Special Situation Investments

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Target & Buyer	Offer price	Exp. Closing	Spread	Short Commentary
YI Buyer: Management	$3.66	TBD	139%	**US-listed Chinese company privatization by management.** **Main risk** - Non-binding offer, offer price might be adjusted downwards YI privatization saga is already ongoing for over a year. Chinese pharmaceuticals distributor received a non-binding offer from management (95% voting power, 67% economic interest) at $3.66/ADS. Special committee is still reviewing the offer, already for 15 months. Chinese non-binding privatization offers are inherently risky. However, there is some chance that this privatization will close successfully as YI's management seems reputable and incentivized to take the company private and re-list it on the domestic Shanghai STAR Market. Relisting is essential for the company to avoid a large repayment of redeemable equity liabilities, which are due if YI is not listed on the STAR market by Jun'24. Since the initial proposal announcement, several more reputable parties have joined the buyer consortium with the latest additions in Jul'23. During a recent conference call, YI's management reiterated that the committee is still reviewing the offer. The market, however, seems to have given up on this privatization as YI's share price has continued to drift down over the last months and the spread has widened to above 100%. Another reason for the market's skepticism might be the ongoing significant healthcare industry reforms in China. The industry changes could have a material impact on YI's businesses and in turn affect management's willingness to proceed with the privatization. There is a risk that the offer price might be adjusted downwards.
SAVE Buyer: JBLU	$29.85	H1'24	84%	**Merger in the U.S. airline industry.** **Main risk** - regulatory approvals, large downside, buyer walking away. This is an airline merger with a number of complications, primarily on the regulatory front. Last month, SAVE/JBLU concluded their antitrust trial with the DOJ, and the judge is expected to make a decision in the coming weeks. There seems to be a solid chance of a positive outcome for the merger parties in the trial. DOJ's case has hinged on demonstrating limited competition in only a tiny portion of the routes served by the two companies, 35, or only 8 when accounting for the divestitures announced by SAVE/JBLU. The antitrust regulator has argued that the divestitures might not materialize and, if they do, the new entrants might not be able to enter the divested markets as promptly and/or offer the same routes as SAVE. However, testimonies from a number of industry players indicate that other carriers would swiftly enter into Spirit's former markets. Even if the judge rules that the announced divestitures are insufficient, another package of remedies rather than an outright transaction rejection seems more probable. Another uncertainty is the possibility of JBLU seeking to abandon the transaction given SAVE's declining performance over recent quarters, primarily driven by airplane engine issues. However, during the trial, JBLU's management stated their commitment to completing the transaction. Moreover, the buyer's prospects of successfully claiming an MAE in court appear slim. The engine-related operational problems are temporary and have affected the entire airline industry while the merger agreement specifically excludes "industry-wide" events from MAE conditions. In the merger break scenario, potential downside would likely be significant.
SIMO Buyer: MXL	$93.54 + 0.388 MXL	TBD	57%	**International merger in the semiconductor industry.** **Main risk** - merger termination. This is one of the wildest merger arbitrage situations in the recent past. Silicon Motion Technology, a supplier of NAND flash controllers for SSDs, was getting acquired by its US peer MaxLinear. In July, after an unexpected approval from Chinese regulators, MXL abruptly terminated the merger, citing a "material adverse effect" due to the sharp semiconductor industry downturn since the merger was announced in 2022. SIMO disagrees with MAE and is litigating. The investment case now revolves around outcome of the arbitration which will take place in Singapore, with a resolution likely in 2025. Even if MXL is forced to buy SIMO, it might no longer have financing commitments needed to close the transaction. This suggests that SIMO is more likely to be awarded damages in excess of the termination fee rather than force the buyer to proceed with the merger.
