

RIMÔN

SPAC Transactions: The Basics to Know

“SPAC” stands for “special purpose acquisition company,” a listing vehicle created for the purpose of taking one or more private companies (the “target”) public through a business combination (the “de-SPAC”).

SPAC activities have experienced significant ups and downs in recent years, reflecting both the cyclical nature of equity capital markets and the ongoing evolution and normalization of the product. Today’s SPACs have shed some of their negative connotations from the 2020-2021 boom years and have demonstrated their unique advantages relative to other listing methods. SPACs, when used correctly, play a vital role in public capital formation and democratization.

I. How SPAC Transactions Work

1. SPAC IPO: Creating the Listing Vehicle

The sponsor of the SPAC, i.e., its founder and initial shareholder, sets up the SPAC and commits capital (the “at-risk capital”) to fund the SPAC’s pre-IPO and post-IPO expenses and listing costs through (i) the subscription of founder shares (the “sponsor promote”) and private placement securities and (ii) working capital loans and additional expense advances, if any.

Before the IPO, the SPAC’s outstanding capital consists solely of founder shares initially issued to the sponsor at a nominal price and any such shares subsequently transferred by the sponsor to the SPAC’s directors, officers or advisors at cost. At the IPO, the SPAC (i) issues to public shareholders either (a) units consisting of (x) a public share and a fraction of a warrant to purchase the combined company’s share or (y) a public share and a fraction of a right to purchase the combined company’s share or just (b) public shares, at a price of \$10 per unit or per share; and (ii) issues to the sponsor additional private placement units, private placement warrants or private placement shares, at a price that is no higher than the public offering price. Founder shares typically represent approximately 20%-25% of the SPAC’s total outstanding shares immediately after the IPO (excluding the additional private placement securities held by the sponsor), which will be renegotiated at the de-SPAC stage. While founder shares and public shares have the same vote per share, only founder shares can vote on certain matters, such as the appointment and removal of directors. Founder shares are also subject to transfer restrictions and do not have redemption or liquidation rights for funds in the trust account.

A SPAC typically undertakes to its IPO investors and underwriters that, prior to the effectiveness date of its IPO registration statement, “it has not selected any specific business combination target and it has not, nor has anyone on its behalf, engaged in any substantive discussions, directly or indirectly, with any target with respect to an initial business combination with the SPAC.” As such, SPAC public shareholders’ investment decisions before a proposed business combination is announced are primarily based on (i) the likelihood that the SPAC can find a high-quality target and secure sufficient capital for closing and (ii) the IPO offering terms that affect their investment returns.

The IPO proceeds (i) are typically placed in a trust account that may only invest in U.S. treasury securities, (ii) can only be used for the de-SPAC or redemptions by the SPAC’s public shareholders, and (iii) will be returned to the SPAC’s public shareholders if the SPAC fails to complete a business combination before the deadline specified in its constitutional document.

2. De-SPAC: Taking a Private Operating Company Public

Under its constitutional document, a SPAC typically has 18-36 months from its IPO closing to complete a de-SPAC. The exact period varies based on market conditions and the sponsor’s bargaining power. Extending the timeline (i) often requires shareholder approval and additional capital injection from the sponsor to the trust account, (ii) can lead to redemptions from public shareholders, and (iii) is subject to regulatory restrictions.

