only 38% of the general SPAC cohort were classified as such.

To better assess the significance of this 24% gap in success, a z-test was performed on the two cohorts. Prior to conducting the z-test, each SPAC phase was assigned a numerical value. Pre-Deal and Liquidated SPACs were assigned a (1), Live SPACs were assigned a (2), and Closed SPACs were assigned a (3). Each numerical value assigned is intended to represent the success with which a SPAC was able to find a suitable target to acquire; the higher the value, the more successful the SPAC was in discovering the target.

As shown in Table 2, celebrity-involved SPACs were more likely than their counterparts to successfully locate a target company. However, with a mean success rate of 1.92, celebrity-involved SPACs failed to outperform non-celebrity-involved SPACs at the 5% significance level. The celebrity-involved cohort had a mean success rate for finding a target company that fell 1.18 standard deviations above the mean of the non-celebrity-involved cohort.

Table 2: Tiered Likelihood of Celebrity Involvement Impacting a Successful Target Discovery

	<i>Celebrity</i>	<i>Non-Celebrity</i>
Mean	1.92	1.65
Known Variance	0.69	0.76
Observations	13	562
Hypothesized Mean Difference	0	
Z	1.18	
P(Z<=z) one-tail	0.12	
z Critical one-tail	1.64	
P(Z<=z) two-tail	0.24	
z Critical two-tail	1.96	

Despite the lack of statistical significance at the 5%, celebrity-involved SPACs have shown a positive correlation with a successful target. In fact, the tiered method tends to favor SPACs in the “Closed” phase by virtue of the (3) value assigned to this group. Because celebrity involvement in SPACs is a relatively recent phenomenon, the celebrity-involved SPACs in this data set skew younger as well. Due to the correlation in “Number of Days Since SPAC IPO” and which stage of the deal cycle the SPAC finds itself, celebrity-involved SPACs are less likely to be “Closed” by virtue of being new. For reference, the average Pre-Deal SPAC IPO in this data sample was effectuated 96 days prior to Live and 342 days prior to Closed SPACs on average.

In order to address the youthful skew of celebrity-involved SPACs, the second analysis is done on a binary scale. Rather than tier each SPAC into a respective 1 to 3 bucket, SPACs in the Live and Closed stage were grouped together as “successful”, (2). As shown by Table 3, the increased likelihood of success for celebrity-involved SPACs is significant at the 5% level when taking the timing skew into account. The p value of .044 for the one-tailed test demonstrates that

the mean success rating for celebrity-involved SPACs (1.615) is higher than the mean success rating for non-celebrity-involved SPACs (1.383) at a statistically significant level.

Table 3: Binary Likelihood of Celebrity Involvement Impacting a Successful Target Discovery

	<i>Celebrity</i>	<i>Non-Celebrity</i>
Mean	1.62	1.38
Known Variance	0.24	0.24
Observations	13	562
Hypothesized Mean Difference	0	
z	1.70	
P(Z<=z) one-tail	0.04	
z Critical one-tail	1.64	
P(Z<=z) two-tail	0.09	
z Critical two-tail	1.96	

Though Table 3 demonstrates that celebrity involvement increases the likelihood of a SPAC successfully discovering a target, it is important to understand whether this translates to increased shareholder return.

After analyzing the cohort of “Closed” SPACs, it is clear that while celebrity involved SPACs may be more likely to find a target, they are also responsible for outsized losses (post-merger) when compared with both the S&P 500 and other de-SPACs. Celebrity-led or celebrity-involved de-SPACs had an average return of -17.7% after a 60-day period post-merger, and -38.9% after a 120-day period. When taking into account returns from the S&P 500 Index over the same period of time, celebrity-involved de-SPACs resulted in an average return of -22.2% after a 60-day period post-merger, and an average return of -41.6% after a 120-day period. Simply put, investors would have been better off investing in the S&P 500.

As illustrated above in Exhibit 3, the de-SPAC index is also down relative to the S&P 500. When analyzing Celebrity-Involved de-SPACs vs. Noncelebrity-Involved de-SPACs, it is also clear that celebrity involvement is once again negatively correlated with share price performance. While Celebrity-Involved de-SPACs demonstrated an average return of -17.7% in the 60 days post-merger, Noncelebrity-Involved de-SPACs fell only -10.7%; a 7% difference over 60 days. After 120 days post-merger, Noncelebrity-Involved de-SPACs outperformed the Celebrity-Involved cohort by 22.6% with returns of -16.4% and -38.9% respectively. These results suggest that Sponsors benefit from celebrity-involvement in their SPAC listing to the detriment of PIPE investors. This is due to the fact that a sponsor is paid upon the delivery of a successful target while a PIPE investor must experience positive returns in order to make money in a de-SPAC transaction.

