The Economic Club of New York

114th Year
615th Meeting

Betsy Z. Cohen
Chairman, FinTech Masala

June 29, 2021

Webinar

Moderator: Igor Kirman
Partner, Wachtell, Lipton, Rosen & Katz

Introduction

Barbara Van Allen, President

Good morning and welcome to the 615th meeting of The Economic Club of New York in our 114th year. I'm Barbara Van Allen, President of the Club. As many of you know, The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues, and our mission is as important today as ever as we continue to bring people together as a catalyst for conversation and innovation. A special welcome to members of the ECNY 2021 Class of Fellows – a select group of very diverse, rising next-gen business thought leaders, and welcome also to the graduate students joining us from the Gabelli School of Business at Fordham University and Rutgers University.

It's a pleasure for me now to welcome our special guest today, Betsy Z. Cohen. Betsy is Chairman of FinTech Masala, a sponsor of special purpose acquisition companies (SPACs) focused on fin-tech innovation. Since 2015, she's raised $3 billion in – I don't know if it's eight or nine SPACs – and announced six mergers. Betsy is widely recognized as a business visionary in law, banking and real estate.

In 1999, she founded, and as CEO led The Bancorp, a revolutionary commercial internet bank that provided financial services to non-bank fin-tech companies until retiring in 2014. In 1974, at age 32, she founded Jefferson Bank, becoming the first female bank CEO in the state of Pennsylvania, and one of the first actually in the country. She took the bank public and sold it in 1999. Describing her trailblazing 50-year career in a March 2021 profile, the *Wall Street Journal* noted, “She has no plans to slow down.” And she says in her own words, “You’re really only as good as your last deal.”

The format today will be a conversation, and we’re very fortunate to have Igor Kirman, partner at Wachtell, Lipton, Rosen & Katz, doing the honors for us. We’re going to end promptly at 11:15. As a reminder, this conversation is on the record, and we do have media on the line. So without further ado, Igor, the mike is yours.

Conversation with Betsy Z. Cohen

IGOR KIRMAN: Good morning and thank you, Barbara, and thank you to all the members. Good morning, Betsy. It’s a pleasure for me to be having this chat with you on a very important topic, which is SPACs. But before I get to that, I actually want to tell our members and hear a little bit more about your own history, which is an unbelievably distinguished business story, not only in the world of SPACs, which has been a big chapter of your recent business career, but long before that.

And I want to start at the beginning because I’m a lawyer, and I want to know how you escaped from the clutches of the law because you did start as a lawyer. Tell us about your early career and what turns you made and how that's influenced the way you think about the world, including the world of SPACs today.

BETSY Z. COHEN: Well, thank you very much, Igor. And thank you, Barbara, for inviting me. As a member of The Economic Club of New York, I have had the privilege of listening to many wonderful speakers, and I'm delighted to add my voice to a very distinguished group. Thank you for inviting me.

I don't think that I did anything remarkable in law, Igor, I have to tell you. I clerked for the 3rd Circuit Court of Appeals, a judge in the 3rd Circuit Court of Appeals after law school, where I had served as Articles Editor of *The Law Review*. And then moved on to teach, being the second, or some people say third, woman to be invited to be a member of the law school faculty. It's hard to believe, except when Barbara says that it's 50 years ago, then I realize that that's an amount of time that I can barely envision. It seems to have gone by so quickly.

I had many sort of formative experiences as a woman in law, not only at the time being one of six women in a class of 200, so I was highly visible, and having had the opportunity to engage as many law school students do, particularly those with high academic credentials, as an intern, or clerk, or whatever we might call it, at a law firm during my second and third years of law school. And if I have to say so myself, I did a terrific job. Today you would have hired me in a flash.

But at the end of the summer when the offers were generally made, the partner in charge came to me and said that the senior partner was just not ready to have a woman as a professional colleague. I was surprised because I thought I was a lawyer. I am a woman, but it didn't occur to me that that was the criterion for judgment. And so I said to the lawyer, to the partner, I think it's your loss. I don't know where I got the guts to say it, but it also said to me I really won't work for anyone except myself in the future.

