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What it's like to go public through a SPAC merger: Hyliion's journey to New York Stock Exchange explained

How RSM helped 'uplift' trucking-tech company's financial statements

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The flood of companies going public this year through mergers with special purpose acquisition companies, or SPACs, continues.

NYSE

Hyliion founder and CEO Thomas Healy at the New York Stock Exchange on Oct. 5, when he rang the opening bell. The company, which makes eco-friendly power trains for big rigs, went public that month through a SPAC merger.

But businesses entering the public markets via that route generally must work with auditors to complete an “uplift process” that enables their financial statements to meet U.S. Securities and Exchange Commission requirements.

RSM US LLP, a Chicago-headquartered audit, tax and consulting services firm, guided Cedar Park-headquartered Hyliion Holdings Corp. (NYSE: HLYN) through its uplift process during the months leading up to the trucking-technology startup’s SPAC deal, which closed Oct. 1. Its stock began trading on the New York Stock Exchange the following day.

Hyliion's uplift process included preparing financial statements, as well as adopting new accounting standards, said Lynn Benoit, a Denver-based RSM technical accounting consulting director. It took about eight weeks, a typical timeframe, Benoit said.

Hyliion, which makes power trains for tractor-trailers that cut down on fuel consumption, went public through a reverse merger with Tortoise Acquisition Corp., a SPAC affiliated with Leawood, Kansas-based Tortoise Capital Advisors LLC.

“The completion of our merger greatly accelerates Hyliion’s growth plans and unlocks the potential value of our business,” Hyliion founder and CEO Thomas Healy said in an Oct. 1 statement. “This transaction is a crucial milestone in our business plan as we gear up for full commercialization."

SPACs are blank-check companies that don't engage in any commercial activity. Instead, they raise capital to finance the acquisition of other businesses. SPACs are enjoying a heyday on Wall Street, especially among electric vehicle companies.

One high-profile deal involved Salt Lake City-based Nikola Corp. (Nasdaq: NKLA), which combined with VectoIQ Acquisition Corp., a SPAC headquartered in New York City, in June. Nikola's founder and executive chairman resigned from the company in September amid claims that its technology does not work as advertised, Phoenix Business Journal reported Sept. 21.

Others include Ohio-based Lordstown Motors Corp., California-headquartered Canoo Inc. and Boston-based XL Hybrids Inc., which does business as XLFleet. Barron's on Sept. 29 linked the SPAC rush to electric vehicle "fever driven by Tesla," which is building a huge car assembly plant in far East Austin that could be completed as soon as May 2021.

Due to Hyliion’s size, the business met the SEC definition of a “smaller reporting company.” Those are businesses that on the last day of their second fiscal quarters have public floats less than $250 million. A float consists of a company's regular shares issued to the public and that can be traded by investors. Go here to learn how the SEC calculates a company's public float.

The "smaller reporting company" category also applies to businesses with annual revenue of less than $100 million and those that do not have a public float, or the public float is less than $700 million.

With that designation, the SEC required Benoit and her colleagues to submit two years of Hyliion financial statements.

RSM already was providing Hyliion with audit and tax services prior to the SPAC transaction, said Steven Edwards, an RSM partner based in Los Angeles who also is the firm's west region technical accounting consulting leader.

The SEC requires public companies to have independent auditors. Hyliion engaged Chicago-headquartered accounting firm Grant Thornton LLP to take over audit and tax services from RSM, Edwards said.

Hyliion in April engaged RSM's technical accounting consulting practice "to perform capital market readiness services, including the uplift process," Benoit said.

While the initial public offering process is a years-long one, SPAC transactions are highly compressed affairs that instead take months to complete, said Daniel Escalante, an RSM technical accounting consulting manager based in Austin.

"It's a lot more hectic," he said. But that speed is also "one of the reasons why companies find it beneficial to go public through SPACs."

Another appeal of the SPAC route, Benoit said, is that there is "less of a strain to raising cash than in an IPO. It's a little more streamlined," in part because SPACs already have "a pool of cash." Gross proceeds from 174 blank-check SPAC IPOs have totaled $63.6 billion to date in 2020, more than four times the $13.6 billion generated in 59 such IPOs in all of 2019, according to SPACInsider.

Edwards said the Covid-19 pandemic has created conditions making the SPAC path to going public more attractive to companies. Raising money through the traditional IPO roadshow — pitching investors in person throughout the country over many months — has become much more difficult, if not impossible, since the onset of the coronavirus crisis.

While SPACs these days have "become more mainstream," Edwards cautioned, "it's hard to tell what's going to happen" going forward. He doubted the current pace of SPAC deals would continue.

PitchBook agrees. In an Aug. 31 report, Pitchbook analysts concluded, "We believe the hype around SPACs will likely recede once more certainty returns to the financial markets; the time it takes to go public is not accelerated enough using SPACs to simply supplant other options and make this strategy the go-to route for public listings."

The RSM technical accounting consulting team — comprising Edwards, Benoit, Escalante and Austin-based Kevin Kibaara —

began in early May working on the Hyliion deal, Benoit said.

Tasks the RSM team typically tackle when assisting companies like Hyliion include segment reporting, earnings per share and convertible debt, Benoit said.

Hyliion management on July 10 filed the company's proxy statement with the SEC, Escalante said. SEC officials reviewed that filing, "providing comments and questions for management to consider on the contents of the filing," he said. RSM then assisted Hyliion to address those areas.

"Once the SEC is happy the filing has all the information, they'll clear the transaction to close," Benoit said. A definitive proxy statement was mailed to investors on Sept. 8, demonstrating that the SEC had approved the deal.

In a SPAC deal, 20 days must pass after the SEC approves the transaction before shareholders vote on it, Benoit said.

Tortoise Acquisition shareholders on Sept. 28 approved the Hyliion merger.

One of the challenges facing companies like RSM and Hyliion during the uplift process is the concept of "staleness," Benoit said. The SEC requires companies going through the SPAC process to prepare and file current financial information with the SEC "for investors to make decisions," she said. "With the exception of third-quarter financials, the financial statements provided in a preliminary proxy statement or filing must be no earlier than 134 days before the date of the filing. Third-quarter financial data is timely through the 45th day after the most recent fiscal year end."

For example, RSM assisted Hyliion management in refreshing financial information subsequent to the company's July 10 filing by including Hyliion's 2020 second-quarter numbers. That was because the company would not be able to address the SEC comments by Aug. 12, the last day supplying only the first-quarter numbers would be valid.

RSM employs about 110 people in the Texas capital, Escalante said. The firm dates back to 1926, when Ira McGladrey founded accounting firm I.B. McGladrey Company in Cedar Rapids, Iowa, which ultimately became RSM US LLP.

In 2019, RSM was the fifth-largest accounting firm by revenue in the United States, at $2.44 billion, according to Statista, following Deloitte LLP, PwC U.S., Ernst & Young LLP and KPMG LLP. In fiscal year 2020, RSM generated $2.7 billion in revenue, Escalante said. It now has about 11,000 employees total.

Edwards said RSM tries to differentiate with a focus on middle-market clients — businesses with annual revenue between $10 million and $1 billion.

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