GA-Courtenay Special Situations Fund

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The Pershing Square SPARC Warrants

A Closer Look For The Business-like Investor

September 30th, 2024

"The Pershing Square SPARC is a SPAC in reverse. Instead of putting up cash on day one, our shareholders will own a publicly traded warrant that entitles them to invest in our next transaction, upon announcement, at NAV.

We have total flexibility to pursue transactions of any size. No underwriting fees, no upfront costs, no opportunity cost of capital, the ability to tailor-make the transaction size. This will make for a very, very interesting entity."

Bill Ackman, Pershing Square Holdings, November 18th 2021[1]

"Be very aggressive when you can gain exposure to asymmetry. In these circumstances, you then want the maximum volatility."

Nassim Nicholas Taleb, Bloomberg interview, 2017[2]

"People get the current warrant for free, and then a successor warrant in addition relating to the next transaction. And so, holders will always have an evergreen entity here.

We believe this SPAR entity will he best entity in the world in which to come public."

Bill Ackman, Pershing Square Holdings, November 18th 2021[3]

"The planned issuance of SPAR warrants does not appear to be widely understood.. our SPAR warrants should be substantially more valuable."

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Introduction

Amid today's elevated market uncertainty and historically high Western government debt, combined with equities trading at above average earnings multiples, the intelligent, business-minded investor in our view must prioritise capital allocation opportunities that offer asymmetric return profiles.

The recent distribution of Pershing Square SPAR "Special Purpose Acquisition Rights" warrants, structured as contingent value rights or "CVRs" and as part of the liquidation of the Pershing Square Tontine SPAC in 2022, presents a prospectively highly rewarding form of such an asymmetric opportunity.

The GA-Courtenay Special Situations Fund holds 0.64% of the total outstanding Pershing Square SPAR warrants[5] and this white paper presents a comprehensive review of their structure, mode of action and the scenarios that may lead to significant profit outcomes for their holders.

The SPAR warrants offer their holders a series of unique exposures – to successive future valuation uplifts from private-to-public merger transactions captured by the structure's sponsor, and one of the world's most successful investors, Bill Ackman at Pershing Square Capital Management "PSCM"[6].

Figure 1: Bill Ackman posts on X (formerly Twitter), September 2023, following clearance of the Pershing Square SPARC

The warrants' innovative "opt-in" feature, combined with their potential for multiple accretive transactions over time, creates an unusually attractive asymmetric payoff profile for these securities which are currently marked at a zero valuation within the holdings of the GA-Courtenay Special Situations Fund. This paper provides a detailed analysis of various valuation scenarios for the warrants, taking into account factors including typical IPO valuation uplifts, Pershing Square's historical performance, and the unique advantages conferred by the Pershing Square SPARC "Special Purpose Acquisition Rights Corporation" structure.

An important dimension within our analysis is also the superiority of the Pershing Square SPARC as a listing vehicle compared to traditional initial public offerings "IPOs" and Special Purpose Acquisition Corporations "SPACs". We argue that the SPARC's superiority delivers an additional negotiating leverage when pursuing deals, prospectively leading to more favourable terms and therefore higher returns for warrant holders. The paper explores how the SPARC structure adeptly addresses conflicts of interest inherent in traditional IPO processes while simultaneously minimising the dilution inherent within the SPAC route to market listing. This structural advantage, we contend, gives credibility to Bill Ackman's statement that the SPARC is "*the best entity in the world in which to come public*."

Finally, the white paper examines the strategic positioning of Pershing Square SPARC in targeting large-scale merger partners. Public leaks have revealed potential targets with valuations ranging from $44bn to $85bn[7], including prominent names such as Bloomberg LLP[8], and X (formerly Twitter)[9]. We analyse why it is this form of super-scale target that further accretes outcomes for warrant holders, leveraging the unique strengths of the SPARC structure in negotiating with such high-profile entities.

Overall, the white paper aims to provide the business-like investor with a comprehensive understanding of the Pershing Square SPAR warrants and potential value outcomes. By examining the structure, historical context, and future possibilities of these unique securities, we illuminate an opportunity within special situations investing that has been overlooked by the broader market.

Figure 2: A Forbes article commenting on this fund's outsize holding in the Persing Square SPAR warrants, December 2021[10]

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Adrian Courtenay: The SPARC Conversion Of Bill Ackman's SPAC Is A Wise Move

Jacob Wolinsky Contributor
Jacob Wolinsky covers hedge funds and emerging managers.

Dec 16, 2021, 09:55am EST

Special purpose acquisition companies (SPACs) have gotten a lot of attention this year. They skyrocketed in popularity due to the ease they offer to private companies that want to go public but can't complete a traditional initial public offering.

Pershing Square proposes converting its SPAC to a SPARC

However, there is a similar company type that investors should understand, and Adrian Courtenay of Odey explains in his November letter to investors. Bill Ackman's Pershing Square Tontine Holdings hadn't found a company to merge with yet, and it has proposed converting to a special purpose acquisition company (SPARC).

The Securities and Exchange Commission was set to approve the SPARC conversion on December 9, although there's been no word on whether it did. However, all signs suggested that the SEC would indeed approve the conversion. Even if the regulator wouldn't approve the new structure for the New York Stock Exchange, the SPARC warrants would still trade over the counter.

Courtenay is positive on the SPARC conversion as Odey owned almost 190,000 common shares of Pershing Square Tontine Holdings priced at $20.16 and more than 480,000 warrants priced at $1.58. He said the Odey Special Situations Fund should receive a sizable gain from the SPARC conversion

SPAC versus SPARC

To demonstrate the opportunity he sees for the Odey Special Situations Fund, Courtenay starts by explaining the differences between a SPAC and a SPARC. A SPAC is a blank check company, which means it is a shell company listed as a publicly-traded stock on an exchange (the New York Stock Exchange in this case). The shell company was formed for the purpose of merging with a privately-held company, taking it public in the process.

