Special Situation Investments

www.specialsituationinvestments.com

Target & Buyer	Offer price	Exp. Closing	Spread	Short Commentary
GSMG Buyer: Management	$1.55	TBD	118%	**US-listed Chinese company privatization by management.** **Main risk** - Privatization offer withdrawal. The spread hovered at less than 5% since shareholder approval in Sep'22 as the market expected prompt merger closing. More than half a year later, the merger is still pending, meanwhile, the management did not provide any explanation for why it is taking so long. This scared investors and the spread gradually widened to above 100%. With the recent annual results release, the company did not provide any updates on the transaction, noting that the privatization is "yet to be consummated". The market clearly does not believe the merger will close as the stock currently trades below pre-announcement levels. Historically US-listed Chinese privatizations in definitive agreement stage have had a very high succesful closing rate, However such a prolonged lag indicates elevated merger break risk.
SAVE Buyer: JBLU	$31 + $0.1 per month	H1'24	76%	**Merger in the U.S. airline industry.** **Main risk** - regulatory approval. This is an airline merger with numerous complications on the regulatory front. Last month, the DOJ filed a lawsuit against the merger, arguing it would be adverse to consumer prices and competition. In response, SAVE and JBLU have argued that the merger would increase competition to the four legacy carriers in the US and, to alleviate antitrust concerns, JBLU has proposed divestitures in overlapping areas. Moreover, both companies have recently reached agreements with pilots unions. So far, however, the offered concessions have clearly not appeased the regulators. The DOJ's trial hearing date has been scheduled for October 16. The judge stated that he expects an expeditious trial, with a potential ruling by year-end. This should leave time for the merger parties to pursue an appeal against the potential unfavorable judicial ruling.
CCHWF Buyer: CRLBF	0.5579 CRLBF	Q2'23	67%	**Consolidation of two major US cannabis companies.** **Main risk** - merger termination by both parties. The merger has received CCHWF's shareholder approval. Some asset divestitures required by the regulators have already been announced. The spread, however, has recently widened given failed attempts to pass the federal marijuana banking legislation which has made a big negative impact on the sector's short-term outlook. The market seems to think that both sides will be unable to complete the required divestitures and reach the targeted $300m in proceeds. Both companies still seem to be interested in closing the merger as indicated by the recently extended outside date from Mar'23 to Jun'23. Also, the merger exchange ratio is subject to proration adjustment due to the legacy CCHWF earnout, the amount of which is unknown the maximum earn-out would lower the exchange rate to 0.5080 and reduce the spread to 52%.
SIMO Buyer: MXL	$93.54 + 0.388 MXL	Q3'23	63%	**International merger in the semiconductor industry.** **Main risk** - Chinese regulatory approval. Approval from China's regulators is the main hurdle. The buyer is based in the U.S, while the target is a US-listed Taiwanese company with China being its largest market. Regulatory review is underway. MXL has reportedly reached out to third parties to facilitate approval from the Chinese regulator. In Feb'23, the buyer's management reiterated optimism in successful transaction closing by mid-2023. Recently, one of SIMO's rivals hinted that the SIMO-MXL merger is close to receiving approval from the Chinese regulators.
INFI Buyer: MEIP	1.0449 MEIP	Mid-2023	60%	**Tiny all-stock biopharma merger.** **Main risk** - buyer's shareholder approval. Merger spread stood at minimal levels upon anouncement in Feb'23 and then gradually widened to 50% in March. This seems to have been driven by the risk of MEIP's shareholder opposition as the transaction terms appear to be quite unfavorable for the buyer. This is also indicated by MEIP's share price fall of 20% upon the announcement. As part of the transaction, the buyer is required to keep $80m in net cash vs $4m for INFI while giving away a 42% ownership of the combined entity to INFI's equity holders. MEIP would add INFI's phase 2 drug candidate to its early-stage pipeline. In liquidation scenario MEIP could be worth materially above the current share price levels.
TGNA Buyer: Standard General	$24 + $0.15	Q2'23	43%	**Broadcasting media company getting acquired by a consortium of buyers, mostly PE firms.** **Main risk** - regulatory approval. The buyer consortium includes Standard General, Apollo and Cox Media. Various industry players and unions have voiced their concerns that the combined TGNA/Cox Media will control too much of the market share (39% of U.S. TV households). Other concerns include potential staff reductions, lower local news coverage and renegotiation of retransmission fees. Despite SG's proposed concessions, the merger has recently received a significant blow from the FCC with the case now going to the administrative court. Standard General has harshly criticized the decision and in turn sued the regulator arguing the decision to halt the merger was unprecedented and illegal. The spread has widened from teen levels to over 40%. Merger end date is set for May'23 after which either party can walk away from the transaction without penalty.
