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De-SPAC Transactions

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A significant phase in the life of a Special purpose acquisition companies (SPACs, also termed as blank check companies) is the stage where it engages in a de-SPAC transaction, also termed as a De-SPAC merger. De-SPAC is a transaction which is often structured as a reverse merger between an already-listed acquirer (i.e., a SPAC) and a privately held target firm (i.e., an operating company which is also the surviving entity after the merger is consummated). The reverse merger enables the privately held target firm to get listed on a stock exchange. Therefore, De-SPAC transactions offer an alternative route to private businesses seeking to go public (Kolb and Tykvová 2016; Newman and Trautman 2021). This article reviews the deal activity of de-SPAC transactions that were announced between January 2021 and mid-December 2023.

De-SPAC Deal Activity

De-SPAC transactions peaked in 2021 in terms of numbers and average deal sizes, whereas the subsequent periods have witnessed a substantial decline in the deal activity (table 1). The average deal size in 2021 was USD 1.99 billions, whereas the deal sizes in the subsequent periods were less than one-third in value as compared the peak year.

Table 1: Summary De-SPAC Deal Activity

| Year of Announcement | Number of Deals Announced | Average of Deal Value (USD, Millions) | Completed Deals | Withdrawn Deals | Pending Deals |
|----------------------|---------------------------|---------------------------------------|-----------------|-----------------|---------------|
| 2021 | 304 | 1992.41 | 236 | 48 | 20 |
| 2022 | 174 | 643.44 | 84 | 43 | 47 |
| 2023 | 138 | 571.70 | 22 | 16 | 100 |

Note: M&A deals announced from 1st Jan 2021 to 15th Dec 2023, with deal value greater than or equal to USD 1 million, and where acquirer business description mentions SPAC or Blank Check Company and the listing status of the acquirer is 'Public'. The data includes announced M&A deals with the following deal status: withdrawn, pending and completed. Form of the deal excludes: buyback, exchange offer, and recapitalization. The values above are the deal values (not the value of gross or net proceeds) for the total percentage acquired in a de-SPAC deal. The table is compiled by the author. Data source: Refinitiv Eikon.

Disclaimer: The data used in this article is filtered as per the criteria stated in the notes above. The use of this analysis is only for academic purposes.

The majority of De-SPAC transactions were domestic deals, however, a significant proportion for De-SPAC mergers included cross-border operating companies (table 2). Approximately one-fourth of the deals announced in 2021 were deals that enabled an operating company to list itself on a foreign country stock exchange with the help of a de-SPAC merger. Our preliminary analysis indicates that although the average deals sizes of cross border De-SPAC transactions deals do not mirror the valuations paid in the domestic deals, the percentage of deals withdrawn was not more than the numbers observed for domestic deals.

Table 2: Cross-Border De-SPAC Transactions

| Year of Announcement | Number of Deals Announced | Average of Deal Value (USD, Millions) | Completed Deals | Withdrawn Deals |
|----------------------|---------------------------|---------------------------------------|-----------------|-----------------|
| 2021 | 80 | 637.58 | 67 | 9 |
| 2022 | 63 | 284.25 | 28 | 17 |
| 2023 | 56 | 377.28 | 6 | 6 |

Note: M&A deals announced from 1st Jan 2021 to 15th Dec 2023, with deal value greater than or equal to USD 1 million, and other details (incl. filtering criteria are as per table 1). The table is compiled by the author. Data source: Refinitiv Eikon.

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The Nasdaq and the New York Stock Exchange (NYSE) have had the largest number of listings of operating companies through a de-SPAC process (table 3). Although the number of de-SPAC deals is larger for Nasdaq as compared to NYSE, the average deal sizes were larger for SPACs listed on NYSE as compared to Nasdaq. Other notable exchanges that witnessed de-SPAC deals of significant value were Euronext AM, Euro Paris, Toronto Stock Exchange and London Stock Exchange.

