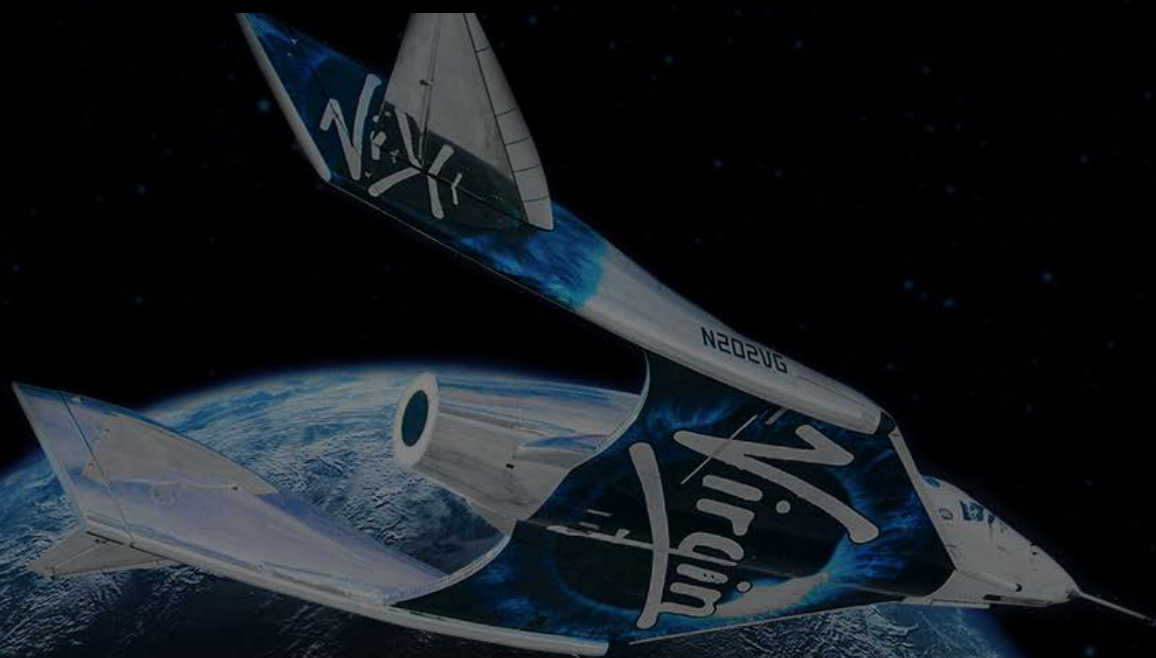


SEPTEMBER 2020

# Defiance ETFs

Case Study for Virgin Galactic:  
Virgin Galactic shows SPACs can spot potential



DEFIANCE | ETFs



Virgin

GALACTIC

Richard Branson formed the space tourism company, Virgin Galactic in 2004. The company's aim is to produce reusable space vehicles, to make space travel accessible for (wealthy) private individuals and scientists. While its first 6-person, 90-minute flight was scheduled for 2020 but delayed due to the impact of Covid-19 restrictions, Virgin Galactic envisions "flight opportunities for both autonomous and tended research" and "quick recovery of payloads, with pre-flight and post-flight access within hours of a launch."<sup>1</sup> Branson is set to take the launch flight in early 2021 and the company already has 603 reservations for the \$250,000 trip into space, with another 400 refundable deposits placed in the first quarter of 2020.<sup>2</sup> The company has identified around 2 million high-net worth individuals<sup>3</sup> who could potentially enjoy its service, a claim bolstered by the March 2019 UBS report that estimated the potential market of space tourism at \$3 billion by 2030.<sup>4</sup>

The innovation in Virgin Galactic's bid to define a completely new industry is clear. What many might miss, however, is the ingenious investment tools the company has used to finance its audacious project, which is valued at over \$5.4bn while still making losses of over \$50m per quarter.<sup>5</sup> Back in 2018, when Branson broke links with Saudi Arabia after the death of Saudi journalist Jamal Khashoggi, Virgin Galactic needed a substantial cash investment.<sup>6</sup> The IPO-route would have been difficult - as companies like Lyft, Uber and WeWork have shown, the market can be unkind to companies with ambitious visions and unverified models. Galactic needed to avoid a time-consuming and potentially damaging IPO process, and it found the solution in a Special Purpose Acquisition Company (SPAC) formed by US businessman, Chamath Palihapitiya.<sup>7</sup>

1 Virgin Galactic News. [www.virgingalactic.com/news](http://www.virgingalactic.com/news)

2 "Virgin Galactic shares rise after reporting more customer deposits as losses remain stable," Michael Sheetz, CNBC, May 5, 2020. [www.cnbc.com/2020/05/05/virgin-galactic-earnings-q1-2020.html](http://www.cnbc.com/2020/05/05/virgin-galactic-earnings-q1-2020.html)