IRBT Buyer: AMZN	$61	Aug'23	42%	**Amazon's acquisition of a robot vacuum maker.** **Main risk** - regulatory approval. The spread has gradually widened from minimal levels to 40% due to regulatory hurdles and a potentially prolonged closing timeline. The companies have received second requests from the FTC. Several senators have been pushing the regulator to block the transaction. The FTC is rumored to file a lawsuit against the transaction shortly. The deal has also raised antitrust concerns internationally - The European Commission is rumored to launch a probe into the merger. Moreover, a tech-focused non-profit watchdog Foxglobe Legal has also urged the UK's CMA to initiate an investigation into the transaction. Opposition's concerns revolve around privacy infringements and Amazon's history of anti-competitive acquisitions. Amazon's another large acquisition of primary care provider One Medical has recently closed successfully.
FHN Buyer: TD	$25.00	H1'23	40%	**Largest Canadian bank acquiring a regional US peer.** **Main risk** - downward price adjustment. The spread on this regional bank merger used to stand at minimal levels despite still pending regulatory approvals. The spread widen to 20% in March on the news that the parties will not be able to receive regulatory approvals by the merger outside date of May'23. The spread increased further to over 40% amid the subsequent banking industry fall-out. Aside from the pending regulatory aprrovals, the current spread also reflects the risk of a downward price adjustment given that US bank indices are down significantly since the merger agreement was signed more than a year ago. The buyer's management has mentioned that negotiations regarding a merger consideration adjustment are ongoing. TD has remained committed to closing the transaction and the parties are in discussions to extend the outside date.
YI Buyer: Management	$3.61	TBD	37%	**US-listed Chinese company privatization by management.** **Main risk** - Non-binding offer. Chinese pharmaceuticals distributor YI is getting taken private by management (92% voting power, 44% economic interest). Merger consideration is $3.61/share after deducting ADS fees. Special committee is still reviewing the offer. Chinese non-binding privatization offers are inherently risky. However, reputable management as well as the financing for the buyout by a government-controlled entity give confidence that this transaction has a higher chance of closing. The privatization seems to have a quite strong rationale behind it as YI is seeking a listing on the Shanghai STAR Market and delisting from the US seems like a necessary step toward this. YI would be forced to redeem equity interests of post-IPO investor if the STAR listing is not achieved by Jun'23. The company has explicitly noted it may not have the needed liquidity if the redemptions are triggered. The spread has been widening in recent months, likely driven by investors' increasing uncertainty on whether the privatization offer is still on the table.

Target & Buyer	Offer price	Exp. Closing	Spread	Short Commentary
BKI Buyer: ICE	$68 + 0.0682 ICE	H1'23	31%	**A merger of two large mortgage technology providers.** **Main risk** - regulatory approval. Mortgage tech provider Black Knight is getting acquired by financial exchange and clearing house giant, Intercontinental Exchange. The FTC recently filed a lawsuit to block the merger due to potentially lower competition in the loan origination software industry as well as in the pricing and eligibility engine software market where BKI and ICE hold dominant positions. The regulatory pushback came despite the fact that merger parties recently agreed to divest BKI's loan origination software business. The buyer has remained confident in a successful litigation outcome. Along with the recent entry into a divestiture agreement, the companies have also agreed to slightly revise down the stock part of the merger consideration, from $68 + 0.144x ICE to $68 + 0.0682x ICE.
ACI Buyer: KR	$27.25	Q1'24	30%	**Merger of two grocery store chains.** **Main risk** - regulatory approval. Merger of two grocery store chains coming after ACI announced strategic alternatives in 2022. The transaction is synergistic from a geographical perspective - management states that ACI operates in several parts of the country with very few or no Kroger stores. The main risk is antitrust approvals as the merger would combine the two of the biggest supermarket companies in the country. US senators as well as a couple of farmer/consumer groups have raised anticompetitive concerns to the FTC. The buyer KR has already received a second request from the FTC. However, both sides are confident of circumventing the regulatory hurdles with proposed divestitures of a large number of stores. The companies have recently started to look for potential buyers of stores in overlapping areas.