And that played on a theme of the way I think about, not only business but of a wide range of things that my greatest pleasure is making something out of nothing. And so I went on from being a law professor at Rutgers Law School to being a partner in a law firm that my husband and I, Ed and I met in law school. We always thought that there must have been some violation of the so-called anonymous Bluebook rule because in every class we took together, he got the highest grade and I got the second highest grade. So we had a little bit of suspicion. But we moved on from there and formed a law firm, inviting to the law firm many of our colleagues from *The Law Review*.

But I must say, I was, and am always itchy. So the itch that I scratched at that point was that I wanted to move from being a lawyer to being a client. It seemed like a lot more fun, at least to me at that moment. And remember, I was very young with young children so it had many aspects to it. And moved on from the law firm to take advantage of the knowledge base that I had, which is another theme that I try to play on, which was the teaching of financially-oriented segments of the law – insurance, banking, etc.

And banking was, in fact, at a significant inflection point in terms of the legal structure, and I took the opportunity to start what was the first bank in Pennsylvania in 11 years. Forty years later, when the person who was in charge of my application and I had been colleagues for many years, and he was retiring, he said to me, you know, I was so glad you came along. I was terrified of what woman would come along and ask for a charter, but I knew you and I knew you were a professional and so on we went.

I had the opportunity, and really because of my legal education, to think about many of the forms and formats in which securities were being offered from historical tax credits through a variety of others and innovated a lot of different formats and legal structures for those particular kinds of transactions. So I don't know if I'm getting ahead of my lawyer story, but I'll pause there.

IGOR KIRMAN: Well, that's a terrific story. You know today SPACs are very popular, and we can't open a newspaper without seeing a story about one, usually an electric car one or a celebrity sponsor or the like. But you are a visionary and you started doing

SPACs, not just thinking about SPACs, all the way back in 2015. Tell us why you were thinking about SPACs at a time when they weren't nearly as popular as they are today. What did you see, the potential, and tell us about those early years and why you chose to go into the SPACs?

BETSY Z. COHEN: Well, I think you have to look back as well as forward. And for the prior 15 years, when I, as Barbara said in her introduction, had started – because I wanted to think about how people would access their money over a 10-year period or a 20-year period of time after I sold Jefferson Bank, which was a traditional bricks and mortar bank – I dealt with some 1,600 non-bank fin-tech companies. So they were very much on my mind. I had a 15-year petri dish, so to speak, in which to look at what succeeded and what failed, how people, what one should look for in a business that could succeed and to understand not only the business component but the underlying technology.

So just as I had used the knowledge I had gained as a law professor to start a bank, I thought it would be a good idea to do something I knew something about and therefore was thinking a lot about what is the future of these non-bank fin-tech companies. Many of them had been begun maybe in 2005 to 2010 so they were taking advantage of the adoption curve, both on the consumer and business side and also the sophistication, growing sophistication of technology and marrying those two elements and scaling the businesses. I recognize that more than a handful of them would be better served in the public market and gain access to capital in that way than continuing to be served by private equity funds in the private market, although they absolutely play a critical part in the process.

And so moved forward to think about how one might create what I'll call a third leg to the stool of paths going forward to – I know that's a mixed metaphor – going forward to move a company from private to public. I had been myself, by that time, the CEO of a public company so I had taken the journey and recognized both the benefits and the responsibility. And I recognized that in, actually to the benefit of lawyers, in the mid-90s, in reaction to what was a recession in the United States that this structure called the SPAC, legal structure called the SPAC, had been devised by a couple of very smart lawyers who were trying to solve the problem of how to get companies that had suffered during the recession but needed access to capital in the public markets, how to get them across that bridge. And so I thought this was, that SPACs were that good vehicle to reflect the growth companies that were, in fact, ready to be good public companies.

And in its various forms, SPAC is a very simple entity. It's a company that raises cash and it's told by its investors, go find me a great company and one that needs capital as well as needs access to capital and public currency and other elements that are part of the public markets. And the result was that eight days after I retired my son, Daniel, who is my partner, came to me and said, you know, retirement is not going to work well for you, so let's go do it, and we have. We had a hard time at the beginning because we had to spell SPAC, and then we made progress where you only had to spend 45 minutes or an hour describing a SPAC to the point, which you mentioned, which is that it's on the front page of every newspaper.