IRBT Buyer: AMZN	$51.75	TBD	37%	**Amazon's acquisition of a robot vacuum cleaner maker.** **Main risk** - regulatory approval. The wide spread is explained by regulatory hurdles, deteriorating IRBT financial performance as well as potentially prolonged closing timeline. Several senators have been pushing the FTC to block the transaction. The second request from the FTC was received back in Sep'22 and the review is still ongoing. The deal has also raised antitrust concerns internationally - the European Commission has launched a detailed probe into the transaction and has recently expressed its preliminary objections to the transaction. The EC is expected to make a final decision in Feb'24. Regulatory concerns revolve around lower competition in the robot vacuum cleaner market, privacy infringements and Amazon's history of anti-competitive acquisitions. However UK's CMA has cleared the transaction, arguing it will not lead to a substantial lessening in competition. IRBT's performance has been deteriorating since the merger was announced, with operating losses and revenues falling substantially below previous FY22 guidance and continuing to decrease in FY23. In Jul'23, IRBT and AMZN agreed to revise the offer from $61/share to $51.75/share mostly to reflect new financing facility that IRBT had to enter to fund its ongoing operations.
HA Buyer: ALK	$18	2025	29%	**Merger in the airline space** **Main risks** - regulatory approval, prolonged timeline, large downside. Hawaiian Airlines is getting acquired by Alaska Airlines in an all-cash transaction at $18 per share. The reasons for the wide spread are antitrust approvals, a potentially prolonged closing timeline, and a steep downside. The transaction will require approvals from a number of regulatory agencies, including the DOJ, DOT, FAA and FCC. The key risk seems to be antitrust approval as several other mergers in the airline industry have already been challenged, suggesting that the HA-ALK deal might face similar pushback. However, while the transaction would create the fifth-largest airline in the US, the combined company would only capture an estimated 6% of the market, which is significantly below the c. 80% market share held by the four largest players. Moreover, the two airlines only compete head-to-head on a small fraction of their combined routes (12 out of 433). The decision of whether to block the merger on antitrust grounds may well hinge on the outcome of the DOJ's trial on the pending SAVE-JBLU merger. The risk of HA shareholders opposing the transaction is minimal as the offer comes at a massive 270% premium to pre-announcement levels. The companies expect the transaction to close within 12-18 months. Potential downside to pre-announcement levels stands at 65%.
GAN Buyer: Sega Sammy	$1.97	Q4'24	26%	**Acquisition of online casino and sports betting backend software provider** **Main risks** - regulatory approvals, prolonged timeline, large downside B2B/B2C online casino software provider GAN is getting acquired by the Japanese conglomerate Sega Sammy at $1.97/share. The shareholder meeting is expected to take place no later than March 31 and is likely to proceed smoothly. The existing spread seems to be explained by uncertainty surrounding securing gaming licenses in a number of geographies, most notably Chile as well as the US. Chilean online gaming space has been undergoing regulatory changes recently and it is not clear if GAN will be eligible to receive an operating license if a pending online gambling-related bill passes. Meanwhile, the merger agreement includes a provision allowing Sega Sammy to terminate the transaction if the Chilean government enacts any laws that make GAN's operations in the country illegal. Potential downside in a deal-break scenario is likely to be substantial.
BEST Buyer: Management	$2.88	TBD	24%	**Non-binding Chinese US-listed company privatization.** **Main risk** - non-binding offer BEST, a Chinese freight delivery and supply chain management services provider, is getting acquired by a buyer consortium (49% economic and 94% voting stake) led by its founder/CEO/chairman at $2.88/ADS. While wide spreads are not uncommon for Chinese privatizations in a non-binding stage, this situation seems to have a higher chance of closing given that Alibaba is BEST's largest shareholder (owns 26%) and will be rolling its equity stake in privatization. The Chinese e-commerce giant appears to know the company inside out and is most probably the driving force behind this privatization together with management. The transaction appears to be a strategic move for Alibaba which has recently launched its cross-border delivery business and might be looking for a tighter integration with BEST services for geographical expansion. There is also an opportunistic angle to this privatization, as BEST shares are currently trading close to all-time lows while the business might be inflecting. Potential downside in a deal-break scenario appears to be minimal as BEST is trading in line with pre-announcement levels.

