Cassels

NEO Announces Launch of New G-Corp

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On April 16, 2021, NEO Exchange Inc. (the NEO Exchange) announced the launch of a new publicly traded acquisition vehicle, the Growth Acquisition Corporation (G-Corp). G-Corps are intended to provide mid-market growth companies with access to capital and public markets, while substantially reducing the risks to investors. By targeting mid-market companies, G-Corps will offer a go public alternative to companies that do not meet the specific listing requirements for pre-existing acquisition vehicles such as special purpose acquisition companies (SPACs) and capital pool companies (CPCs).

General Overview

Similar to a SPAC or a CPC, a group of investors will create a blank company that then lists on the NEO Exchange as a G-Corp. With no commercial operations, G-Corps will be used solely for the purpose of raising capital through an initial public offering (IPO), which will then be used to acquire an existing private company by way of a qualifying transaction (QT), in turn bringing the private company to the public markets.

G-Corps are designed to specifically address the gap that currently exists between CPCs and SPACs. CPCs are not permitted to raise more than $1 million in seed capital and $10 million in aggregate gross proceeds, making them an appealing listing vehicle for smaller companies, while SPACs are typically targeted towards much larger companies with market values at or above the $500 million range. The G-Corp program will address this gap by targeting mid-market private companies with enterprise values ranging from $50 million to $500 million.

Key Features

Although G-Corps, SPACs, and CPCs are similar in many ways, G-Corps are subject to specific requirements and waivers that reflect the unique needs of mid-market companies and their investors. The key features of the G-Corp are as follows:

1. **Minimum Proceeds of IPO**: A G-Corp must raise a minimum of $2 million in proceeds from its IPO.
2. **Founder Investment**: Equity ownership of founders immediately following closing of the IPO is limited to 20%, excluding any securities purchased prior to the IPO at not less than the IPO price. There is also a requirement for founders to invest enough risk capital in the G-Corp to maintain at least $300,000 of free working capital, after payment of IPO costs.

3. **Timeline**: G-Corps must identify a QT within 24 months of the closing of the IPO and subsequently complete the identified QT within 27 months of the closing of the IPO to avoid having the escrowed funds returned to the investors.
4. **Escrow**: 100% of the gross proceeds from the IPO will be held in escrow. Similar to a SPAC, if the QT does not occur within the permitted time frame, then the G-Corp will be liquidated and the entire amount of the escrowed funds will be returned to the investors on a pro rata basis.
5. **Investor Commitment**: Investors in a G-Corp will not have the ability to exit their investment prior to the completion of the QT. This so called "redemption feature" that allows shareholders of a SPAC to exit and divest prior to the completion of the QT, has been replaced with a shareholder vote for the purposes of G-Corps. By requiring shareholder approval of a proposed QT, shareholders are involved in the decision-making process, without being exposed to the risk of their fellow shareholders divesting prior to the closing of a QT.
6. **Resulting Issuer**: In addition to meeting the requisite listing standards of the NEO Exchange, G-Corp resulting issuers are required to have a market cap of at least $30 Million upon completion of the QT.