VI. CELEBRITY INVOLVEMENT: A CASE STUDY TO MONITOR

While there are numerous examples of catastrophic results associated with celebrity-involvement in SPACs, like the Kaepernick example previously mentioned or Shaquille O'Neil's Forest Road Acquisition whose target company, Beachbody, experienced a per share loss of 64% after 120 days. Another company in particular will be interesting to monitor as it nears its de-SPAC date. MANSCAPED, a leading men's lifestyle and consumer brand, is slated to become a publicly traded company via a business combination with Ciara's Bright Lights Acquisition Corp.

Prior to Bright Light Acquisition targeting MANSCAPED, it filed and successfully raised \$200 million in an IPO with a stated, directional specialization (significance of this to be discussed in the following section) of merging with a "company operating in the consumer

products and media and entertainment and sports sectors with enterprise valuations in the range of \$500 million to \$1.5 billion.” As a part of this filing, Ciara, the Grammy winning singer-songwriter, was tapped to serve on its board.¹⁷

True to the thesis that celebrity power can help in both the fundraising and target selection processes, Bright Light Acquisition Corp. has been able to complete both of these stages so far, and it has its sight on value creation for MANSCAPED as well. In a transaction which implies a company enterprise value of \$1 billion, which includes an additional \$75 million in fully committed PIPE investment from institutional investors, MANSCAPED and Bright Light Acquisition have successfully attracted both celebrities and institutional investors as Channing Tatum, Guggenheim Investments, and UBS O’Connor are all public backers of the transaction.¹⁸

At this stage, the Boards of Directors of both MANSCAPED and Bright Lights have unanimously approved the transaction, now awaiting the shareholder vote. With an initial share price of \$9.20, this de-SPAC is hoping to reverse the trend of celebrity-involved SPACs leading to outsized losses through its operator-led approach post-merger.

VII. SPECIALIZATION: PREVIOUS RESEARCH

Similar to the way in which a SPAC’s sponsor may enlist a celebrity to garner the attention of both the media and the target, a SPAC may choose to state a target industry and/or geography for a future merger in order to differentiate itself from other investments. Generally, the Prospectus will include a stated intention, or focus, in regard to the SPAC’s geography and

¹⁷ <https://www.yahoo.com/video/peter-guber-ciara-headline-spac-171531910.html>

¹⁸ <https://www.bloomberg.com/news/articles/2021-11-23/channing-tatum-guggenheim-back-manscaped-s-1-billion-spac-deal>

industry. While the target industry and/or geography may be clearly stated in the Prospectus, it is generally accompanied by a qualifying statement that absolves the SPAC from the legal obligation to target what is written. For example, the following language, which is standard (apart from minor alterations) across all blank check companies, can be found in the BowX Acquisition Corporation's Prospectus:

While we may pursue an initial target business in any stage of its corporate evolution or in any industry or sector, we initially intend to focus our search on target businesses in the technology, media and telecommunications ("TMT") industries.¹⁹

Despite the frequent stated specialization by SPACs, the United States legal system has explicit regulations that should disincentivize companies from disclosing their intentions. Pawliczek, Skinner, and Zechman (2021) note that while the SEC provides safe harbor protections to forward looking statements, these safe harbors are exempted when related to IPOs (SPAC or traditional) per the Private Securities Litigation Reform Act, 15 U.S. Code § 77z-2 b.1.B.²⁰ Due to the litigation risk, it is surprising to see such a large number of SPACs explicitly state a target industry/geography, especially when this statement is unnecessary to the IPO. The inclusion of intended specialization therefore suggests a positive correlation between performance and disclosure (albeit disclosures with legally vague language).

For example, sports-focused SPACs became extremely popular during 2020 as SPACs offered investors potential access to a previously unavailable asset class – sports teams. Does this added differentiation through specialization add anything of actual value to the SPAC, or does

¹⁹ https://www.sec.gov/Archives/edgar/data/1813756/000121390020017847/fs12020_bowxacqu.htm

²⁰ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3933259

the narrowed focus actually limit the profit potential by locking the SPAC out of emerging trends in other industries? We next explore whether specialization has a positive or negative impact on the performance of SPACs, and further seek to quantify the impact of stated specialization on the aforementioned performance.