SPACs allow their shareholders to opt out after they find out what company the SPAC will merge with. However, that means shareholders must provide their capital upfront and wait up to two years to find out which company the SPAC will merge with. If they don't like the company selected for the merger, they can have their money returned to them.

Courtenay adds that the SPAC structure has several inefficiencies that are addressed with the SPARC structure. SPARCs are the reverse of SPACs in that instead of putting their cash upfront, shareholders hold onto their money until the SPARC identifies the company it plans to merge with.

Ackman's plans for his SPARC

On a conference call on November 18, Ackman explained that under the SPARC structure, they intend to distribute warrants to the shareholders of Pershing Square Tontine Holdings for free. If they aren't in the middle of a transaction at that time, they plan to seek a shareholder vote to return the capital to shareholders, leaving them with no investment. They will still own a publicly-traded warrant that entitles them to invest in the company's next transaction at net asset value when it is announced.

The conversion would result in the return of $20 for every share of the SPAC owned and the issuance of one SPAR warrant. The conversion will also distribute two SPARC warrants to every SPAC warrant holder and cancel all the old SPAC warrants. Implied pricing would be at 68 cents.

He adds that 1.1 million SPAR warrants worth 68 cents each have an aggregate market value of about $750,000 or 0.9% of the Odey Special Situations Fund's value. Meanwhile, the aggregated delta or market sensitivity of the holding in its current SPAC form is 9.5% of net asset value. The SPARC conversion means that just 0.9% of the Odey fund's net asset value is at risk, versus 9.5% in the company's SPAC form.

Courtenay sees upside scenarios for the SPAR warrants as high as $14 apiece in the base case and higher valuations when considering "more subjective inputs." He added that relative to the warrants' current pricing at 68 cents each, the capital allocation "offers both a meaningful asymmetry in outcomes and a significant prospective profit scenario."

"Substantially more valuable" SPARC warrants

Ackman notes that the issuance of SPAR warrants for each SPAC warrant doesn't appear to be widely understood and that the SPAR warrants "should be substantially more valuable." Courtenay explained that in terms of the Odey Special Situations Fund, they have found that there is typically a "market inefficiency time window" after a deal or restructuring announcement during which market participants digest the disclosed information.

In the case of a more standard merger transaction, the time window may last only hours. However, the window may last months in more complex situations requiring regulatory appraisal and bespoke financial modeling. Courtenay believes this is why the proposed SPARC conversion "remains significantly under-priced."

Pershing Square Tontine explained in a press release in August that one reason the SPAR warrants are more valuable than the SPAC warrants is that they have a much longer term than the existing SPAC warrants. That means they have a higher probability of becoming effective in a merger, while the SPAC warrants had a much shorter term left before a merger must be completed.

1. Contingent value rights, or CVRs – the golden goose within selected, high impact *special situation* merger arbitrage opportunities

1.1 Contingent Value Rights: a special situation within merger arbitrages

Contingent Value Rights (CVRs) represent a special situation within merger arbitrages. CVRs are contractual rights offered as part of takeover deals that entitle holders to future payments if specific conditions are met.

CVRs address valuation uncertainties in mergers when a target company's future long-term cashflows hinges on high-potential value but uncertain events, such as pending drug approvals. In these cases, the acquisition consideration may include both cash and CVRs, with the latter's payout dependent on specific future outcomes.

CVRs resolve negotiation conflicts by offering variable compensation, but this variability also affects merger arbitrageurs' returns. Arbitrageurs who accurately value CVRs therefore gain a competitive edge.

1.2 CVR-inclusive merger arbitrage spreads are often co-incident with market inefficiency and asymmetric payouts

An alertness to CVRs within takeover deals can provide structural advantages for merger arbitrageurs. These deals often exhibit market inefficiencies due to CVR illiquidity. Post-merger, CVRs are typically unlisted and often are also non-transferable, causing many investors, particularly those with restrictive mandates, to undervalue them. As a result, CVRs may be significantly discounted or even negatively valued within the arbitrage spread.

As a result of their inefficient pricing CVRs in arbitrage spreads are often also coincident with asymmetric payout profiles: a guaranteed merger arbitrage yield in the base case, and yet retaining the potential for substantial profits if the CVR conditions are met.

> *"Be very aggressive when you can gain exposure to asymmetry.*
>
> *In these circumstances, you then want the maximum volatility [because the asymmetry of the volatility means it is only in your favour]."*

Nassim Nicholas Taleb, Bloomberg interview, 2017[2]

1.3 Warren Buffett's focus on CVR-inclusive merger arbitrage boosted Berkshire Hathaway's returns

Buffett's historic success partly stems from his focus on CVR-inclusive merger arbitrages, as exemplified by Berkshire Hathaway's Arcata Corp investment in September 1981.

Berkshire purchased Arcata shares at $33.50 against a $37.00 takeover price, projecting a 40% annualised return in the base case. However, the deal also included a CVR tied to potential government payments in a Redwood National Park land dispute[11].

Despite delays, the cash aspect of the deal closed in June 1982 at an improved $37.50 per share, still yielding Berkshire a 15% annualised return[12].

However, for the CVR aspect of Berkshire's renumeration greater patience was required. It was not until seven years later that Berkshire was paid out, and the amount was considerable – an additional $19.3m or $29.48 per share in 1988, and thereon a further $1.22 per share in 1989. The total result, cash plus CVR proceeds, was more than twice Berkshire's original purchase price at $33.50[13].

> *"During 1988 we made unusually large profits from arbitrage, measured both by absolute dollars and rate of return. Our pre-tax gain was about $78 million on average invested funds of about $147 million..."*
>
> Warren Buffett, Berkshire Hathaway shareholder letter 1988[14]

2. Pershing Square Tontine SPAC's 2022 liquidation included a distribution of SPAR warrants as contingent value rights

2.1 Contingent value rights issued as part of the Pershing Square Tontine SPAC liquidation

In the recent period it is the distribution of Pershing Square SPAR Warrants, as CVRs, within the liquidation of the Pershing Square Tontine SPAC – that demands the attention of investors.