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ACI Buyer: KR	$27.25	Q1'24	19%	**Merger of two grocery store chains.** **Main risk** - regulatory approval. The main risk is antitrust approval as the merger would combine the two of the biggest supermarket companies in the country, particularly in the Northwest where ACI and KR together hold a commanding market share. Antitrust concerns have been raised by a number of parties, including US senators, several states and farmer/consumer/labor groups. FTC is expected to challenge the merger. However, ACI and KR are confident of circumventing the regulatory hurdles with the announced divestitures of a large number of stores in overlapping areas. The FTC and several lawmakers have been sceptical about these remedies, citing ACI's history of divestitures where the disposed stores eventually went bankrupt. However, in the current case, the buyer of the to-be-divested stores is a Softbank-backed company with sufficient operating experience, scale and capital, suggesting that the story will not repeat and the divestitures might thus help ease antitrust concerns. The merger outside date is set to January 13, but the companies can extend it for up to 270 days if regulatory approvals are not received.
MIXT Buyer: PWFL	3.19056 PWFL	Q1'24	18%	**All-stock merger in the telematics industry.** **Main risk** - target's shareholder approval. Automotive telematics company MIXT is getting acquired by its smaller peer PWFL. The transaction appears to have a strong strategic rationale as it will result in improved scale and enable the combined company to capture revenue synergies through the cross-selling of complementary products. The approval by buyer's shareholder should not pose any challenges given that PWFL appears to be getting a good deal and will also eliminate the overhang of its convertible preferred stock. The primary factor explaining the existing spread seems to be some uncertainty regarding MIXT's shareholder approval - 75% in favor and not more than 3% exercising their appraisal rights. Another source of uncertainty is the fact that the companies have not yet announced the shareholder meeting or published the merger proxy (initially planned for early December) due to delays in securing several regulatory approvals. However, these seem to be customary closing conditions, and PWFL's management has previously expressed high confidence in obtaining all regulatory approvals.
NBLY.TO Buyer: Persistence Capital Partners	C$18.5	TBD	15%	**Non-binding stage buyout of Canadian pharmacy roll-up by its controlling shareholder.** **Main risk** - offer rejection by the special committee. In late 2023, NBLY received a non-binding takeover proposal from its controlling shareholder Persistence Capital Partners (owns 50%) at C$20.5/share. NBLY's special committee was prepared agree to a definitive agreement at these terms, however, after couple of months PCP revised its bid downwards to C$18.5/share, citing "difficult market conditions". The main risk now seems to be that the special committee will view the reduced offer as insufficient. PCP's initial bid was already at the lower end of the fairness opinion issued by NBLY's financial advisor. However, the buyer has stated it is not interesting in any alternative transactions and will not sell its stake to other parties, suggesting that the current offer is the only viable option on the table. If the special committee rejects the bid, the downside to pre-announcement levels stands at c. 25%.
X Buyer: NISTF	$55	Q3'24	13%	**Large cross border acquisition in the steel industry.** **Main risks -** regulatory approvals, prolonged timeline, opposition from a labor union. The bidding war for US Steel has culminated in a merger with Japan's largest steelmaker, Nippon Steel, at $55/share. Shareholder approval seems likely as the offer comes at a solid 40% premium, multiple-year share price highs, and exceeds other publicly announced competing bids. The spread exists due to risks surrounding regulatory approvals. Several senators and White House officials have voiced opposition to the transaction on national security grounds. CFIUS is expected to conduct a lengthy and rigorous review of the transaction. Another risk lies in the fact that, as part of agreement with the United Steelworkers (USW) union, the merger parties might need to secure approval from the labor union. The union previously stated that it will only support a merger with another bidder, CLF, and has recently reiterated its opposition to the pending transaction with Nippon Steel.
CPRI Buyer: TPR	$57	2024	13%	**Merger of equals in the luxury fashion industry.** **Main risk -** prolonged timeline and large downside. This is a large all-cash merger in the fashion industry, combining luxury brands Versace, Jimmy Choo and Michael Kors (owned by CPRI) and Coach, Kate Spade and Stuart Weitzman (TPR). The transaction has already been approved by target's shareholders. The spread seems to exist due to the long expected closing timeline as the merger will require regulatory approvals in a number of geographies, including the US, EU and China. In early November, both parties each received a request for additional information from the FTC. The spread is also partially explained by the substantial 30% downside to pre-announcement levels.