| Table 3: De-SPAC Transactions by the Listing Exchange | | |
|--|-----------------|----------------------------------|
| Acquirer's Primary Exchange | Number of Deals | Total Deal Value (USD, Millions) |
| Panel I: Jan to Dec 2021 | | |
| EuronextAM | 3 | 3078.32 |
| Nasdaq | 174 | 366933.10 |
| New York Stock Exchange | 103 | 226513.77 |
| Toronto Stock Exchange | 3 | 870.36 |
| Panel II: Jan to Dec 2022 | | |
| Euro Paris | 2 | 1914.676119 |
| EuronextAM | 1 | 4095.332587 |
| Nasdaq | 123 | 72515.73 |
| New York Stock Exchange | 32 | 31824.73 |
| Panel III: Jan to mid-Dec 2023 | | |
| EuronextAM | 3 | 663.39 |
| London | 4 | 1279.96 |
| Nasdaq | 81 | 38799.91 |
| New York Stock Exchange | 30 | 34120.56 |
| <p>Note: M&A deals announced from 1st Jan 2021 to 15th Dec 2023, with deal value greater than or equal to USD 1 million, and other details (incl. filtering criteria are as per table 1). The table reports the details on the number of deals and the total deal value for select exchanges only (this is not an exhaustive list). The table is compiled by the author. Data source: Refinitiv Eikon.</p> | | |
| <p>Disclaimer: The data used in this article is filtered as per the criteria stated in the notes above. The use of this analysis is only for academic purposes.</p> | | |

The largest number of de-SPAC transactions during our sample period (Jan 2021 to mid-Dec 2023) have targeted operating companies in the high technology industry (table 4). The total value of de-SPAC deals in this industry was more than USD 238 billions for 173 transactions during the three year sample period. Target firms operating in the sectors broadly classified as ‘industrials’ (includes aerospace and defense, automobiles and components, machinery, etc.) and ‘financials’ (includes insurance, brokerage, asset management, etc.) also received significant interest from SPACs with deal values totaling over USD 166 billions and USD 114

billions, respectively, in the two sectors. The healthcare industry witnessed 114 transactions with the deal value of over USD 82 billions.

| Table 4: De-SPAC Transactions by Industry of the Target Firm | | |
|---|--------------|----------------------------------|
| Target Industry | No. of Deals | Total Deal Value (USD, Millions) |
| High Technology | 173 | 238011.80 |
| Industrials | 88 | 166494.05 |
| Financials | 46 | 114023.76 |
| Healthcare | 114 | 82520.77 |
| Media and Entertainment | 36 | 52334.61 |
| Energy and Power | 48 | 37957.33 |
| Consumer Products and Services | 39 | 30931.29 |
| Others | 72 | 74273.40 |
| Note: M&A deals announced from 1st Jan 2021 to 15th Dec 2023, with deal value greater than or equal to USD 1 million, and other details (incl. filtering criteria are as per table 1). The table reports the summary of the number of deals and the total deal value for the macro industry classification for target firms. The table is compiled by the author. Data source: Refinitiv Eikon. | | |

Overview of Large De-SPAC Targets and their Stock Market Performance

SPAC firms generally underperform on de-SPAC deal announcements and also generally post poor long-term performance (Datar et al., 2012; Kolb and Tykvová, 2016; Kiesel et al., 2023). In fact, SPACs also have higher post-merger failure rates as compared to failure rates in post-IPO firms (Vulanovic, 2017). Empirical research also indicates that lower quality and more risky operating companies often taken the route of merging with a SPAC for public listing (Gahng et al., 2023). I summarize the details of the top three de-SPAC transactions by the industry of the target firm in table 5 and describe the performance of select deals (with deal value greater than USD 10 billions) in terms of their stock market valuations (data source for stock prices: Refinitiv Eikon).

Grab Holdings Inc., a super app. company with ride hailing, food delivery and payments services and operating in over eight countries in the Southeast Asia, was the target firm involved in the largest de-SPAC transaction of 2021 with deal value of over USD 34 billions (Daga and Aravindan 2021). The stock price of the Grab

Holdings which was trading around USD 13.31 when the deal was announced (April 2021) has witnessed a steep decline during the sample period, and it is currently trading at USD 3.04 (Nov 2023).

The second largest de-SPAC deal in the High Technology space was for an Israel-based software publisher Ironsource Ltd. Ironsource, a mobile advertising firm, that develops software for app monetization, was valued at USD 10 billions in the de-SPAC merger announced in March 2021. In July 2022, a little over a year after its debut on NYSE, Ironsource announced its merger with Unity Software Inc. in a stock swap deal that valued the former at USD 4.42 billions only.