TSEM Buyer: INTC	$53	2023	24%	**International merger in the semiconductor industry.** **Main risk** - regulatory approvals. The merger will require numerous antitrust and foreign investment approvals. Intel's CEO has noted that regulatory clearance has already been received in several geographies. The transaction continues to be held up by the Chinese regulator SAMR, which has increased scrutiny over the merger in the strategically important semiconductor space. For the same reason, there is also uncertainty regarding Israel's government approval. Israeli withholding taxes will apply in case of successful closing - to avoid these foreign investors will be required to provide some paperwork, which might delay the eventual payout of the merger consideration and might explain part of the spread. Recently, reports appeared that Intel expects the transaction to close in H1'23.
VMW Buyer: AVGO	$71.25 + 0.125 AVGO	Oct'23	21%	**Broadcom is continuing diversification into cloud computing with one of the largest tech mergers ever.** **Main risk** - long timeline / regulatory review. This is a mammoth $61bn deal, giving Broadcom a push into the software industry. The European Commission has launched a probe into the deal and the merger parties are expected to receive an antitrust warning shortly. The FTC and the UK's CMA have likewise started their inquiries into the transaction. Among the main sticking points is reduced competition for particular hardware components used with WMV's visualization software. The merger has already received regulatory clearance in a number of geographies, including Brazil, Canada and South Africa. The buyer's management expects the deal to close by Oct'23.
SGEN Buyer: PFE	$229.00	2023-2024	13%	**Pfizer's large acquisition in the cancer treatment space.** **Main risk** - regulatory approval. The current spread seems to exist due to the likely scrutiny from antitrust regulators and potentially prolonged closing timeline. The transaction would give Pfizer a leading position in cancer treatment space where the company already owns a sizable portfolio of drugs. This might increase the combined company's power to negotiate with insurers. Industry analysts have noted that divestitures in some areas, such as bladder cancer treatment, might be needed. SGEN's shareholder approval seems likely, given a massive premium to pre-announcement levels. The merger is expected to close in late 2023-early 2024.
FORG Buyer: Thoma Bravo	$23.25	TBD	12%	**Consolidation in the identity and access management industry.** **Main risk** - antitrust approval. FORG is getting acquired by PE firm Thoma Bravo. FORG shareholders have already approved the transaction. The main risk is regulatory approval due to increasing market concentration in the identity access management (IAM) software space. The transaction follows Thoma Bravo acquiring two other players in the IAM software industry, including one of FORG's direct peers. Both sides have received second requests from the DOJ. In February, the transaction parties agreed to extend the merger review timeline to allow the regulator more time to review the transaction. Interestingly, after agreeing to a deal with Thoma Bravo, FORG was approached by a potential strategic suitor, suggesting the downside might potentially be limited in case of a deal break.
ATVI Buyer: MSFT	$95	H1'23	11%	**Microsoft is acquiring game developer Activision.** **Main risk** - regulatory approvals. The spread mainly exists due to regulatory concerns over the MSFT's potential abuse of power and potential restriction of ATVI games solely to Xbox consoles. Late last year, the FTC sued to block the transaction. UK and European antitrust watchdogs, among others, have also started their inquiries into the transaction. To alleviate antitrust concerns, MSFT has already signed game access deals with a number of gaming industry players, including Nvidia, Nintendo and Steam. Recently, the UK's CMA released provisional findings on the merger, concluding that the transaction will not substantially lessen competition in the console gaming industry. The spread narrowed from c. 20% to current levels after the CMA's announcement. Media reports suggest that the merger parties are also close to securing regulatory approval from the European Commission. Regulatory clearance in the US is still uncertain, however, MSFT has remained confident of transaction closing. Warren Buffett's Berkshire is also participating in this merger arb play providing some confidence in the successful outcome and/or a well-protected downside on ATVI standalone basis.
TCRR Buyer: ADAP	1.5117 ADAP	Q2'23	7%	**All-stock merger between two clinical-stage biopharmas.** **Main risk** - small capitalization, steep downside, shareholder approvals. The spread exists due to shareholder approval risks. ADAP's share price dropped 25% upon the announcement, indicating potential equity holder opposition to the deal. Any pushback, however, seems unlikely given that the transaction is primarily an equity raise for the buyer which is acquiring $149m of the target's gross cash for $64m worth of its stock. The merger would provide ADAP with additional liquidity required to pursue commercialization of its drug portfolio. TCRR is a cash-burning machine with no commercial-stage assets, suggesting its shareholders would face dilutive equity raises and/or a prolonged strategic review if the current deal breaks. TCRR insiders own a sizable 25% of the company. ADAP management owns 17%.