

Does the current structure of Special Purpose Acquisition Companies expose financial markets to excessive risk?

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Special Purpose Acquisition Companies (SPACs) have shifted the IPO landscape in the past two decades. The structure of SPACs changed in 2010 to address issues related to distasteful investor practices, the length of time to close deals, and high warrant overhang. However, these changes also shifted the incentives of the SPAC stakeholders. Namely, SPAC investors who previously had an incentive to vote against a merger with an unattractive company, now have an incentive to vote for that merger. The sponsor also has an incentive to follow through with a merger, to avoid losing their investment. I hypothesize that these incentives result in an environment where sponsors and investors care more about the completion of a merger than the actual quality of company that they merge. I propose to analyze the financials of companies that went public prior to 2010, and after 2010. I intend to show that the current structure results in a deterioration of the size and maturity of the companies that are being identified as targets for acquisition by SPACs. If validated, my hypothesis suggests that the public markets are exposed to excessive risk. This exposure warrants a response from a legislative body or the underwrites of SPACs to address the misaligned incentives present in the current structure.