In this study, “performance” will be measured by whether the SPAC is able to successfully locate and/or merge with a target company within the two-year time horizon. A successful merger will earn a “Closed” status, a successfully identified target company that is in the process of merging will earn the SPAC a “Live” classification, while a SPAC still looking for a target acquisition will receive a “Pre-Deal” status.”

VIII. SPECIALIZATION: CLASSIFICATION AND DATA SELECTION

To understand and differentiate the degree to which a SPAC may be specialized, this paper has classified each of the 572 SPACs from the same cohort as the celebrity analysis into 4 levels of stated specialization from their 424B4 prospectuses. In addition to the prospectuses, we relied on [spacresearch.com](https://www.spacresearch.com) to identify the relevant focus areas for each of the SPACs in this dataset.²¹ The classification results in 4 specialization categories as shown below:

1. No stated target industry or intended geographic region
2. Stated target industry OR intended geographic region
3. Stated target industry AND intended geographic region
4. Stated target industry AND more narrowly stated intended geographic region

²¹ <https://www.spacresearch.com/>

As noted previously, the exact language that can be found in the 424B4 prospectus is generally quite vague, however the stated intent often binds the SPAC through external pressure to follow through on the promise to investors. We acknowledge the potential arbitrary nature of the classification. However, due to the vague language included in each prospectus, a subjective classification is necessary in order to arrive at a directional result.

Based on the classifications above, the number of SPACs from this dataset that fall into each categorization are reported in Table 4.

Table 4: Number of SPACs per Specialization Category (1-4) and Stage of Deal

	1	2	3	4	Total
Pre-Deal	68	226	43	12	349
Live	0	35	35	0	70
Closed	0	46	107	0	153
Total	68	307	185	12	572

Table 4 suggests that, directionally, SPACs have begun to deviate from the representation made in their prospectuses. Despite a varied approach in a SPAC's stated specialization, it appears that sponsors who fail to specialize (or specialize too far) are unlikely to find a suitable target company with which to merge.

IX. CONCLUSION

As the prevalence of SPACs continues to intensify, sponsors will look towards new, innovative methods to differentiate their blank check company from the rest of the SPAC market. This market saturation and increased competition has incentivized sponsors to alter the

specificity of their intended targets and add celebrities to their board in an attempt to attract both media attention and the interest of potential targets. Despite the poor share-price performance associated with celebrity-led de-SPACs, there has proven to be benefits to their inclusion on the boards.

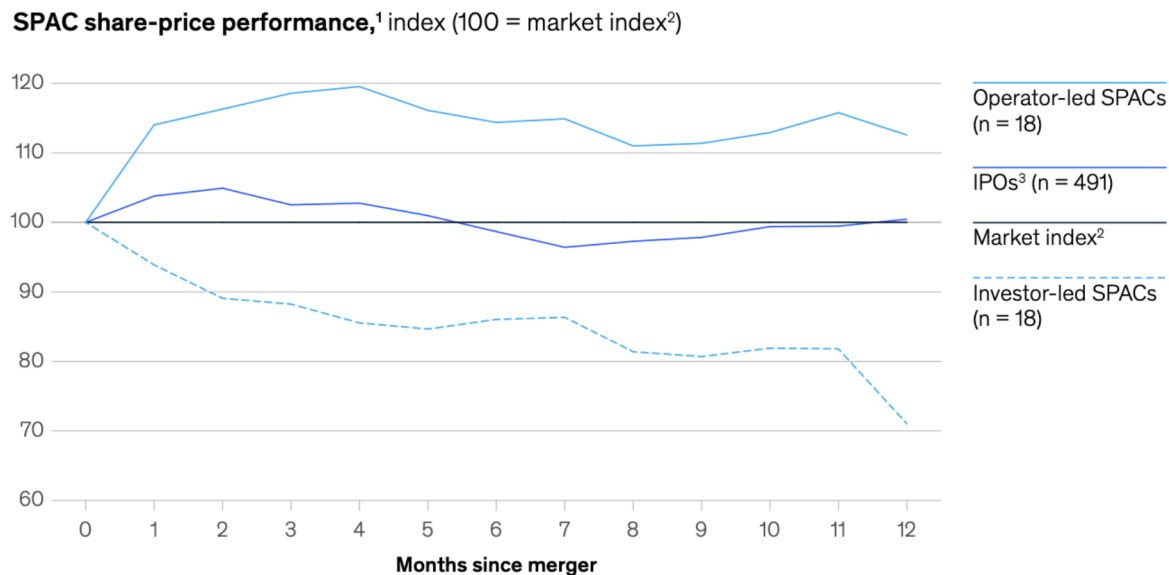
Based on the results in Table 3, there is a clear benefit to sponsors in including celebrities on the board. A demonstrated increase in the likelihood of successfully finding a target is a strong incentive for a sponsor as they earn outsized returns upon completion of a deal. As our analysis of stated specialization suggests, sponsors would do well to include both celebrity power and a directional, yet noncommittal, specialization in their 424B4 prospectuses. Unlike PIPE and other follow-on investors, sponsors are less incentivized by the stock performance of the de-SPAC than they are incentivized by the pure “yes” or “no” result of a merger with any approved company. Our finding of a negative correlation between celebrity involvement and de-SPAC share price over time further contextualizes Klausner and Ohlrogge’s (2020) research by providing a reason for an increase in celebrity involvement in the SPAC boom. Our study also further exemplifies the issues associated with improper incentives and why the hypothesized fade in SPAC prevalence will be due to a future lack of PIPE investment.

