

Trump Media & Technology Group to go public through a \$875mm SPAC Merger with Digital World Acquisition Corp.

Introduction

On October 20, 2021, Former U.S. President Donald Trump announced his new digital-media venture and revealed that it would go public by merging with a special-purpose acquisition company (SPAC).

Trump Media & Technology Group will create a social network called Truth Social to fight the current popular social media networks, such as Facebook, Twitter, etc. The press release said Trump Media & Technology Group will combine with a SPAC called Digital World Acquisition Corp. (NASDAQ: DWAC, \$61.60), valuing the Trump venture at \$875 million, including debt.

About the SPAC

SPAC, also named a blank-check firm, is a shell company that is listed on a stock exchange with the sole purpose of merging with a private firm to take it public. The private company will take the SPAC's place in the stock exchange and become public. SPAC has become popular in the past year, as Covid-19 injected more uncertainties into the market. It is a good choice for companies to raise capital in a shorter time frame compared to traditional capital-raising approaches (e.g. IPO) and get a strategic partnership with their sponsors. Besides, SPAC mergers have gained more popularity among startups because they are allowed to make projections about their business for valuation purposes, while those aren't allowed in normal IPOs.

Digital World Acquisition Corp. completed its initial public offering in September and started trading under the ticker DWAC. It is promoted by Patrick Orlando, a sponsor of three other SPACs who formerly traded derivatives at BT Capital Markets and Deutsche Bank. Hedge fund investors owned nearly all of Digital World's \$293m IPO, who all earned millions of dollars in potential gains after the surge of the stock. The firm is also promoting itself as having a large market opportunity in presenting an alternative to what it views as the liberal-minded media establishment.

Industry Overview

Social media platforms have profoundly changed the concept of communication and, in many ways, defined the social fabric of the generation raised in the 21st century.

Evaluated at approximately \$193bn in 2019, the global social networking market is expected to grow at a compound annual growth rate of 25.38%, eventually reaching a market size of approximately \$934bn by the year 2026. This is driven by several trends. First, the increasing affordability of internet service and mobile devices in regions that previously lacked proper access is introducing large populations to the world of social media. The most significant example of this trend is India, where the percentage of population with active internet usage

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went from only 4% in 2007 to over 50% in 2020. Simultaneously, the average price of a mobile phone went down from \$254 in 2011 to \$156 in 2020. A similar story is playing out in Africa and South-East Asia. Demographic composition of such places, with a low median age, enhances this trend since younger internet users are more likely to engage in social media. Second, the adaptation of e-commerce tools such as “Instagram shop” has added a new, commercial function to the sector, called “social commerce”. In 2020, total social commerce sales worldwide was estimated at \$89.4bn, which is expected to grow at a CAGR of 31.4%, reaching \$604.5bn in 2027. The business use of social media is not only limited to direct sales on the platform, but also includes marketing purposes. In the US, 91% of businesses with more than 100 employees used social media in some form or another in 2019. These trends made social media more attractive for consumers and businesses alike. Third, and the most relevant, trend is the increasing use of social media for news consumption. In the US, 53% of the population said they received news from social media platforms in 2020, although the figure dropped by 5% in 2021, according to annual surveys conducted by Pew Research Center. In this function, Facebook Inc. [NASDAQ: FB] is the clear frontrunner. Across all its platforms, Facebook was a news source for 45% of Americans, a figure cable news and print media never even came close to. Youtube, the video sharing platform of Google [NASDAQ: GOOGL] and Twitter [NYSE: TWTR] follow, with 22% and 13% respectively.

In the absence of a simple way to compute market share, companies in the sector can be compared with several metrics. One is the share of all social media website visits, in which Facebook again is the most dominant, standing at around 72% both worldwide and in the US. The US, where we will be focusing due to the topic at hand, diverges from the worldwide statistics in the rest of the rankings. Pinterest comes second with 12.4% and Twitter follows at a close third place with 9.14%. Another metric is the monthly active user number, which is again headed by Facebook with 2.8 billion users, followed by Youtube with around 2.3 billion, Whatsapp with around 2 billion and Instagram with around 1.4 billion, all worldwide. Twitter is a distant 16th with 397 million active users. Overall, estimate 4.48 billion people are on some form of social media, with a number of different platforms per person average of 6.7.

In the US, the majority of users on all platforms of social media identify themselves as democrats or have democratic-leaning political views. This can be explained with the over representation of younger individuals among social media users, who tend to have more left-leaning ideology. The difference is apparent in the cases of Facebook and Twitter. Users between the ages of 18-29 consist of 43% and 23% of Twitter’s and Facebook’s users respectively, while over 65 year olds represent only 5% of Twitter’s users and 14% of Facebook’s. Accordingly, the percentage of users identifying as democrats is 52% for Facebook and 67% for Twitter.

Neither Twitter nor Facebook saw a decline in their user number or even the growth in user number following the ban of former president Trump, despite his claims to the contrary.

Deal Structure

The transaction will value Trump Media and Technology Group at \$875mn. Digital World Acquisition, the SPAC TMTG is merging with, has \$290mn at hand, which TMTG could use to fund growth. That is a risky bet,

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however, as SPAC investors have the right to pull out until the completion of the deal. Digital World will publicly release an S-4 regulatory filing with the Securities and Exchange Commission in the next couple of months. The filing will give details on the merger, including financial information and the ownership structure of Mr. Trump's new venture.

DWAC Sponsors

Behind the SPAC, there is a group of hedge fund sponsors who played key roles in the deal as well, including DE Shaw and Saba Capital. Digital World granted each hedge fund 150,000 sponsor shares from Orlando and his team at a price of \$0.0029 per share, which they cannot sell until after the merger with Trump Media & Technology Group closes.