VinFast Auto Ltd. was the target firm acquired in the largest de-SPAC transaction announced in 2023 and also in the automobiles and the components industry during the three years (2021 to 2023). VinFast Auto, an electric vehicles manufacturer based in Vietnam was valued at USD 23 billion. The firm listed on Nasdaq on the completion of its De-SPAC process in August 2023. The stock was trading at USD 10.36 when the de-SPAC merger was announced in May 2023, and peaked at USD 82.35 in late August 2023, and is currently trading at USD 7.88 in mid-Dec 2023.

Polestar Performance AB, an electric car racing brand and also a subsidiary of Polestar Automotive Holdings Ltd. was one of the largest de-SPAC deals in the automobiles and auto parts sector in 2021 (Ohnsman 2021). The company was listed on Nasdaq and was valued at USD 20 billion at the time of the de-SPAC merger. The merged entity was named Polestar Automotive Holding UK PLC has recorded a massive drop in its stock market valuation from USD 10.45 (Sep 2021) when the deal was announced to USD 2.46 as on mid-Dec 2023.

The reverse merger of Lucid Motors USA Inc. (later renamed Lucid Group Inc.) with a SPAC valued the former at USD 11.75 billion when the transaction was announced in February 2021. Lucid Motor's stock price dropped to USD 35.21 from the high of USD 57.37 on the day after the deal was announced, therefore, recording a significant negative reaction from the market (Wayland, 2021).

MSP Recovery Inc., a US-based reimbursement recovery firm operating in in insurance sector, listed on Nasdaq in a de-SPAC transaction valued at USD 32.50 billions. The listing of the target also received a severe negative reaction. It recorded a drop of 53% on the first day of its trading (Aliaj, and Gara, 2022). The stock

which was trading at USD 10.78 on 23rd May 2022 closed at USD 5.06 on the next day. The stock recorded its lowest price in mid-Sep 2023 at USD 0.06 and is trading at USD 2.36 in mid-Dec 2023.

Ginkgo Bioworks Inc. (renamed as Ginkgo Bioworks Holdings Inc. after the reverse merger), a biotechnology and medical research company based in Boston, was valued at USD 16.86 billions in the largest de-SPAC transaction in the healthcare space in the 2021. The stock was trading at USD 11.15 per share when the target started trading on NYSE in mid-Sep 2021. However, the stock has suffered a similar fate experienced by other de-SPAC targets, and is currently trading at USD 1.61 per share in mid-Dec 2023.

Table 5: Largest De-SPAC Transactions By Industry

| Month of Announcement | Target Full Name | Deal Value (USD, Billions) | Target Nation | Acquiror Primary Stock Exchange |
|---------------------------------|-------------------------|----------------------------|---------------|---------------------------------|
| Panel I: High Technology | | | | |
| Apr 2021 | Grab Holdings Inc | 34.26 | Singapore | Nasdaq |
| Mar 2021 | Ironsource Ltd | 10.00 | Israel | NYSE |
| Sep 2021 | Pagaya Technologies Ltd | 7.97 | Israel | Nasdaq |
| Panel II: Industrials | | | | |
| May 2023 | VinFast Auto Ltd | 23.00 | Vietnam | Nasdaq |
| Sep 2021 | Polestar Performance AB | 20.00 | Sweden | Nasdaq |
| Feb 2021 | Lucid Motors USA Inc | 11.75 | USA | NYSE |
| Panel III: Financials | | | | |
| Jul 2021 | MSP Recovery LLC | 32.50 | USA | Nasdaq |
| Jan 2021 | Social Finance Inc | 6.57 | USA | NYSE |
| Mar 2021 | Hippo Enterprises Inc | 5.52 | USA | NYSE |
| Panel IV: Healthcare | | | | |
| May 2021 | Ginkgo Bioworks Inc | 16.86 | USA | Nasdaq |
| Feb 2021 | 23andMe Inc | 3.60 | USA | NYSE |
| Apr 2021 | LumiraDx Ltd | 3.00 | UK | Nasdaq |

Note: M&A deals announced from 1st Jan 2021 to 15th Dec 2023, with deal value greater than or equal to USD 1 million, and other details (incl. filtering criteria are as per table 1). The table reports the summary of the largest deals as per select industries (based on macro industry classification for target firms). The table is compiled by the author. Data source: Refinitiv Eikon.