Pershing Square Tontine was listed as a Special Purpose Acquisition Company or "SPAC" in August 2020, and raised $4 billion to invest in a future merger partner's shares while facilitating the prospective partner's stock market listing[15]. As a SPAC, it offered unit holders the right to redeem their investment at $20.00 per share if they were dissatisfied with the merger partner, once announced.

However, in June 2021, Pershing Square Tontine attempted an innovative transaction structure albeit one that, had it have been consummated, would have violated SEC rules[16]. The SPAC had proposed to invest in a private company without a merger and then use additional capital for similar investments[17].

Although the transaction was abandoned in July 2021[18], as a result of the proposed violations, Pershing Square Tontine in November 2021 thereon faced a lawsuit relating to the deal proposal[19], creating a lingering litigation liability that compromised its ability to attract a new merger partner. Consequently, Pershing Square Capital Management "PSCM", the sponsor, announced the liquidation of Pershing Square Tontine in July 2022[20].

The SPAC's redemption right at that stage was valued at $20.05 per share[21]. However, PSCM additionally included in the liquidation proceeds contingent rights to a new acquisition vehicle named Pershing Square SPARC Holdings, and which had associated SPAR warrants[22]. These warrants, contingent on SEC clearance of the new structure, and ultimately their own successful identification of a future merger partner, were therefore a form of CVR.

2.2 Arbitrageurs alert to asymmetric opportunities were able to capture Pershing Square SPAR warrants at zero value within the liquidation spread of Pershing Square Tontine

As per Figure 3, the opportunity for attentive merger arbitrageurs arose within the liquidation of Pershing Square Tontine when its shares traded below the SPAC's $20.00 redemption value for several months in 2021 and 2022[23]. This allowed arbitrageurs to secure a guaranteed positive yield to at least $20.00, while also retaining the significant potential upside from the CVRs.

The first contingency within Pershing Square SPAR warrants was SEC clearance, however, in October 2023 the SEC cleared the structure and as a result Pershing Square SPAR warrants were distributed to former Pershing Square Tontine shareholders, including the GA-Courtenay Special Situations Fund.

Figure 3: In June 2021 Pershing Square Tontine (a SPAC) attempted an innovative transaction structure that was not allowed by SEC rules. The rule breach ultimately forced the liquidation of the SPAC, however, liquidation proceeds included both cash proceeds of $20.05 and – SPAR warrants – contingent on SEC clearance and therefore defining them as contingent value rights or CVRs[24].

3. Valuation scenarios for the Pershing Square SPAR warrants

> *"The planned issuance of SPAR warrants does not appear to be widely understood.. our SPAR warrants should be substantially more valuable."*

Bill Ackman, Pershing Square Tontine press release, August 24th 2021[25]

3.1 A base case valuation for the Pershing Square SPAR warrants

The GA-Courtenay Special Situations Fund holds 387,285 Pershing Square SPAR warrants (0.64% of the total outstanding), with each warrant granting rights to two stock units in the future merger entity, and therefore to 774,570 potential stock units[26]. Whilst we hold these SPAR warrants at a valuation marked at zero – there are a number of disclosures, including the prospectus for Pershing Square SPARC Holdings[27], that indicate potentially meaningful profit outcomes.

The nature of SPAR warrants is differentiated from the SPAC route to market listing. A SPAC raises money up front and then offers shareholders dissatisfied with the choice of merger partner the option to redeem, an "opt out" structure. By contrast, SPAR warrants offer an "opt-in" structure, which identifies its merger partner first and then offers the owners of its SPAR warrants the option to subscribe monies to the merger listing at the same price that its sponsor Pershing Square Capital Management "PSCM" has also subscribed.

There are a fixed number of SPARC stock units – 121 million[28] – and therefore the strike of the SPAR warrant is calculated as the amount of capital that the merger partner seeks to raise as part of its listing transaction divided by this number of stock units.

The implication is that if the merger partner selected by the Pershing Square SPARC seeks to raise $12.1bn – within the $12-13bn transaction value range indicated by Bill Ackman in his public comments in Figure 4, as well as close to the $12.5bn level guided by the Pershing Square SPARC prospectus[29] in Figure 6, the strike of each SPARC stock unit is $100[30].

A base case valuation for the Pershing Square SPAR warrants thereon requires an assumption of the valuation uplift between the private market deal valuation agreed by PSCM, the "Final Exercise Price", and the subsequent valuation upon stock market listing. Within this context it is notable that the remuneration structure of Pershing Square – through their sponsor warrants – is such that the strike of their own sponsor warrants, the "Reference Price", is 20% higher than the strike of the SPAR warrants which are more widely held including by this fund. As such, if PSCM does not achieve a negotiation that results in a price uplift of at least 20% following listing, PSCM itself achieves no remuneration from conducting the transaction.

> *"The Sponsor Warrants have an exercise price equal to 120% of the Final Exercise Price ("Reference Price"), meaning that **our Sponsor will participate in the value of our business combination only if the Public Shares appreciate by at least 20% above the price at which SPAR holders purchase their Public Shares**.*

Pershing Square SPARC Holdings, Ltd, prospectus[31]

While Pershing Square's incentive to agree only to a transaction with their assessment of a 20% value uplift following listing doesn't guarantee such a valuation increase, it does increase its likelihood. This probability is further supported by the liquidity premium inherent in public markets, as illustrated in Figure 5. This premium is evident when comparing valuations of companies going through the traditional IPO process with investment banks to those achieved in the public market.

Over four decades of data demonstrate that companies listing through traditional IPOs in the United States have consistently experienced an average 20% valuation uplift upon entering the public market. This trend has remained remarkably stable throughout the period under review.[32]

The base case valuation implication outputted is each SPARC stock unit is worth their strike multiplied by their uplift upon listing, or $100 x 20% = $20. For rights to 774,570 stock units as the GA-Courtenay Special Situations Fund holds, a base case profit outcome can therefore be contended at $15.5m (i.e. 774,570 x $20)[33].