However, the deal triggered different reactions among the hedge fund investors. David Puritz of Shaolin Capital Management, a \$1.1bn fund that owns just less than 10% of DWAC's shares, told the Financial Times that "there's a lot of embedded convexity in the SPAC product", implying almost unlimited upside and minimal potential for a loss. According to Financial Times, another hedge fund investor who owned nearly 10% of Digital World said he sold every share he could early Thursday morning before the stock price really got moving because he "doesn't want to help Trump build out a fake news business called Truth".

Trump Media & Technology Group

Since former U.S. President Donald Trump was banned from Twitter permanently and from Facebook for two years after the Capitol Riot this January, he has been seeking a new online home. Trump Media & Technology Group is the mother company of Truth Social, a Twitter-like platform where users can post "truths" and "re-truths". It is one part of a planned social media empire that would compete with the likes of Netflix and CNN, according to a company presentation. It is founded with a mission to give a voice to all, according to Trump.

The firm's Truth Social network is expected to launch for invited users next month and is expected to be available nationwide in 2022, according to the company. It also hopes to create a subscription video-on-demand service.

However, until now, there isn't any financial information available for the company. In the coming months, the SPAC will have to release an S-4 regulatory filing with the Securities and Exchange Commission. The filing will provide more clarity on the details of the merger and the financials of Trump's new venture.

Deal Rationale

The deal between Trump Media & Technology Group and the SPAC Digital World Acquisition Corp. encloses clear and strategic intentions. TMTG aims at competing with established media platforms such as Twitter and Facebook that have banned Former US President Donald Trump after the attack at the US Capitol on January

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6th. Trump states “I have created TRUTH Social and TMTG to stand up to the tyranny of Big Tech.” With 46.8% of the US population voting for Trump at the 2020 Presidential elections, the Former President seeks to capitalise on his popularity among republicans through the introduction of a new social platform: TRUTH Social. Simultaneously, the new social network, presented as a platform which “encourages an open, free and honest global conversation without discriminating against political ideology”, would also act as a springboard for Trump’s presidential run in 2024.

According to researchers, over the last year, there has been a significant demand for uncensored and unbiased social media networks and capturing this need might lead the firm to success. Indeed, the company is promoting itself as having a considerable market opportunity in conceiving an “alternative to what it views as the liberal-minded media establishment.” Following Trump’s ban from Facebook, the social network Parler has escalated App Store’s charts reaching the first place. A similar episode has happened to another social platform, Gab, which has reported an exponential rise in consumers after Amazon suspended Parler from its hosting service. The sudden growth of “free speech” apps proves the existence of substantial interest on the consumers’ side of uncensored media platforms. The combination of this demand with Donald Trump’s worldwide recognition sets the stage for the success of Trump Media & Technology Group.

The choice of listing the firm public through a SPAC instead of a traditional IPO has several benefits. The main advantage for Trump Media & Technology Group is efficiency as SPAC transactions can be completed in a few months compared to the more extended periods required for an IPO to be concluded. Furthermore, the firm would be less exposed to price volatility in the stock market as Digital World Acquisition Corp. is already listed (NASDAQ: DWACU). Investors are intrigued by SPACs because they perceive them as a conservative investment with the option of a significant return if the SPAC carries out a successful deal. Among the major investors in Digital World Acquisition Corp. are Patrick Orlando, the firm’s CEO, who owns nearly 15% of DWACU common shares outstanding and several hedge funds including DE Shaw, Highbridge Capital Management, and Saba Capital that in the last few days have earned millions of dollars in potential gains. SPACs also carry some drawbacks both to the target company and the SPAC itself. For instance, passed the initial ardour, the returns might be considerably lower than the expectations. Goldman Sachs strategists observed that, on average, the median SPACs closed in 2020 had underperformed the Russell 3000 index by around 42% points. In the case of TMTG, however, the benefits outweigh the risks and, as a result, the deal with the SPAC has gone through.

Market Reaction

Digital World Acquisition Corp. stock price has been around \$9.96 per share until the announcement of the merger with Trump Media & Technology Group when it has instantly escalated, closing the day at \$45.50, with large volumes traded. The following day, due to market demand, the price substantially increased, reaching an intra-day peak of \$175 per share, closing the day at \$94.20 with a remarkable growth of more than 800% compared to the previous levels.

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At the current share price, the market value of the SPAC DWACU is around \$3bn, close to ten times the capital raised by the SPAC at the IPO, \$293m. Given TMTG current value is \$875m, including debt, how can the SPAC be worth so much higher? Some analysts believe there is a considerable potential of value creation proven by the losses of big media players after Trump has lost the elections and disappeared from the social scene. For example, CNN and MSNBC ratings fell by more than 50% and Fox by 35%. Altogether, the three companies lost around \$500m in profits.

In the last stock market days, the SPAC's price has plunged. One of the main reasons, besides some early gainers taking profit, is that the deal would allow TMTG owners to retain bonus warrants convertible to shares for an amount based on how high the SPAC stock will trade in the following three years. This would happen at the expense of DWACU shareholders. Moreover, some hedge funds that had bought the SPAC's shares at the IPO, such as Lighthouse Investment Partners and Saba Capital Management, have immediately sold their shares after learning that the merger would occur with Trump's company. The official SPAC's press release states that additionally to the \$875m value assigned to TMTG, the earnout could increase the value to \$1.7bn.

Financial Advisors

Shanghai-based ARC Group Ltd. has advised Digital World Acquisition Corp. and, according to the SPAC's prospectus, it built the SPAC's deal pipeline. No investment bank firm has been presented as a financial advisor of either Digital World Acquisition Corp. or Trump Media and Technology Group.

TAGS: SPAC, Social media, Twitter, Facebook, Trump, Trumponomics

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