GTH Buyer: Management	$4.03	Q1'24	9%	**Definitive-stage privatization of a US-listed Chinese company by management.** **Main risk** - Chinese transaction. US-listed Chinese cancer screening firm is getting acquired by a buyer consortium led by company's co-founder/chairman (combined 60% stake). Chinese management privatizations are generally risky, however, definitive agreement-stage transactions have historically been closing at a very high success rate. All closing conditions - approval from 2/3 of shareholders, not more than 15% of shareholders exercising their appraisal rights as well a a number of approvals from Chinese regulators - are likely to be satisfied. The privatization seems opportunistic as GTH's operational performance was expected to rebound in 2023 after Covid pressures, however, the company has not yet released any results for FY23 and shares continue to hover near all-time lows. Downside to pre-announcement levels stands at 24%.
AMED Buyer: UNH	$101	2024	8%	**Bidding war in the US home healthcare industry.** **Main risk** - long timeline, antitrust approval. Home healthcare provider Amedisys has scrapped the all-stock merger with infusion services provider Option Care Health and has instead agreed to combine with healthcare insurance giant UnitedHealth. AMED shareholders are likely to support the deal as it values the target reasonably vs peers and its historical valuation range. The spread might be explained by potentialy prolonged closing timeline due to a likely regulatory challenge as AMED is one of the largest home healthcare providers in the US while UNH has recently acquired another large industry player LHC Group. AMED and UNH have received requests for more information from the DOJ. Several senators, including Elizabeth Warren, have also urged the antitrust regulators to scrutinize the transaction. The merger comes amid DOJ's recently launched broader antitrust probe into the managed-care industry where UNH has been among the most active acquirers. However, the home healthcare market is highly fragmented and even a combination of AMED and LHCG would still give UNH a less than 10% market share.
CNSL Buyer: Searchlight Capital	$4.7	Q1'25	7%	**Telco acquisition by its major shareholder.** **Main risk** - long timeline. Wireline/fiber telecommunications provider CNSL is getting acquired by its major shareholder PE firm Searchlight Capital Partners (owns 34%). The key reason for the spread seems to be the prolonged closing timeline as the merger is set to be finalized only by Q1'25. The extended timeline is understandable given requirement of approval from a number of regulatory bodies, including FCC, antitrust regulators, CFIUS and the California State Public Utility Commission. These regulatory reviews are customary and are not expected to pose any significant risks. The merger will also require approval from majority of minority shareholders. Several activist equity holders (own 4%) have opposed the transaction saying it undervalues the target. Given this pushback and the fact that the buyer has already raised its bid (from $4/share), there is some chance of another offer price bump from Searchlight. The market appears to be increasingly more optimistic about such a scenario as CNSL shares have gradually risen since the pushback from activists and the spread to Searchlight's offer has narrowed from low-double-digit levels to 7% currently.
CERE Buyer: ABBV	$45	Mid-2024	6%	**Large all-cash acquisition by pharma giant Abbvie.** **Main risk** - long timeline, antitrust approval, large downside. Pharmaceutical giant AbbVie is acquiring Cerevel Therapeutics, a clinical/pre-clinical stage pharmaceutical company focused on neurological conditions, for $45 per share in cash. Shareholder approval seems highly likely given the offer's substantial 60% premium to pre-takeover rumor share price levels. The current spread seems to be explained by a potentially extended closing timeline due to possible scrutiny from antitrust regulators and a significant potential downside. Regulatory concerns could arise given that both companies have overlapping asset portfolios, primarily in the treatment of schizophrenia, where AbbVie boasts a commercialized drug while CERE holds an advanced-stage asset. However, ABBV's management has expressed confidence in overcoming regulatory hurdles, stating that its commercialized schizophrenia drug holds a limited market share.