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‘Blank-Check’ Firms Gain Favor

Buyout Vehicles
Going Public Score
Hit With Investors

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They have no operating assets, and there is no guarantee they will find any, but blank-check companies are growing in popularity after a quarterly record 17 of them went public in U.S. markets in the first three months of this year.

Also known as special-purpose acquisition companies, or SPACs, blank-check companies are essentially empty shells that promise to buy a business with the proceeds from their initial public offerings of shares.

Their popularity has been rising since 2004 when only 13 went public, raising $483.6 million, according to data tracker Dealogic.

That grew to 30 in 2005 and 40 last year, raising $2.1 billion and $3.4 billion, respectively.

Already this year, 20 blank-check companies have gone public, including three last week. Together, they have raised $2.1 billion. The average size of the deals in the past four months is about $107 million, with the largest belonging to Stamford, Conn.-based **Information Services Group** Inc.'s $259 million IPO. As the name suggests, the company intends to scour the information-services industry, including business, media, marketing and consumer information, for potential acquisitions.

Despite first-day returns averaging 0.1%, which may not be that surprising given that these companies have no real businesses, their popularity appears likely to continue. Since November, 12 more have filed paperwork to go public with plans to raise $1.5 billion, according to Dealogic.

As their numbers continue to grow, so too is their credibility, according to Michael Kollender, a managing director at financial-services firm Stifel Nicolaus. He has no connection to any SPACs. "The market is certainly much more mature than it has been," he said. "There are much larger firms investing in and managing the SPAC IPOs."

Citigroup, **Merrill Lynch** and **Deutsche Bank** are prominent Wall Street firms that have underwritten some of the deals.

The structure of a blank-check company usually requires that an acquisition be made within 18 to 24 months, which means the quality of management is regarded as a key ingredient to their success. In 2005 and 2006, the majority of the companies signed or completed agreements to acquire businesses within that time frame.

In addition, approval for any acquisition must be obtained by shareholders. If that isn't forthcoming or a deal isn't made, the money raised is returned to investors. It is those attributes that analysts say have increased interest in companies that have no products and no revenue when they go public.

Among those with an appetite for the stocks are hedge funds, largely because blank-check companies offer an option over a potential investment and a say in what that investment will be. "In some ways, this is a derivative play on private equity," said Jon Salveson, head of investment banking at Piper Jaffray & Co.

Despite their growing popularity, Mr. Kollender at Stifel Nicolaus said the "jury was still out" as to whether the bulk of the deals will be successful. "In my mind, you can't really talk about the SPAC market definitively until you look at the acquisitions that have been made by SPACs and how they pan out over the next several years," he said.

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