IGOR KIRMAN: (Inaudible)

BETSY Z. COHEN: Igor, you're on mute.

IGOR KIRMAN: That's very bad for asking questions, being on mute. I find this absolutely remarkable being in the SPAC world a little myself. You have closed eight SPACs, the most recent just this Monday, a company called Payoneer. And right before that, last week you closed on Perella Weinberg, which is a remarkable one-two blow.

So you have closed eight and you have four SPACs looking for targets out there. I mean you are, to say that you are at the top of the SPAC mountain would perhaps be an understatement. But if I take you back to see, I'm sure our participants would like to hear your thoughts on the evolution of the SPAC world, the terms, the pressures that sponsors feel on the economics. What have you seen over the time that you've been doing SPACs, your eight deals that have closed and the four that are looking, how have they changed over that period of time?

BETSY Z. COHEN: Sure. I think I would start with perception of risk, both in terms of the certainty of execution and closing, and that is by both the management of the company with which the SPAC is intending to merge as well as its board of directors as well as the investors. So the number of SPACs that we've closed is important in that it's an indication that we know what we're doing and we can add certainty rather than subtracting certainty, and that isn't the case across the board.

There are many first-time SPAC sponsors who believe that the opportunity to introduce investors to a very wide range of companies, some of which may make good public companies, some of which may not but have less certainty in terms of their projections because they're not grounded in either historical or comparative data. This has been an innovation.

I mean I always think about, would I, if I had been buying stocks at that point, would I have bought IBM in 1952? You know, I don't know. I'm not saying it critically. I'm just saying that it is a different perception of what should and can and perhaps has to be done within the SPAC context in terms of compensation. Clearly when there's competition, there's pressure on compensation. But it's offset for some by the understanding of how to execute and that's probably a lot less expensive. So both the fees and the expenses are lessened so maybe there's a happy medium there.

I think there are a lot of people who view themselves as business model innovators who are entering this space, some of them not as well-grounded as they might be in all of the aspects of what makes up a good execution because it involves capital markets, knowledge, and knowledge of the particular industry. We always say we know what we are doing because we do what we know. But, you know, on a going-forward basis, maybe there will be less flexibility because there'll be more regulation, which we really do support.

IGOR KIRMAN: I'm going to come back to regulation in a moment, but I want to ask you, Betsy, if you could set aside any humility, I want to ask you how important are you, you know, the serial sponsor of SPACs, how important are you as the right sponsor? I mean you've attracted a lot of investors. My guess is that the PIPE investors that come into your deals, if I were to look at the register, I would see a lot of repeat investors trying to be able to deal. I mean, are you making money for them? Why do they trust you? What's your involvement with the company after you take it public?

So, one, I assume you're identifying the right targets and you're probably negotiating the right deal and there's some trust in what you're bringing to the table to your public investors and PIPE investors in that regard. But what are you also offering on the back end after the deal happens? So what are you going to do for Perella Weinberg as an example, or Payoneer?

BETSY Z. COHEN: It's a great question because we really don't want these companies to become orphan companies. We are looking for investors who are interested in the next leg of growth, companies that we've identified, and that may be a two to five-year period of time. So in order for them to both have good return on their investments as well as have the company well-positioned, we're very focused on post-deal research.

And we can do that because we've been talking to these research people, not all the same, but many of them repeat conversations, repeatedly with the same analysts. And so we know them, we know what interests them, and we make that happen. We jokingly refer to it as our analyst of the month program. And so we're focused on having the company understood by the general investing public. So that's, I think, one of the critical things that we do afterwards.

We can occasionally, and this is not our first choice often, serve for a short period of time on the board to help the CEO construct a board that will be appropriate, not for a private company but for a public company, and to understand the mechanisms of company-wide compensation and that kind of thing. And so ease their way into, I mean we add value in that way. Daniel and I together have been the CEOs of more than a dozen public companies so we've struggled with all these issues and are very happy to be part of the thinking process with the CEO.

