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MARKETS

'Blank Checks' Look for Bargains in Private-Equity Portfolios

Special-purpose acquisition companies focusing on firms seeking to sell off older, unwanted investments

A blank-check company launched in 2014 by billionaire financier Wilbur Ross bought a majority stake in a chemical distributor from a private-equity firm earlier this year. *PHOTO: CHRIS RATCLIFFE/BLOOMBERG NEWS*

By **MAUREEN FARRELL**

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"Blank-check" companies that raise money from public markets for future acquisitions are staging a comeback as investors see opportunity for bargains in private-equity sales.

The latest example is an effort by some high-profile investors to launch what could be the largest-ever stock offering by a U.S. blank-check company. Former Blackstone Group LP partner Chinh Chu and Fidelity National Financial Inc. Chairman William Foley are seeking to raise as much as $1.1 billion in the Thursday offering of CF Corp., which would target financial-technology companies.

The deal would give Messrs. Chu and Foley an unusual level of control over buying decisions for a blank-check company, a feature that could change the complexion of future offerings.

Aided by rising stock markets and a deal-making boom that swelled the ranks of buyers, private-equity firms in recently years aggressively sold companies they had purchased years earlier. But since the middle of last year, choppy markets and dry spell for initial public offerings have stuck the firms with some older investments that they would like to get rid of.

Blank-check companies could step into the breach.

These special-purpose acquisition companies, as they are also known, last year raised $3.9 billion in 20 deals, their busiest year since before the financial crisis, according to Dealogic. So far in 2016, three SPACs have raised more than $600 million in the U.S., and there are more than a half dozen preparing to raise some $1.9 billion in upcoming public offerings, according to Dealogic.

Still, SPACs are far off their 2007 peak, when they raised $12 billion in 66 deals before the financial crisis gravely wounded the market.

Many blank-check companies launched before the crash were forced to liquidate when investors voted down proposed deals and took back their cash. Of the $19.7 billion raised by the 50 largest SPACs since 2000, some $4.4 billion was returned to shareholders, according to Dealogic.

Industry experts and investors expect the new crop of SPACs to find bargains in aging private-equity portfolios.

"There's an opportunity now for operators [of blank-check companies] to jump in and grab assets that would otherwise be going to the IPO market," said Bob Cohen, a capital markets partner at law firm McDermott Will & Emery LLP.

Billionaire financier Wilbur Ross seized on such an opportunity earlier this year, when a blank-check company he launched in 2014 bought a majority stake in chemical distributor Nexeo Solutions Holdings LLC from private-equity firm TPG.

Mr. Ross, who made his fortune consolidating distressed industries such as coal and steel, plans to use Nexeo to roll up other chemical-distribution companies. TPG kept a 35% stake in Nexeo, which it bought in 2011, allowing it to share in the upside if Mr.

Ross's plan is a success.

Private-equity firms are getting in on the action themselves. TPG launched its own SPAC last year, Pace Holdings Corp., which raised $450 million in a September IPO but hasn't yet announced an acquisition.

Energy-focused private-equity firm Riverstone Holdings LLC owns 20% of a blank-check company launched in February by Mark Papa, a partner at the firm and former oil-company executive.

Blackstone, meanwhile, is making its first foray into SPACs with a small investment in Mr. Chu's CF Corp. Blackstone wanted to leverage Mr. Chu's expertise in financial technology and financial services, according to a person familiar with arrangement. Mr. Chu became a senior adviser to Blackstone after ending his 25-year run at the firm last year.

An anchor group of investors—including George Soros's Soros Fund Management LLC, activist hedge-fund Corvex Management LP and Singapore's sovereign-wealth fund GIC —are putting $510 million in the venture, according to people familiar with the matter. Messrs. Chu and Foley account for about $55 million of the anchor investment, according to a regulatory filing.

The anchor investors have agreed to support whatever deal Messrs. Chu and Foley choose, an unusual arrangement designed to spare CF the problems faced by SPACs that were forced to liquidate.

"This could be a pivotal moment in the asset class with this new structure" said Gil Ottensoser, a partner at LWPartners who advises SPAC investors.

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