Time from an IPO to an Acquisition

SPACs often have 18 to 24 months from the date of their initial public offering to identify a suitable target firm to acquire. Therefore, the blank check companies operate under firm deadlines with respect to the time period within which they have to identify a merger target. Moreover, longer the duration is between the key milestones of a SPAC, the larger will be the operating costs, *ceteris paribus*. If a SPAC fails to find a suitable target to merge, then it must dissolve (or seek extension of the deadline) and redeem the shares which can result in significant liquidation losses. Additionally, when SPACs (which are yet to find a target) draw closer to the 2-year deadline they must feel the pressure of finding a suitable target or face liquidation losses, which might impair their judgement in evaluating target firms.

Interestingly, the De-SPAC deals announced in 2021 took shortest time from the date of their IPO issue to the announcement of the merger deal (table 4). The acquisition companies that announced de-SPAC mergers in 2021 had taken only 234 days to do so since the time their IPO was issued. The waning interest SPAC mergers is also reflected in the longer average durations observed for de-SPAC deals announced in 2022 and 2023.

The deals that involved larger targets in terms of deal values had taken the shortest time to announce the de-SPAC transaction. In fact, as the transactions that involved the smallest target firms in terms of deal value had taken the longest to announce their mergers. This pattern is also reflective of the fact that the deals announced in 2021 had reported larger deal values (as per average deals sizes reported in table 1). Thus, the shorter time taken between an IPO and the acquisition announcement for deals with larger target firms triangulates well with the data on the average time taken for deals announced in 2021.

| Table 6: Number of Days Between An IPO and the Acquisition Announcement | |
|--|-----|
| Panel I: Year-wise Average Number of Days between an IPO and the Acquisition | |
| 2021 | 234 |

| | |
|---|-----|
| 2022 | 389 |
| 2023 | 567 |
| Panel II: Average Number of Days as per Deal Size | |
| USD 1 to 100 Millions | 462 |
| USD 100 to 500 Millions | 407 |
| USD 500 to 1000 Millions | 331 |
| USD 1000 to 5000 Millions | 237 |
| Greater than USD 5000 Millions | 208 |
| Panel III: Average Number of Days for Domestic versus Cross Border Deals | |
| Domestic | 322 |
| Cross Border | 355 |
| Panel I: Average Number of Days As Per the Primary Exchange of the Acquirer | |
| Euro Paris | 409 |
| EuronextAM | 324 |
| London | 506 |
| Nasdaq | 312 |
| New York Stock Exchange | 338 |
| <p>Note: M&A deals announced from 1st Jan 2021 to 15th Dec 2023, with deal value greater than or equal to USD 1 million, and other details (incl. filtering criteria are as per table 1). The table reports the details on the number of days (average) from the issue date of the IPO to the date of the announcement of deal. The data for the number of days (used in the table above) is available only for 517 deals out of 616 deals in the filtered sample. The table is compiled by the author. Data source: Refinitiv Eikon.</p> | |

The average duration between the IPO and a merger of a domestic deal was 322 days as compared to 355 days for cross border transactions. The complexities associated with the due diligence, deal design, compliance and other aspects of a cross-border transaction might lengthen the average duration between an IPO and the merger announcement of such deals.

The exchanges that attracted the largest number of De-SPAC deals also recorded the shortest duration between the listing of a SPAC and the announcement of merger target. The acquisition companies that were listed on

Nasdaq and NYSE announced a merger in 312 days (average for 321 de-SPAC deals between 2021 and mid-Dec 2023) and 338 days (average for 140 de-SPAC deals between 2021 to mid-Dec 2023), respectively.

Conclusion

The interest in SPACs has witnessed a decline ever since the peak-year of deal activity in 2021 and the same is reflected in the number and the value of deals announced for SPAC targets in the sample period considered in this article. Most of the large SPAC targets highlighted in the article have witnessed enormous drop in valuations as reflected in stock prices. SPACs operate under a deadline of 18 months to 2 years for finding a suitable merger target, and the peak year of De-SPAC activity witnessed shortest duration between the key milestones (i.e., IPO issue and merger announcement) for a SPAC.

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