Figure 4: Bill Ackman publicly reiterates the $12-$13bn deal size targets contained in the prospectus of Pershing Square SPARC[34]

"It would be hard to do a $13bn IPO let's say to pay down debt. What is interesting here, is that **we could commit – Pershing Square, $2bn to a transaction – set the rights price, there are 121m shares, so set the rights price at $100 a share**, and announce a transaction, the seller knows he is going public, he knows he is raising $2bn which certainly helps. And then we tell the story, and then the rights holders have a chance to decide whether to invest.

As long as the rights have positive value, they are trading in the market for a dollar, they are all going to get exercised, and the IPO raises $13bn. And the investors, just look at the 13F list of Pershing Square Tontine Holdings, it is a who's who of institutions and family offices."

Bill Ackman, announcing SEC clearance of Pershing Square SPARC Holdings, 2nd Oct 2023

Figure 5: The liquidity premium inherent in public markets – an average 20% valuation uplift for IPOs over the last 40 years[35]

Year	Number of IPOs	Mean First-day Return	
		Equal-weighted	Proceeds-weighted
1980	71	14.3%	20.0%
1981	192	5.9%	5.7%
1982	77	11.0%	13.3%
1983	451	9.9%	9.4%
1984	171	3.7%	2.5%
1985	186	6.4%	5.6%
1986	393	6.1%	5.1%
1987	285	5.6%	5.7%
1988	105	5.5%	3.4%
1989	116	8.0%	4.7%
1990	110	10.8%	8.1%
1991	286	11.9%	9.7%
1992	412	10.3%	8.0%
1993	510	12.7%	11.2%
1994	402	9.6%	8.3%
1995	462	21.4%	17.5%
1996	677	17.2%	16.1%
1997	474	14.0%	14.4%
1998	283	21.9%	15.6%
1999	476	71.2%	57.4%
2000	380	56.3%	45.8%
2001	80	14.0%	8.4%
2002	66	9.1%	5.1%
2003	63	11.7%	10.4%
2004	173	12.3%	12.4%
2005	159	10.3%	9.3%
2006	157	12.1%	13.0%
2007	159	14.0%	13.9%
2008	21	5.7%	24.7%
2009	41	9.8%	11.1%
2010	91	9.4%	6.2%
2011	81	13.9%	13.0%
2012	93	17.7%	8.9%
2013	158	20.9%	19.0%
2014	206	15.5%	12.8%
2015	118	19.2%	18.9%
2016	75	14.5%	14.2%
2017	106	12.9%	16.0%
2018	134	18.6%	19.1%
2019	113	23.5%	17.6%
2020	165	41.6%	47.9%
2021	311	32.1%	24.0%
2022	38	48.9%	14.2%
1980-2022	**9,127**	**19.0%**	**20.5%**

Figure 6: The prospectus for Pershing Square SPARC Holdings reveals one target transaction type as a majority position in a business valued at more than $25bn, implying a deal size at more than $12.5bn[36]

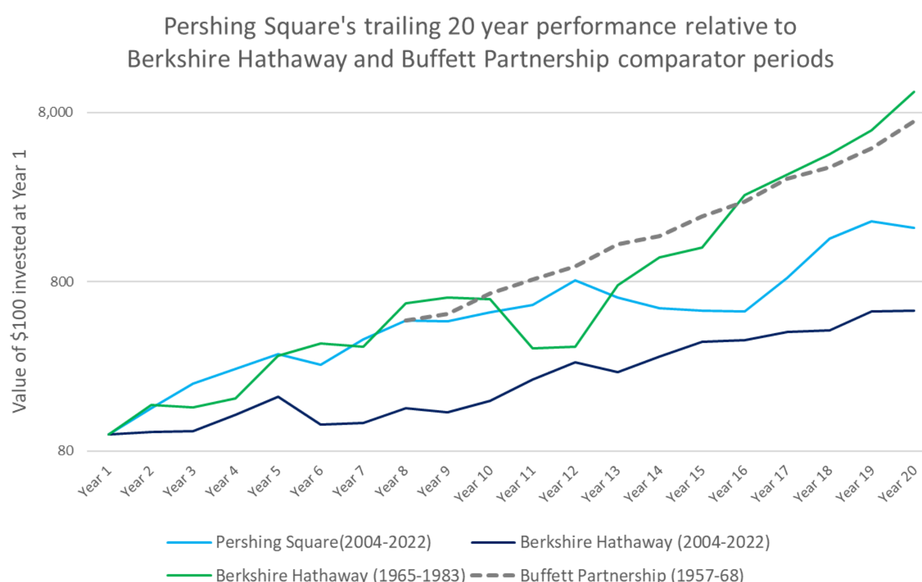
Control Transactions. Because of our ability to scale up the size of our capital raise, we believe we would be able to acquire a majority interest in a large, privately-owned corporation (i.e., valuations above $25.0 billion). Other sources of capital, such as private equity funds, are generally not able to raise capital for a transaction of that size. Potential "strategic acquirers" of such companies face antitrust risks that can substantially delay or even prevent such a transaction from occurring, or require complex restructuring and the divestment of certain assets. A large privately-owned company that seeks to raise additional capital may find a business combination with our company to be a more viable means of doing so.

3.2 Logic dictates that the strong track record of Pershing Square Capital Management may also raise profit outcomes for the Pershing Square SPAR warrants above the average IPO accretion of 20%

In appraising valuation scenarios for the Pershing Square SPAR warrants the analysis must also consider the track record in capital allocation of PSCM itself.

The track record of PSCM as publically disclosed by its listed trust Pershing Square Holdings and reveals a high performance competency in delivering 16.5% annualised net of fees over 17 years[37], a rate of return exceeding the S&P500 Index by more than 600 basis points per annum over the same period. To the extent that Pershing Square can continue at such a level of capital allocation with well above average results, this should also extend to our analysis with regard to the valuation appraisal relating to Pershing Square SPAR warrants.