But this is a partnership, a SPAC and its merger partner are really in partnership between the time that you first meet and the time that the deal closes. As we've seen in the last six months, the market can be up and the market can be down and the market can like things and then decide they don't like things. So navigating all of those elements in partnership with the company that will be merged requires building up a trust between partners and we really aim to align our, both economic and organizational interests to be those of the company and therefore have been able to build that kind of relationship.

IGOR KIRMAN: So you mentioned regulation and projections and, as you know, those two topics are very intertwined. A lot of the focus of regulations, at least at the SEC level, is focused on the use of projections and SPACs, which some of the members out there know, are different from what happens in traditional IPOs where companies going public do not use projections. They don't have the safe harbor protection. But in the SPAC world they do. And the SEC has found that distinction and raising questions of whether there should be parity.

And you mentioned that you don't like core projections that are not grounded in historical or comparative data as you just mentioned a few moments ago. So who should have the responsibility to make sure that those projections are grounded in historical or comparative data? Is it the sponsor? Do you feel that you and your board, as the sponsor side, should vouch for those somehow, should do due diligence? When you do your S-4 registration statements, should you kind of take responsibility for that or is that really the target side or is it a combination of the two? How do you view projections?

BETSY Z. COHEN: I really do view them as a combination. We do, do extensive due diligence. Can you know everything? Probably not. The company has responsibility for providing information and access to information which is helpful and maybe in some cases dispositive of the need to pull numbers out of the air, which is not to say that a company that is in an emerging field, such as electric automobiles or cars that fly like helicopters or whatever it happens to be, which have not been in the market before and therefore don’t have the historical information, should never be part of a SPAC. But if they are going to, they need to provide external validation if they can’t provide historical and comparative data.

IGOR KIRMAN: And I want to talk to you a little bit about the board process for a SPAC. Have you seen over the time that you’ve been doing SPACs that board members are becoming more cognizant of their, let’s call it public company responsibilities? And when I think about the rise of the litigation that we are seeing in the SPAC world, some of which is coming to the sponsor side, does that make you, as a sponsor and thinking about the board that you put together, more conscious of the kinds of process, including perhaps, you know, what are your thoughts on the use of fairness opinions when you're on the sponsor side?

BETSY Z. COHEN: Sure. I think we all think about – as the various elements that you mentioned come to light and get pressurized – you know, we all think about them more. We may not have been 100% anticipatory but in the rearview mirror, they're all very clear. So, yes, I think process and documentation of process and fairness opinions if appropriate. They're not always needed. I would say, I think if you're dealing with a company in an area where your internal staff – and we have in excess of ten people working on our internal staff with a variety of expertise, have enough knowledge – they would be the very same people that you would reach out to. I think, you know, one could argue that fairness opinions are not needed in 100% of the cases, but very often they are, and they're very helpful and give a different point of view, both to the board and to the sponsor.

So I think it varies from company to company and maybe the complexity of either the technology or the distribution system or something that is both differentiating and innovative needs a different look. But, yes, of course, we're all busy documenting everything that we did before but we may not have documented it as thoroughly as we might have.

IGOR KIRMAN: Let me come back to where we began. You told a very interesting story about how gender discrimination kind of led you to a path. You're in a world now that is also male-dominated, at least for the time being, I know that's likely to change over time. I saw a statistic the other day that said over 500 active SPACs out there, only 30 are led by women. I know you've been called the lone wolf of the SPAC world in this regard.

You know, you made a very bold decision to have all women SPAC boards at some point in your SPAC career. Tell us about that decision and sort of what you're seeing in the evolution of where the male-female kind of split is headed.

BETSY Z. COHEN: You know it's the old pipeline issue. As I said before, leading a SPAC requires, if not deep knowledge, knowledge you can buy from experts potentially, but certainly knowledge of capital markets and subject matter expertise and many other aspects, knowledge of the investor and the investment world. There may not be at this very moment as many women in the pipeline who have that variety or think they have that variety. Maybe they do have as much of that depth of knowledge as half the men that are doing this, but they don't think that they do.

