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Street Talk: Sidhu goes SPAC to the future
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By Nathan Stovall

For a retiree, Jay Sidhu sure is busy.

The former Sovereign Bancorp Inc. chairman and CEO, who retired after being threatened with termination, is launching a blank check company that plans to raise $150 million to acquire banks or thrifts. The plans come shortly after Sidhu built a $1 billion private equity firm, Sidhu Capital Partners, dedicated to the banking industry.

He will serve as chairman, president and CEO of the blank check company, or special purpose acquisition company (SPAC), called Sidhu Special Purpose Capital Corp. Like his private equity firm, the SPAC is hunting for targets in the banking industry with favorable demographics, but will also consider institutions facing financial and/or regulatory challenges.

"In particular, we will emphasize the geographic markets that meet the foregoing criteria along the Mid-Atlantic, Southeastern and Pacific seaboards, as well as Southwestern border states and Southern Gulf states, all of which have enjoyed substantial household income and population growth, including significant growth in the population of under served ethnic groups," Sidhu Special Purpose Capital said in its IPO filing.

In the meantime, Sidhu and members of his SPAC and private equity firm are unlikely to do much of their hunting in the Northeast. Part of Sidhu's severance agreement with Sovereign prevents him from directly or indirectly owning more than 4.9% of a publicly traded bank located in any county "contiguous" to a Sovereign branch, office or facility as of October 2006. That deal expires if a change in control occurs at Sovereign or on Oct. 11, 2011.

Sidhu declined to tell us more about his new venture, citing SEC rules and regulations, but in the filing the SPAC disclosed plans to focus on either a "buy and fix" strategy, a "buy and rollup" strategy, or a "private to public" strategy, the latter of which will entail acquiring private companies at a price lower than the current market price for comparable institutions, while the rollup strategy could entail a number of acquisitions that lead to cost saves and revenue synergies.

As for the buy and fix strategy, there will likely be plenty of opportunities for that, at least according to Sidhu's outlook for 2008. He said several weeks ago at a Sterne Agee-sponsored conference that 2008 stands to be a "very tough year."

"With everything that's going on — I think there's no question that there is a real estate-driven problem — I think it's going to spill over into other areas of the economy," Sidhu said at the event. "I think there's no question about that."

The executive said at the conference that such difficulties would likely produce a number of targets for his private equity firm as it looks to partner with management teams that need long-term capital.

Although there is overlap between the strategies of the private equity shop and the SPAC, the entities are different on a fundamental level.

"There are some businesses that would be a fine private equity investment because they throw off cash flow, or whatever it is that makes them attractive for a fund. That might not really work at all for a SPAC," Seward & Kissel LLP partner James Abbott told us, noting that the SPAC would need to acquire a business at a "very attractive price" or find a company that offers "very high growth" given the dilution incurred by the owners of the seller. Abbott said SPACs look for all-out purchases and then must receive shareholder approval for transactions.

The PE shop has committed money though, he said, and thus Sidhu will ultimately be able to determine what investments are made. Abbott said the private equity firm will likely have more involvement and control over its portfolio companies than the SPAC will have over any institution it acquires. Additionally, unlike the private equity firm that offers capital, a control premium and/or management expertise, the SPAC can also offer private banks a way to go public. And with the IPO market all but dead, a means to go public via a SPAC looks all the more attractive.

"If there's a company that in a different market environment would be a potentially attractive candidate for a relatively small IPO, but that market is not available at this time, reversing into a SPAC gets you to the same place with a little bit greater dilution if you're the owners of the business," Abbott said.

Helping Sidhu to find opportunities for the SPAC will be Joseph Harenza, CEO of M&A advisory firm Griffin Financial Group LLC, who will serve as a director of the new company. Sidhu has also brought a few Sovereign alums along for the ride, including James Hogan, who served as CFO of Sovereign from April 2001 to May 2005. Hogan will serve in that same capacity with the SPAC.

Former long-time Sovereign director Daniel Rothermal, who served on the board from 1987 until retiring in 2007, will be a director of the blank check company, while former Sovereign Bank director Kevin Champagne will serve as a director of the SPAC.