Figure 7: Since 2004, Pershing Square Capital Management has delivered a 16.5% annualised return, exceeding the 9.3% equivalent by Berkshire Hathaway over the same period. The performance by Pershing Square puts it within the leading group of hedge funds over the last two decades[38].



Despite PSCM's overall strong performance, readers will also be aware of periods of its underperformance, such as the four consecutive years of negative returns from 2015 to 2018[39]. However, the Pershing Square SPARC's warrant-like structure also offers an important protection: its 'opt-in' feature creates an asymmetrical opportunity for investors. SPAR warrant holders can choose to participate only in deals they deem attractive, effectively sidestepping potentially negative or subpar transactions[40]. This selectivity allows investors to potentially enhance their average returns by avoiding less promising opportunities.

3.3 Pershing Square Capital Management have been at their best when they operate in a focused way targeting unique situations which have attracted limited or no competition

To better assess the potential upside of the Pershing Square SPAR warrants, it is helpful to examine the types of transactions where Pershing Square Capital Management (PSCM) has excelled. PSCM has typically performed best when focusing on unique situations that allow for capital allocation with minimal competition from other market participants.

The $12 billion target for Pershing Square SPARC's capital raise is historically significant. Over the past 25 years, only 11 initial public offerings (IPOs) have raised more than $12 billion, occurring less than once every two years on average. This rarity underscores the infrequent nature of deals at this scale[41].

Given this context, the base case $12 billion capital raise targeted by the SPARs is likely to operate in a deal size range with limited competition. This scenario should create favourable conditions for negotiations, potentially resulting in unusually high pricing power for PSCM in structuring deals.

Our conclusion is that the outcome for Pershing Square SPAR warrant holders is the prospective capture of the best instances of its sponsor's competency. We would point to PSCM's initial purchases of post-bankruptcy General Group Properties "GGP" equity in 2008 at an average price of $0.35 per share. By 2012 Pershing Square had made a 77x return on their investment including the value of the Howard Hughes and Rouse spinoffs and dividends[42]. In 2011, PSCM invested $458m in the Justice Holdings SPAC[43]. In 2012, Justice Holdings negotiated a merger transaction with Burger King. By 2017, Pershing Square's shareholding was worth $2.1bn, a 4.6x return[44].

More recently, on July 19th 2021, Pershing Square Holdings, in a private-to-public transaction similar to that which may be targeted by the Pershing Square SPARC, negotiated at €18.58 per share an investment of 10% in the equity of the then privately held Universal Media Group "UMG"[45]. Four months later, month end November, UMG equity was listed and priced at €25.31, a 36% uplift in valuation[46].

3.4 The Pershing Square SPAR warrant holder's right also includes the distribution of successor SPAR warrants after each transaction, presenting scenarios of multiple successive accretions

> *"People get the current warrant for free and then a successor warrant in addition to the potential value of the next transaction. So, we think a really interesting structure.. the benefit of this structure is we will always have an evergreen entity that we can use to complete a transaction."*
>
> Bill Ackman, Pershing Square Holdings conference call transcript, November 18th 2021[47]

The Pershing Square SPAR warrant structure includes a key feature: after each transaction, holders receive successor warrants. This mechanism creates the potential for multiple value-accreting events, each potentially comparable in magnitude to the initial transaction. As a result, it is reasonable to anticipate a series of listing transactions over several years, each potentially offering significant value appreciation for warrant holders.

4. The superiority of the listing route facilitated by Pershing Square SPARC strengthens negotiation leverage with merger partners

> *"The Pershing Square SPARC is a SPAC in reverse. Instead of putting up your cash day one shareholders will own a publicly traded warrant that entitles them to invest in our next transaction at NAV.*
>
> *We have total flexibility to pursue transactions of any size. No underwriting fees, no upfront costs, no opportunity cost of capital, the ability to tailor-make the transaction size. This will make for a very, very interesting entity – we believe this SPAR entity will be the best entity in the world in which to come public."*
>
> Bill Ackman, Pershing Square Holdings conference call transcript, November 18th 2021[48]

4.1 Negotiation leverage is optimised when the buyer is also seen as the partner of choice

The potential for the Pershing Square SPARC structure to achieve a highly accretive transaction with prospective merger partners is further influenced by several additional factors. To understand why, we must first examine the alternative methods available for a corporation to sell a significant portion of its equity through a public market listing. The analysis will reveal why the Pershing Square SPARC structure possesses unique negotiating leverage. The stronger this negotiation leverage, the greater the pricing power in favour of Pershing Square SPAR warrants, potentially leading to a higher value uplift upon listing.

From the perspective of a scaled corporate seeking to sell equity and become publicly listed, three primary routes are available: an initial public offering (IPO), a listing via a Special Purpose Acquisition Company (SPAC), or a listing through the Pershing Square SPARC. If the Pershing Square SPARC route is assessed by the corporate as the significantly most attractive choice, a unique negotiating advantage is gained by Pershing Square SPARC.

4.2 Pershing Square SPARC: a superior listing route with the greatest consequent negotiation leverage

4.2 a) IPO drawbacks: high costs and an under-pricing incentive by the underwriting investment bank

The traditional IPO process for equity market listing has inherent conflicts of interest that can disadvantage companies seeking to go public. Public disclosures have revealed these structural issues. At first glance, a company considering an IPO might assume the only cost is the upfront fee charged by investment banks, typically 5% to 7% of the capital raised[49]. However, this assessment overlooks hidden drawbacks in the traditional IPO structure.

> *"My dislike for Wall Street is based on experience. I have just been screwed and disappointed and overcharged and flummoxed so many times by these people that I have just had it!*
>
> *I've run out of investment bankers. There is nobody left that I respect!"*
>
> Tom Perkins, co-founder, Kleiner Perkins, speaking in 2009[50]

Court disclosures have revealed a significant hidden cost in the IPO process: intentional under-pricing by investment bank underwriters. This practice serves the banks' interests at the expense of the listing company. Underwriters have an incentive to price the offering lower because they can offset any loss in their underwriting fee by demanding higher trading commissions from privileged clients granted allocations in the underpriced offering[50]. Consequently, the common "pop" in share price immediately following an IPO, often seen as a success indicator, actually signifies that the company has sold its equity at a substantially undervalued price. While this outcome disadvantages the newly listed company, it benefits the underwriting investment bank, allowing them to extract additional profits through increased trading commissions from clients who received IPO allocations.

