Institutional Investor

A Book Full of Blank Checks

Inspired by the successful backdoor IPO of hedge fund firm GLG Partners, advisory boutiques are flocking to a type of transaction once reserved for boiler-room manipulators.

•• BY DAN FREED

When GLG Partners co-founder Noam Gottesman told investment bankers Joseph Perella and Peter Weinberg last spring that he wanted advice on selling a stake in his hedge fund firm to Freedom Acquisition Holdings, a special-purpose acquisition corporation, the bankers were a bit puzzled. London-based GLG was a giant in the hedge fund business, and SPACs — essentially, shells that go public to raise capital and buy operating companies — historically had been a financing device favored by shady operators. But Perella Weinberg Partners took the assignment anyway. The deal, a reverse merger that gave Freedom a 28 percent stake in GLG and valued the asset manager at $3.4 billion, was announced in late June.

Since that deal closed November 2 and GLG became a public company, the initial investors in Freedom have doubled their money. And Perella Weinberg is among several boutique investment banks that have developed a taste for launching SPACs. The firm is a minority owner of BPW Acquisition Corp., a SPAC that in November registered with the Securities and Exchange Commission for a $375 million IPO. The majority owner is Brooklyn NY Holdings, the investment vehicle of the Lerner family, which sold credit card giant MBNA Corp. to Bank of America Corp. last year and owns the Cleveland Browns football team. According to its prospectus, BPW Acquisition aims to buy a financial services company, relying on the expertise and advice of the Lerners and Perella, who is a vice chairman and director of the SPAC. The company's CEO is Michael Martin, the former head of financial institutions investment banking at UBS who now runs Brooklyn NY Holdings.

Other advisory firms that say they are launching or considering SPACs include Centerview Partners, Greenhill & Co., Lazard and Peter J. Solomon Co. Lazard is sponsoring Sapphire Industrials Corp., which has filed for a $800 million IPO and will seek to acquire an industrial company; Greenhill is backing GHL Acquisition Corp., a SPAC that has registered for a $400 million debut offering. These moves could allow advisory firms, which lack stock-underwriting capabilities, to help clients that want to raise public equity capital. The SPAC structure is attractive to IPO candidates such as GLG that want to avoid the red tape of a conventional offering, including filing prospectuses and holding investor road shows. SPAC sponsors go through that process, not the companies they buy.

"Freedom sort of proved that you could buy a world-class asset using the SPAC structure," says Nicolas Berggruen, one of Freedom's founders. "And it was a much more efficient way to bring a company public than the normal IPO process."

The burst of deals is part of a broader SPAC boom. Through December 12, SPACs accounted for nearly one of every four U.S. IPOs in 2007, up from 16 percent in 2006 and 5 percent in 2004, according to Dealogic. From October 1 through December 12, SPACs raised $6.14 billion, more than in the three previous quarters combined.

But the wave of boutique-sponsored SPACs also raises questions about potential conflicts of interest. For instance, how would a firm handle selling a client company to a SPAC it partly owns? As a representative of the seller, the firm would be obliged to seek the highest possible price. But as a shareholder of the acquirer, it would want to pay as little as possible. Officials at Perella Weinberg and BPW won't comment on the issue. BPW's prospectus says that it expects to source targets "from various unaffiliated sources within the financial community." But it also notes that BPW management may bring companies to the SPAC's attention.

The SEC isn't too concerned about the surge in backdoor IPOs. "SPACs include a great deal of disclosure about how they will seek acquisitions, how they will evaluate potential acquisitions, and what information they will provide shareholders for them to evaluate any proposed acquisitions," an SEC spokesman says. "Most seek shareholder approval and offer them the opportunity to get their money back instead of holding an interest in the combined entity."

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