3 "These 2 Stocks Could Double From Here, But for Different Reasons," Daniel Foelber, The Motley Fool, September 2, 2020. [www.finance.yahoo.com/news/2-stocks-could-double-different-142704018.html](http://www.finance.yahoo.com/news/2-stocks-could-double-different-142704018.html)

4 "Super fast travel using outer space could be \$20 billion market, disrupting airlines, UBS predicts," Michael Sheetz, CNBC, March 18, 2019. [www.cnbc.com/2019/03/18/ubs-space-travel-and-space-tourism-a-23-billion-business-in-a-decade.html](http://www.cnbc.com/2019/03/18/ubs-space-travel-and-space-tourism-a-23-billion-business-in-a-decade.html)

5 "Virgin Galactic Delays Key Flight, Plans \$460 Million Share Sale," Justin Bachman, Bloomberg, August 3, 2020. [www.msn.com/en-us/money/other/virgin-galactic-delays-key-flight-plans-dollar460-million-share-sale/ar-BB17wk40](http://www.msn.com/en-us/money/other/virgin-galactic-delays-key-flight-plans-dollar460-million-share-sale/ar-BB17wk40)

6 "The Space SPAC: Everything You Need to Know about Virgin Galactic," Renaissance Capital, October 28, 2019. [www.nasdaq.com/articles/the-space-spac%3A-everything-you-need-to-know-about-virgin-galactic-2019-10-28](http://www.nasdaq.com/articles/the-space-spac%3A-everything-you-need-to-know-about-virgin-galactic-2019-10-28)

7 For more on SPACs, see [www.defianceetfs.com/spak/investmentcase](http://www.defianceetfs.com/spak/investmentcase)



Palihapitiya's company, Social Capital Hedosophia, raised over \$650 million when it IPO-ed in 2017. It was formed as a "blank check" company, with no operations of its own beyond the promise to merge with or acquire an overlooked or undervalued private technology company. It sold 60 million shares at \$10 each and had two years to invest the money raised. Two months before the deadline, Palihapitiya and Branson signed a deal and on Monday 28, 2019, Virgin Galactic began to trade publicly on the NYSE as SPCE.N. Branson retained his 51% controlling stake, his company got an \$800m cash injection<sup>8</sup> and it continued to forge strategic partnerships with companies like Rolls-Royce, Boeing and NASA.<sup>9</sup> SPCE's share price has since risen around 45% so far in 2020;<sup>10</sup> and in August 2020 it offered the sale of a further 20.5m shares, for expected gross proceeds of approximately \$460 million.<sup>11</sup>

Palihapitiya (and the investors) seem satisfied. The former Facebook executive raised another \$720 million for a new SPAC in April this year.<sup>12</sup> In the uncertainty of the Covid-19 economy, Palihapitiya's latest IPO brought in 20% more than its original target, a clear indication that SPACs are a viable tool for the market to match big money with great potential.

8 "Virgin Galactic to go Public With SPAC," July 15, 2019. [www.redherring.com/europe/virgin-galactic-to-go-public-with-spac](http://www.redherring.com/europe/virgin-galactic-to-go-public-with-spac)

9 "These 2 Stocks Could Double From Here, But for Different Reasons," Daniel Foelber, The Motley Fool, September 2, 2020. [www.finance.yahoo.com/news/2-stocks-could-double-different-142704018.html](http://www.finance.yahoo.com/news/2-stocks-could-double-different-142704018.html)

10 "Virgin Galactic dealmaker defies IPO lull with \$720 million blank-check deal," Joshua Franklin, Reuters, April 21, 2020. [www.reuters.com/article/us-social-capital-ipo/virgin-galactic-dealmaker-defies-ipo-lull-with-720-million-blank-check-deal-idUSKCN22331U](http://www.reuters.com/article/us-social-capital-ipo/virgin-galactic-dealmaker-defies-ipo-lull-with-720-million-blank-check-deal-idUSKCN22331U)

11 "Virgin Galactic Announces Proposed Public Offering of Common Stock," August 3, 2020. [www.investors.virgingalactic.com/news/news-details/2020/Virgin-Galactic-Announces-Proposed-Public-Offering-of-Common-Stock/default.aspx](http://www.investors.virgingalactic.com/news/news-details/2020/Virgin-Galactic-Announces-Proposed-Public-Offering-of-Common-Stock/default.aspx)

12 "Virgin Galactic dealmaker defies IPO lull with \$720 million blank-check deal," Joshua Franklin, Reuters, April 21, 2020. [www.reuters.com/article/us-social-capital-ipo/virgin-galactic-dealmaker-defies-ipo-lull-with-720-million-blank-check-deal-idUSKCN22331U](http://www.reuters.com/article/us-social-capital-ipo/virgin-galactic-dealmaker-defies-ipo-lull-with-720-million-blank-check-deal-idUSKCN22331U)