4.2 b) SPACs: addressing IPO limitations but introducing risks of heavy dilution for listing companies

The growth in popularity of Special Purpose Acquisition Companies (SPACs) as a listing method can be attributed, in part, to the recognition of the conflicts inherent in the traditional IPO process. SPACs offer a more transparent structure and set of incentives. A SPAC, often referred to as a "blank check" company, is essentially a publicly-traded shell company with significant cash reserves. Its primary purpose is to identify and merge with a privately-held company, thereby facilitating that company's stock market listing. SPACs provide an "opt-out" mechanism for their shareholders. While investors must commit their capital upfront for up to two years before a merger target is identified, they retain the right to redeem their shares and recoup their investment if they disapprove of the proposed business combination once it is announced[51].

While SPACs address certain of the drawbacks inherent in traditional IPOs, they introduce their own set of challenges. The SPAC structure requires an initial public offering to raise capital, which is then held in a listed trust. This SPAC IPO incurs standard costs, including investor roadshows, preparation of filing documentation, and typically a 5.5% fee on the total funds raised.

SPAC IPO subscribers thereon receive redemption rights, usually at their initial subscription price. This redemption option creates a unique financial constraint: the 5.5% IPO costs cannot be funded from the raised capital[52]. If it was, only 94.5% of the raised funds would be available for redemption, violating the SPAC's premise of full capital return to dissenting shareholders. Consequently, these costs must be covered through alternative means, adding complexity to the SPAC structure.

To address the IPO expense issue, SPAC sponsors typically fund these costs upfront. In return, they receive sponsor warrants, which can be highly profitable if the proposed merger is approved and the share price rises. However, this structure presents a significant drawback for the target company: the equity dilution from sponsor warrants can range from 15% to 25% of the total post-merger, pro-forma share count[53]. This is substantially higher than the typical 5% to 7% listing fees of monies raised that are associated with a traditional corporate IPO.

Consequently, while the SPAC route offers more transparent costs to the target company compared to the traditional IPO process, this transparency often does not translate into greater efficiency. Moreover, companies that recognise they are listing at a discounted valuation face a proportionately higher implied dilution upon value uplift. This is because the likelihood of meeting the sponsor’s warrant strike price increases in such scenarios, yet this also discourages prudently valued stronger business models from choosing the SPAC route to market listing.

4.2 c) Pershing Square's SPARC: addresses IPO costs, conflicts, and SPAC dilution issues

Large companies seeking a market listing are likely to recognise the drawbacks of the traditional routes to listing: the high upfront costs and conflicts of interest in the traditional IPO process, and the higher dilution levels in the SPAC route. In this context, the advantages of the Pershing Square SPARC structure as an optimal listing method will become apparent to them also. SPAR warrants and their successor warrants were issued at no cost to Pershing Square Tontine's prior shareholders. This eliminates the initial "IPO marketing cost" that typically needs to be recouped through other means. In traditional IPOs, this often leads to intentionally low pricing combined with increased trading commissions for investment banks. In the SPAC route, it results in sponsors receiving warrants that result in high equity dilution for the listing company. The SPARC structure avoids these pitfalls, offering a more cost-effective and less dilutive path to market listing.

The Pershing Square SPARC structure offers superior efficiency by eliminating upfront fees, and limiting dilution to 4.95% of monies raised[54]. This cost-effectiveness ultimately stems from Bill Ackman and Pershing Square's established 'followership,' which negates the need for extensive marketing. SPAR warrant holders have already invested in Pershing Square's capital allocation strategy, further reducing costs[55].

As noted prior, the sponsor warrants held by PSCM also have a strike price 20% higher than the SPAR warrants distributed to Pershing Square Tontine shareholders[56], including this fund. This structure effectively underwrites a minimum 20% uplift upon listing. Pershing Square only stands to gain economically if it identifies a merger partner and negotiates a deal resulting in at least a 20% increase in value following listing.

Once understood, the SPARC structure clearly offers superior efficiency for companies seeking listing. And this efficiency provides Pershing Square SPARC with unique negotiating leverage, potentially leading to rewarding price uplifts upon listing. The proposed SPARs also offer additional flexibility compared to alternative listing routes. The structure has no medium term timeline limitations and allow for variable deal sizes through adjustable subscription amounts once a deal is announced[57]. These features make the SPARC structure more attractive to companies considering their listing options.

Given these conditions, based on the structure's inherent advantages and flexibility, a reasoned valuation analysis would likely ascribe a higher-than-average probability of accretive deals resulting from SPAR warrant transactions.

5. Pershing Square SPARC seeks large-scale merger partners to enhance warrant value

Within the context of negotiation leverage, public leaks suggest that Pershing Square SPARC is targeting large-scale transactions. As we will explain, it is large transactions that will be most beneficial to SPAR warrant holders. For capital raises of $12 billion or more, there's a proportional relationship between the total value of the merger target seeking listing and the negotiation leverage that Pershing Square SPARC possesses.

To illustrate, consider a scenario where there is a $12bn capital raise for a company valued at $20bn. In this case, the company or its controlling shareholder would be selling more than 50% of their equity. Consequently, the company would be extremely cautious about the valuation, as they wouldn't want to undervalue such a significant portion of their equity.

Now, consider the opposite scenario: a company valued at $100bn or more seeks to list by selling just 12% of its equity for $12bn. This approach allows the company to gauge market appetite for its valuation. In this case, the company will be far less sensitive to the exact valuation level, as they're selling a small portion of their equity.

