BT Explains

The specs of SPACs

How do special purpose acquisition companies, or SPACs, work in the US?

BY CLAUDIA CHONG

1 SPAC formation and IPO 10 weeks

A shell company is formed by sponsors to take an existing business public. Sponsor invests a nominal amount (e.g. about 4 per cent of IPO proceeds) to set up the SPAC

SPAC issues units to institutional investors typically at US$10 each. A unit usually comprises one share and a fraction of a warrant exercisable at US$11.50

Sponsor gets 20 per cent of the post-IPO equity as a fee. Money raised is put in a trust

2 Search for company 2 years

Sponsor finds a company to acquire, agrees on terms with them, and seeks approval from board and shareholders

If rejected
Continue search for company. If one can't be found by the deadline, SPAC is dissolved and shareholders get their money back

If approved
The merger, or de-SPAC process, starts

3 De-SPAC 45-60 days

Sponsors can raise more money for the acquisition through a private investment in public equity (PIPE) deal

Regardless of how they voted, SPAC shareholders can typically opt to redeem their shares and keep their warrants

A company can go public through a SPAC in as quickly as three months, compared with up to six months or more in an IPO. After regulatory approval, ticker changes to reflect acquired company

Source: PwC, CB Insights