So as they gain confidence and see others, you know it's always said you can't be what you can't see. So seeing is very important and it's one of the reasons that actually Daniel suggested to me that we launch boards of all women so that we can have an opportunity to provide to a greater range of qualified, but perhaps not knowledgeable in this particular area, groups of women the opportunity to see what's being done today and make a choice either to be part of a team of people with other bases of knowledge or themselves lead, you know, a SPAC transaction.

So, you know, it's not done in a day. We have been doing this for a couple of years. We hope that our graduates, so to speak, go on to be part of what is a very exciting for us part of the market, one filled with innovation, new companies, companies that are finding new ways to do things. It's, for me, a dream because I would not necessarily have had the opportunity to continue meeting and exploring all of these innovations if I hadn't wandered into SPAC land.

IGOR KIRMAN: Well, it's terrific that you're innovating in this way because it's really forward-thinking in your lane, some investments now that will surely pay off for yet another generation of people that in ten to twenty years will have you to thank for laying some of the foundation.

Let me ask you, speaking of innovation, I wanted to talk, not innovation in the target side of the company, the business side, but a little bit of innovation in the SPAC space. There's been a lot of news recently on Bill Ackman's announced deal and before that, and maybe he just gathers a lot of news around him, but there was also a lot of news about, even before he had found the target about the innovative structure of the SPAC that he had created. There were certain incentives there. There was less upfront economic dilution on the sponsor side. There was also an incentive system on the warrant side. And, of course, the deal he did was also somewhat unusual for a SPAC that involved a public company, a portion of it.

But when you look at, just more broadly, and you can use Bill Ackman as an example, if you would like, obviously you mentioned this before, the competition out there, there's a lot of sponsors, there's a lot of capital being raised, are you seeing this evolution in innovation in how SPACs get put together? And, for example, is the increased pressure on sponsor economics something that you expect to see more of in the initial formation of the SPAC as opposed to what has traditionally been, which is the negotiation phase where sponsor economics maybe get negotiated? Are you seeing, would you expect more people like Bill Ackman's approach take root in the future?

BETSY Z. COHEN: I'm not sure there are a lot of Bill Ackman's around, but he's a very creative thinker, but maybe his goals are different than the goals that we might have, which is to be the facilitator of the movement, the transition from private to public for one company at a time. That's a model. He reached out for a different model, which looks much more like private equity with a perpetual capital base. And if that's his goal, then, you know, the model that we're using, for example, has to be tweaked. And maybe he's doing something that will resonate with others and then we'll have another leg or another path for people to follow.

Remember, the capital markets are, I always say, like silly putty in a way. They move and they respond to molding and needs. So we saw recently that the New York Stock Exchange asked for permission for direct listings to be able to raise more capital. That was a need that they saw for companies that had substantial shareholder need to either sell or have a public liquid instrument, but that it was missing a piece, and therefore, it wasn't being used. So the capital markets, and Bill Ackman is a great example, are going to move to meet needs that maybe we can't anticipate today.

IGOR KIRMAN: So what was the hardest of all, if you have to look back on all your SPACs, what was the hardest SPAC that you have done? I assume it's one of the eight that you closed. And tell us why.

BETSY Z. COHEN: Well, it was the first one because I don't know that we knew what we were doing. So with each SPAC, you find a different area where you might have made a little mistake or you might have done something differently, and you do it better on the next one, which is what gives you the certainty of execution. I mean you've been through the mill; you've thought about lots of the issues and certainly that first SPAC was fraught with tension. We entered into a relationship with someone who thought we'd never close it. Didn't want to participate. I mean the major shareholder, I mean, you know, everything that you hope doesn't happen occurred, but we plowed forward. We did prevail.

The owners of the company all had a really good experience because the company was sold a year later for 50% more than the issue price, which it couldn't have been if it was a private company. So we introduced to the marketplace or reintroduced the concept of having more value be attributable even on a sale to a public company. So, you know, all of those things are learning experiences and at least in our group we try to learn from each element that seems to come up anew in each of the SPACs that we do, but the first one was a real toughie.