This contrast highlights that the Pershing Square SPARC has optimal negotiation leverage when the listing transaction involves a large or very large merger partner. That this strategy is optimal is corroborated by leaked information relating to Pershing Square SPARC's negotiations. Potential merger partners mentioned in these leaks include Bloomberg LLP (with an indicative valuation of $55 billion)[58], and X, formerly Twitter (which underwent a take-private transaction valued at $44 billion)[59].

Figure 8: Leaks have revealed the nature of the merger partners targeted by Pershing Square SPARC: large, or very large companies, including X (prior, Twitter) and Bloomberg LLP.

Bill Ackman reportedly said he would 'absolutely' do a deal with X with his new SPARC funding vehicle

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Billionaire investor Bill Ackman would "absolutely" do a deal with X, the social platform previously known as Twitter, with his newly approved investment vehicle, Ackman told The Wall Street Journal in a story published on Sunday.

On Friday, Ackman announced that the Securities and Exchange Commission approved his new financing vehicle, which he is calling a SPARC — a special purpose acquisition rights company. In a SPARC, investors will know what company the financing vehicle would be used to merge with before they have to pledge their investments.

Ackman told the Journal that he would "absolutely" consider using his newly formed SPARC to invest in X, the social media platform previously known as Twitter.

A spokesperson from Pershing Square Capital Management, Ackman's investment firm, told CNBC the company had nothing further to add other than what was in the Journal story.

Investors interested in the SPARC were directed to follow Bill Ackman's account on X for more information, according to the press release announcing the regulatory approval of the investment vehicle.

Ackman posts regularly on a wide variety of topics on X, including his support for U.S. presidential candidates Vivek Ramaswamy and Robert Francis Kennedy Jr., his assertion that he married the "female version of Elon Musk."

While Ackman uses X regularly and told the Journal he would embrace using his newly formed investment vehicle to merge with X, the implications of being a public company make it unlikely that X would actually pursue the deal, according to Alan D. Jagolinzer, a professor of financial accounting at the University of Cambridge Judge Business School.

"Taking X public would expose X to financial and governance regulatory transparency and accountability; which is why I'm skeptical it'll happen," Jagolinzer said in a post on X.

BUSINESS EXCLUSIVE

Michael Bloomberg held talks to take his media empire public

By Thornton McEnery
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Michael Bloomberg has been in talks to take his media empire public through an entity controlled by billionaire Bill Ackman, The Post has learned.

The former mayor of New York City and failed presidential hopeful recently entertained an offer to sell a minority stake in Bloomberg LP — the news agency behind Bloomberg Businessweek magazine and Bloomberg TV — to Ackman's $5 billion blank-check company, multiple sources said.

If the men reach a deal, Bloomberg's stock would trade on the New York Stock Exchange in place of Ackman's Pershing Square Tontine Holdings, a blank-check company that's raised $5 billion to buy or merge with another company that would then take its stock listing.

It's unclear whether Bloomberg will move forward with a partial sale, but the billionaire — worth an estimated $55 billion, according to Forbes —has spoken about the plan directly with Ackman, sources said.

Sources say the deal on the table calls for the three-term ex-NYC mayor — who rose to national prominence this year when he sought the Democrat nomination for president — to sell a small personal stake so he can cash out without giving up control of news agency he founded in 1981, of which he owns 88 percent.

A Bloomberg LP spokesman told The Post that the company is not for sale in any form and denied that a deal is being explored.

Ackman, who declined to comment through a spokesman, discussed the possibility of taking a minority stake in a larger company earlier this month as a way to invest the billions he's raised in his special-purpose acquisition company, or SPAC.

In an interview with fellow hedge fund manager Whitney Tilson, Ackman reiterated his plans to target an entity valued between $10 billion and $15 billion, and said using that money to buy a minority stake in a far larger company could win his investors a better price.

"If you're selling 100 percent of your company, you want the last dollar. If you're selling 20 percent of your company in a merger which enables you to take your company public but you keep control, you're much less price sensitive," Ackman said in the interview.

Bloomberg LP is a $60 billion company that generates revenue of $10 billion a year. Ackman could potentially buy a 20 percent stake for $12 billion.

"Twenty percent would be the most Mike would likely give up," added one the investment banker with knowledge of the talks. "That's enough to float without giving up too much."

Ackman supported Bloomberg's ill-fated presidential run and the two men developed a personal relationship as a result, sources said. They are also both signatories of The Giving Pledge campaign founded by Warren Buffett and Bill and Melinda Gates that encourages billionaires to contribute the majority of their wealth to charitable causes during their lifetimes or in their wills."

A deal with Ackman could even give Bloomberg, 78, more money to meet his giving pledge, sources said.

Ackman is a hedge fund manager known for taking big bets in companies that he's looking to shake up, including JCPenney, Wendy's and Herbalife, which lost him money. Over the past few months, however, he's shifted his focus to raising billions for his SPAC, which is now the largest ever, and to hunting for a company to buy with that money.

Conclusion

The white paper has presented a comprehensive review of the Pershing Square SPARC and its associated SPAR warrants – their structure, mode of action and the scenarios that may led to significant profit outcomes for their holders.

As contingent value rights (CVRs) distributed during the liquidation of Pershing Square Tontine SPAC, these warrants offer an asymmetric payout profile with significant upside potential and limited downside risk. The base case valuation of $20 for each stock unit right, derived from historical IPO data and the structure of the SPAR warrants, provides a compelling starting point for consideration and would result in a $15.5m profit outcome for the GA-Courtenay Special Situations Fund, should this outcome occur.

However, the track record of PSCM, coupled with the unique structure of the SPAR warrants, further enhances the potential outcomes in favour of SPAR warrant holders. PSCM's history of delivering above-average returns, particularly from situations where they operate with limited competition, suggests that the SPAR warrants may benefit from PSCM's best form of capital allocation competency. Moreover, the distribution of successor warrants after each transaction presents scenarios of multiple accretions, potentially compounding returns for their holders even further over time.

