The New Way To Make Deals: Blank Checks
Thomas Heath

What kind of deal brings Jack Kemp, Mario Cuomo, Henry Aaron, former Washington Nationals president Tony Tavares and a New York City taxicab king together?

A $215 million "blank check" company called Sports Properties Acquisition, which they formed last month to buy sports teams, stadiums and other entertainment companies.

Also known as special-purpose acquisition companies, or SPACs, blank-check firms raise money by selling stock to the public and then scouring the world for businesses to buy. They are the current rage among dealmakers, but have drawn some skepticism from critics who say investors don't know what they are buying when the SPAC goes public.

In many ways, blank-check companies are bets on the dealmaking prowess of their founders. In this case, investors are counting on the connections that Kemp, Aaron, Tavares and Cuomo bring.

"The more I looked at it, the more I realized that the potential for sports properties and entertainment in a global economy is huge," said Kemp, who runs Kemp Partners, a Washington-based investing firm, and is chairman of Sports Properties. "SPACs are hot."

Entrepreneurs are turning to blank-check companies as banks have grown reluctant to make big loans. SPACs can provide a cheaper way to access capital, according to SPAC managers and some financial observers. SPAC managers also love them because they get a big block of stock in the company in return for putting the deal together.

Since 2003, blank-check companies have raised about $20 billion from investors in initial public offerings, according to SPAC Analytics, a research firm that follows the asset class. SPACs raised $12 billion last year alone, which is still a fraction of the $437 billion in U.S. private-equity buyouts last year.

Big-name investors like billionaire Nelson Peltz, who is chief executive officer of Triarc, which owns Arby's and other food franchises, and Tom Hicks, owner of baseball's Texas Rangers and the Dallas Stars National Hockey League franchise, have put together SPACs over the past year. Peltz backed a SPAC last fall that plans to raise up to $750 million to acquire a business that he feels has been mismanaged. Hicks raised $550 million last summer.

Locally, AOL co-founder James V. Kimsey and Discovery Communications founder John S. Hendricks are co-sponsors of Education Media, a District-based SPAC that will buy a for-profit education company whose chief executive officer will be Pete Kirsch, Kimsey's chief of staff.

Washington venture capitalists Raul Fernandez and Mark D. Ein recently raised $260 million for Capital Acquisition, a SPAC that will look for high-growth companies, while former Maryland congressman and National Basketball Association player Tom McMillen co-founded two SPACs in the security sector.

The management team of a SPAC generally has 18 to 24 months from the initial public offering to find an acquisition target or it must return its investors' money, with interest. If the managers want to buy a company, they must get approval from 70 percent of their shareholders.

Once an acquisition is made, the SPAC's original investors often sell their shares to make a profit, according to industry experts. The new company is then bought by investors who bet on the long-term prospects for the business. The people who put the SPAC together receive up to 20 percent of the equity in the purchased company.
"Investing in a SPAC IPO seems to have a very attractive risk-reward scenario," said Brian Waldman, director of Thomson Financial Capital Markets Intelligence. "But for non-IPO investors the jury is still out on how well these investment vehicles will fare long-term."

The average annual return of the 152 SPACs that have gone public since 2003 was around 12 percent last November, but has dropped to only 1.9 percent after being hit by the current pullback in equities, according to SPAC Analytics.

Arthur Levitt, former chairman of the Securities and Exchange Commission, said blank-check companies are risky investments because they lack transparency.

"I have never found any blank-check investment vehicle attractive," Levitt said. "No matter what the reputation or what the sponsor might be. . . . They are the ultimate in terms of lack of transparency."

Supporters like McMillen said regulations have improved to protect investors, citing the requirement that 70 percent of investors approve an acquisition and the fact that investors' money is returned if no acquisition is made.

Hedge funds and other speculative investors are big buyers of IPO shares of blank-check companies and have helped fuel their expansion. That has added an element of volatility, McMillen said. Shares of one of his SPACs, Fortress International Group, a maker of data centers, have slipped below their IPO price even as the company's business grows.

"The pluses of SPACs are that you get to bank with a management team on finding a good business deal with very little risk," said McMillen. "The downside is that you have a lot of hedge funds getting into it. There's a lot of game-playing."

The average blank-check IPO has grown from around $24 million in 2003 to $332 million so far this year, according to SPAC Analytics.

"There was a view that SPACs are a financial gimmick and that they are very difficult to make an acquisition work," said Neil Danics, who founded and operates SPAC Analytics. "My research tells you that overall . . . they do work and like in any asset class, it's up to a professional or someone working full time to identify the opportunities and how to invest in them properly."

At Sports Properties, Vice Chairman Andrew Murstein said the inspiration for the company came as he, Aaron and Cuomo were kicking around investment ideas at a board meeting last year of Medallion Financial, a company founded by his family. Medallion makes loans to finance taxicab medallions and various commercial businesses, and Aaron and Cuomo are on its board.

Murstein reached out last summer to Kemp -- a former professional football quarterback, Republican congressman and vice presidential nominee -- bringing him on as chairman of Sports Properties.

"I knew he would be a great door opener and someone who understood not only sports, but public financing of sports facilities," said Murstein.

Sports Properties then tapped Tavares as chief executive, hoping to draw on his experience running other sports franchises, including the Nationals, the California Angels and the NHL's Mighty Ducks. A partner at Kemp's firm, James R. Taylor, is an adviser to the SPAC; Aaron and Cuomo are directors.

For now, Sports Properties is a shell in search of a real company. Last month, its managers went on a nationwide tour to find investors, raising $215 million. The units began trading on the American Stock Exchange two weeks ago, and closed at $9.84 on Friday, 1.6 percent below the IPO price of $10 per unit.

Now that it has investors, the firm is on the hunt for an acquisition, maybe something involving a professional sports team or a new stadium. Kemp said he is interested in exploring the construction of an arena in Las Vegas for a future National Basketball Association franchise.

"We are looking to buy something for a lot more than the $215 million," Murstein said. "We can raise more equity, apply leverage, or have the seller take back stock. We could buy something for over $1 billion for example."

Disponível em: <http://www.washingtonpost.com>. Acesso em 18/2/2008.