The Questionable Capital Structure of Special Purpose Acquisition Companies

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Special Purpose Acquisition Companies (“SPACs”)— sometimes referred to as “blank check” companies—are publicly listed firms that are given a two-year lifespan in which to find a private company with which to merge, thereby bringing the private company public. If a SPAC does not succeed in merging, it is required to return the shareholders’ investment in full. Some commentators have described SPACs as “democratized private equity,” since anyone can buy shares in them. SPACs have been listed in the US, Canada, Korea and Europe. The capital structure of SPACs contains several features that seem to make a successful merger unlikely. Nonetheless, in the recent years, SPACs have become increasingly popular in the US (though still a small fraction of IPOs annually). This paper analyzes the typical SPAC capital structure and, focusing on the cohort of SPACs that went public in 2015, it investigates SPACs’ performance.