The Pershing Square SPARC structure addresses key inefficiencies in both traditional IPO and SPAC routes to market listing. By eliminating upfront costs, avoiding conflicts of interest inherent in the IPO process, and significantly limiting dilution compared to typical SPACs, the SPARC structure positions itself as the partner of choice for large companies seeking to go public. This advantage in turn provides Pershing Square SPARC with enhanced negotiation leverage, again raising the probability of more favourable deal terms and higher returns for warrant holders.

The ultimate value of the SPAR warrants will depend on PSCM's ability to identify and negotiate favourable deals. The optimal outcome will be achieved by agreeing a transaction with a large, or very large, merger partner and one seeking to raise $12bn or more, however, this means that the frequency of each transaction may be lower. This also may explain the year-long gap so far between SEC clearance and any announced deals for the Pershing Square SPARC. However, the focus on some super-scale merger partners, as evidenced by leaked negotiations with companies like Bloomberg LLP and X (formerly Twitter), corroborates the alignment of large-scale transactions with the SPARC structure and optimal value capture for warrant holders.

Our conclusion remains that for informed, patient investors, the Pershing Square SPARC structure represents a compelling opportunity worthy of careful consideration.

Footnotes

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2. Nassim Nicholas Taleb, Bloomberg interview, 2017 [link]
3. Bill Ackman, Pershing Square Holdings, conference call transcript, November 18th 2021, source: Capital IQ
4. Bill Ackman, Pershing Square Holdings, conference call transcript, November 18th 2021, source: Capital IQ
5. Source: Green Ash Partners
6. Source: Pershing Square Holdings Annual report 2023 [link]
7 Airbnb allegedly holding out on Bill Ackman's blank-check offer, NY Post [link]. Current valuation of Airbnb $85bn, source: Bloomberg
8. Michael Bloomberg held talks to take his media empire public, NY Post [link]
9. Bill Ackman Interested in a Deal to Take Elon Musk's X Public, Bloomberg [link]
10. Adrian Courtenay: The SPARC Conversion Of Bill Ackman's SPAC Is A Wise Move, Forbes [link]
11., 12., 13., 14. Warren Buffett, Berkshire Hathaway shareholder letter 1988 [link]
15. Bill Ackman's Pershing Square Tontine raises $4 billion, July 2020 [link]
16., 19. Pershing Square Tontine attempted an innovative transaction structure albeit one that, had it have been consummated, would have violated SEC rules, and faced lawsuit [link]
17. Pershing Square Tontine Holdings, Ltd. ("PSTH") Confirms Discussions to Acquire 10% of the Ordinary Shares of Universal Music Group [link]
18. The board of directors of Pershing Square Tontine Holdings unanimously determines not to proceed with the Universal Music Group transaction, July 2021 [link]
20. Pershing Square Tontine Holdings, Ltd. Will Redeem Its Public Shares and Will Not Consummate an Initial Business Combination, July 2022 [link]
21., 22., 55. Pershing Square SPARC Holdings distributed special purpose acquisition rights ("SPARs") at no cost to former security holders of Pershing Square Tontine Holdings [link]
23., 24. Pershing Square Tontine when its shares traded below the SPAC's $20.00 redemption value for several months in 2021 and 2022, Source: Bloomberg, GA-Courtenay research
25. Pershing Square Tontine Holdings, Ltd. Releases Excerpt from Pershing Square Holdings, Ltd. Report, August 2021 [link]
26. Source: Green Ash Partners
27., 28., 29., 36., 56., 57. Pershing Square SPARC Holdings, Ltd, prospectus [link]
30. Source: GA-Courtenay calculation, $12.bn capital raising transaction size, divided by 121m stock units, the strike for subscriptions would be $100
31. Pershing Square – through their sponsor warrants – their strike is 20% higher than the strike of the SPAR warrants, Pershing Square SPARC Holdings, Ltd, prospectus [link]
32., 35. Initial Public Offerings statistics, University of Florida [link]
33. Source: GA-Courtenay research
34. Bill Ackman publicly reiterates the $12-$13bn deal size, CNBC [link], matching the targets contained in the prospectus of Pershing Square SPARC Holdings, [link]
37., 38., 39. Track record of Pershing Square 16.5% annualised net of fees over 17 years, Source: Pershing Square Holdings Annual report 2023 [link]
40. The "opt in" feature of the Pershing Square SPARC means that SPAR warrant holders, by choosing not to subscribe to transaction, can remove from their outcomes transactions which they appraise as having disadvantageous pricing, source: GA-Courtenay reasoning and logic
41. All Time Largest Global IPOs, Renaissance Capital [link]
42. Pershing Square made a 77x return on their investment in General Growth Properties [link]
43. In 2011, Pershing Square invested $458m in the Justice Holdings SPAC [link]
44. In 2012, Justice Holdings negotiated a merger transaction with Burger King. By 2017, Pershing Square's shareholding was worth $2.1bn, a 4.6x return, source: Bloomberg
45. Pershing Square Holdings negotiated at €18.58 per share an investment of 10% in the equity of the then privately held Universal Media Group "UMG", July 2021 [link]
46. By month end November 2021, UMG equity was listed and priced at €25.31, a 36% uplift in valuation, source: Bloomberg
47. Bill Ackman, Pershing Square Holdings, conference call transcript, November 18th 2021, source: Capital IQ
48. Bill Ackman, Pershing Square Holdings, conference call transcript, November 18th 2021, source: Capital IQ
49., 52., 53. Investment banks conducting an IPO charge a fee of 5-7% of the monies raised, whereas SPAC transactions can result in dilution at up to 15%-25% of total pro-forma share count [link]
50. Tom Perkins, co-founder, Kleiner Perkins, speaking in 2009 [link], Underwriter conflict of interest on IPO pricing, kickbacks via commissions. Source: Reuters [link]
51. SPACs offer their shareholders an "opt-out" structure [link]
54. The Pershing Square SPARC structure imposes no up front fees and limits dilution to 4.95% of the post-merger shares outstanding, Pershing Square SPARC Holdings, Ltd, prospectus [link]
58. Michael Bloomberg held talks to take his media empire public, NY Post [link]
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