IGOR KIRMAN: It's not unusual to have that kind of experience. So you, being a visionary, and there's, like many visionaries, there's a counter-cyclicality to your mindset that I've heard you express. In fact, at one point you have said that you do unpopular things until they become popular. And I bet that the flipside of that is then you probably stop doing the popular things when they become popular. SPACs are, you started doing SPACs when they were unpopular. You know, they've clearly become popular. That's just putting it lightly. What is your future in SPACs? I know you have four SPACs looking out there, but do you view a cyclicality to this? And is it time to leave?

BETSY Z. COHEN: No. We view an opportunity. We have done them all in the U.S. You know, the world is a big place. Certainly, the pandemic has shown us communication and shared values across borders. So we can do SPACs that are more European-centric, Asian-centric. You know, there are different investor groups, different ways to approach it. So we're not at the end of our, even though they're popular in the United States, they haven't reached that same level of popularity across the globe. So we hope to be packing our bags either electronically or actually and creating new elements to the structures that we've helped to make very acceptable within the U.S. market.

IGOR KIRMAN: Do you see that outside of the United States the demand is likely to be, where, is it on the retail side, on the PIPE side? What's going to drive the acceptance of SPACs outside of the U.S. in your view?

BETSY Z. COHEN: I think a couple of things are happening as we speak. For example, the FSA in the U.K. is opening its rules for the issuance of SPACs on the London Exchange. That's happening throughout Europe. It'll happen in Singapore. It'll happen in a lot of different places. There are companies that are growing. They may not have all been to the same level as those that grew within the U.S. but maybe on the African continent, in Europe, there are companies that should be public companies on some exchange.

So there are a variety of, you know, investors are really global today. I remember being on a screen with an international investor, where the company, the investor was represented by someone from its Tokyo, Abu Dhabi, Paris and New York offices. I couldn't have done that otherwise. I couldn't have gone with the speed of light. So there are opportunities that we have today that we might not have had even two or three years ago.

IGOR KIRMAN: That's terrific to hear, and I personally am excited to see the next phase of your career, which is already the subject of several different books that could be written. And it's great to see how optimistic you are about all the directions in which, not only SPACs but all the businesses underlying, many of which are in exciting industries, are headed. So first of all, thank you for giving me the opportunity to speak with you today and to speak to The Economic Club of New York. It's been a true pleasure to hear from you. There's no one from whom we could learn more about SPACs than from you. So thank you for the chance to hear you.

BETSY Z. COHEN: Thank you very much, Igor, for your good questions.

PRESIDENT BARBARA VAN ALLEN: Igor, thank you. And I want to second that, Betsy, that was just a fantastic and very rich conversation for all of us. So many thanks to you both.

I'm pleased to report that we have many great speakers lined up for this summer. We're going to run events through July, take a break for August, and start back up in September. And as always, we encourage you to invite guests to our events. Next up, we have a Member Only Conversation, which is tomorrow, June 30th, focused on Women in Business. And this is an outgrowth of our conference that we held with the Counsel Generals of France and Canada and so we're excited to have that conversation with just members. We have Scott Kirby, the CEO of United Airlines speaking – he will be here July 8th – which should be a fascinating discussion on navigating through Covid, post-Covid, and then out into the future in the airline and transportation industry. We're delighted that Henry Louis Gates will join us, the Emmy Award winner for his PBS series, Finding your Roots and Alphonse Fletcher University Professor and Director of the Hutchins Center for African and African American Research at Harvard. And that'll be July 15th. And then another prominent member of the Club, Nancy Lazar, will be joining us – she's the Chief Economist and Partner at Cornerstone Macro – on July 19th to give us a forecast of what to expect in the economy as we go forward. And many more to come. So again, if you've joined us a guest and you might be interested in learning about membership, please email the Club at the email address on the screen.

And finally, I want to take a moment to recognize those of our 336 members of the Centennial Society that joined us today as their contributions help ensure our programming as we go forward. On that note, I'm going to thank again both of you for joining us and our members as well that are joining us today. Thank you. Please stay healthy and safe.