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2021 DEALMAKERS OF THE YEAR

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IN A RECORD-BREAKING YEAR FOR SPECIAL purpose acquisition companies, one SPAC stood out from the growing crowd. Billionaire hedge fund manager Bill Ackman's Pershing Square Tontine Holdings SPAC, formed in July 2020, was the largest blank-check company to date—by a margin of billions.

At $4 billion, the SPAC's size was enough to bring a new surge of interest in the burgeoning financial vehicle. But it is the underlying terms of the Pershing Square SPAC that could revolutionize the way blank-check companies operate in the future and offer a more sustainable path forward.

The sheer size of Pershing Square opened it up to long-term institutional investors who had previously avoided SPACs as they grew in prominence in recent years, according to Stephen Fraidin and Greg Patti, the Cadwalader, Wickersham & Taft partners who advised on the initial public offering. The tontine structure—in which two-thirds of warrants would be transferred upon redemption to shareholders still invested after the SPAC's initial business combination—is another enticement for long-term investment. And the terms governing the sponsor's compensation and financial commitment to the SPAC—much lower and much higher, respectively, than in other blank-check companies—further align the sponsor's interests with those of IPO investors.

The result is a harmonious structure that addresses many of the doubts previously held by investors skeptical of SPACs—and one likely to be adapted by others.

"In light of the universally favorable publicity the PSTH structure has received—from investors, the media and academia—and the fact that PSTH stock has traded at a substantial premium to the trust fund value, it is inevitable that the structure will be copied by other substantial institutions that wish to sponsor SPACs," Fraidin says.

As interest in SPACs continues to grow, Fraidin sees the Pershing Square deal as a shift in the paradigm.

"I think this will be comparable to the evolution of private equity fund terms during the 1980s, as those terms became gradually more favorable to investors. I foresee a reverse of Gresham's Law," Fraidin says, referring to the principle that bad money drives out good money, "as the good terms supplant the bad."

—BEN SEAL