Still, SPAC interest may yet continue to grow should sponsors discover ways to achieve both a successful acquisition as well as outsized returns post-merger. An analysis by McKinsey & Company, which is demonstrated through Exhibit 4, suggests that operator-led SPACs outperform investor-led SPACs when measured by post-merger stock performance over a 12 month period. “Operator led” means a SPAC whose leadership (chair or CEO) has former C-suite operating experience (versus purely financial or investing experience).²²

²²

<https://www.mckinsey.com/~/media/McKinsey/Industries/Private%20Equity%20and%20Principal%20Investors/Ou>

Exhibit 4: Operator vs. Investor Led SPAC Share-Price Performance



¹SPACs = special-purpose acquisition companies. Data covers 36 SPACs of ≥\$200 million that successfully merged during 2015–2019 and have 12 months of trading history.

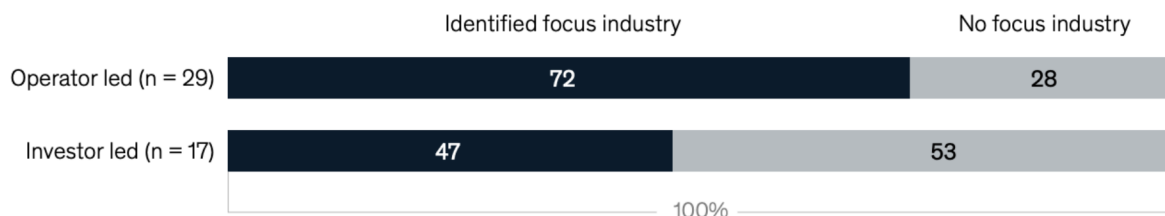
²Refers to S&P 500 sector indexes (eg, for healthcare or consumer-discretionary sector) matched to IPO's sector. SPACs were compared with S&P 600 midcap-sector indexes to reflect smaller company size.

³IPOs were compared with S&P 500 sector indexes and do not include investment funds (eg, SPACs, exchange-traded funds, real-estate investment trusts). Source: S&P Capital IQ; McKinsey analysis

This same analysis also demonstrates the correlation between operator-led SPACs and stated specialization as illustrated by Exhibit 5.

Exhibit 5: Operator vs. Investor Led SPAC Target Industry

Focus/target industry of SPACs,¹ % of total



Source: S&P Capital IQ; McKinsey analysis

When taken together, McKinsey and Company's analysis and this paper suggest that the optimal SPAC would include both former C-Level operators and celebrities. Operator-led SPACs are more likely to state an industry/geographic specialization, thus increasing the likelihood of finding a target as demonstrated by this paper. Additionally, operator-led SPACs outperform both the de-SPAC Index and the celebrity-led SPAC cohort in the 12-month trailing period following a successful merger. While operator-led SPACs outperform the rest of the market, this paper demonstrates that celebrity involvement has a positive impact on the SPAC through the increased media attention and the higher likelihood of attracting a target company. The combination of business/executive experience and ability to attract this level of attention is seldom found in one person (Elon Musk provides the exception that proves the rule). However, the combination of these skillsets through multiple board members of the SPAC can and should be used to maximize returns to both shareholders and the sponsor.

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