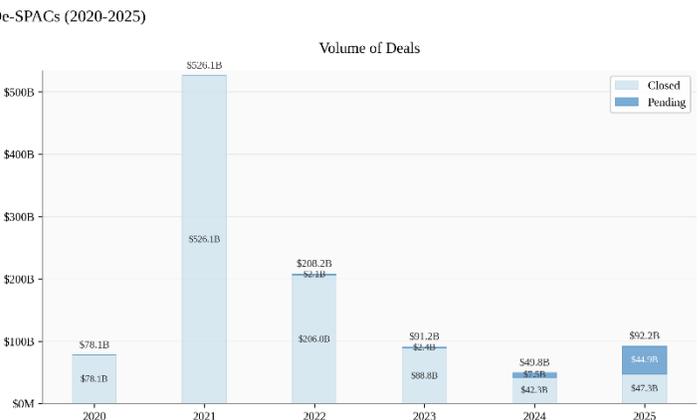
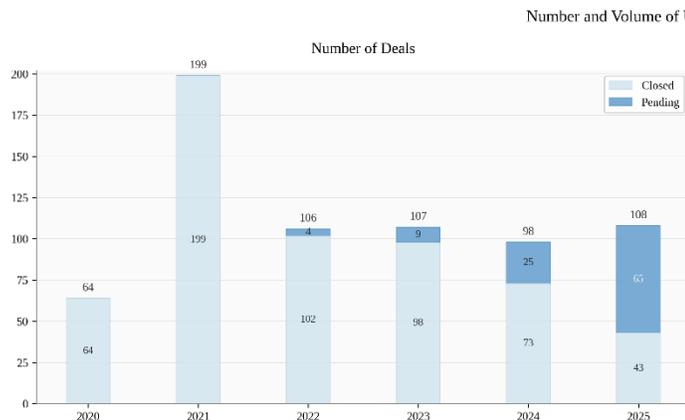
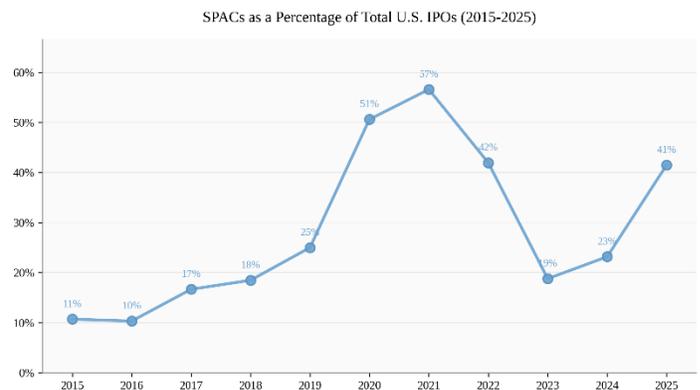
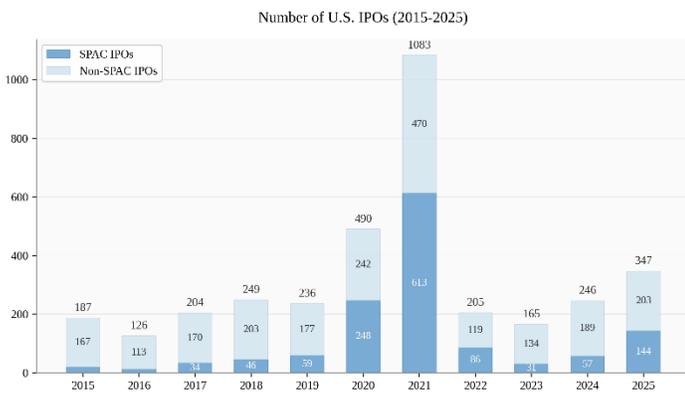
Following the IPO, the SPAC:

- commences its target search;
- conducts due diligence on potential targets, enters into LOI(s) with one or more targets, and negotiates valuation and sponsor economics with the target;
- conducts investor education and seeks to raise additional capital from PIPE investors;
- enters into a business combination agreement and other ancillary agreements with the target, which will be filed with the U.S. Securities and Exchange Commission (the “SEC”) along with a comprehensive investor presentation deck of the target;
- files a registration statement/proxy statement with the SEC and continues to raise PIPE if necessary;
- receives regulatory clearance and shareholder approval for the business combination;
- returns capital to redeeming shareholders; and
- closes the de-SPAC upon satisfaction of the applicable listing requirements and other closing conditions.

SPAC public shareholders have the option to redeem their shares shortly before de-SPAC closing (regardless of whether they vote for or against the de-SPAC) and under certain other circumstances, at a per-share price based on the amount then on deposit in the trust account (including interest earned and net of taxes and certain expenses). Redeeming shareholders can still keep their warrants/rights to capture upside gains. Once a deal is announced, public shareholders can gather insight into the combined company’s potential trading performance from the SPAC’s trading price, the availability, timing and terms of PIPE financing, and information filed with the SEC.

If a SPAC is unable to consummate a business combination within the required timeline, it must redeem all outstanding public shares, at a per-share price based on the amount then on deposit in the trust account (including interest earned and net of taxes and certain expenses). In addition, the founder shares, which do not have redemption or liquidation rights, and other private placement securities held by the sponsor will become worthless in such an event.

II. Historical and Current Market Landscape



The history of SPACs dates back to the early 1990s. During 2020-2021, the number of traditional IPOs and SPAC IPOs both surged, primarily driven by low interest rates, massive government stimulus, pent-up demand from prior years, greater risk appetites from investors, and a booming stock market. During the boom, SPACs often traded at large premiums to their trust value, and a record number of companies went public with high valuations, making SPACs an ideal option for late-stage private companies that wanted faster access to public capital.

As the market quickly became oversaturated with SPACs, a period of market correction followed. Too many SPACs were competing for targets, and not enough targets were public-company-ready. This led to misaligned incentives (as holders of the sponsor promote can realize sizable profits even if the combined company trades far below the SPAC IPO price), rushed due diligence, highly inflated valuations, high redemption rates, difficulty in raising PIPE, and poor stock performance post-closing, all of which significantly undermined the SPAC vehicle's functionality compared to other methods of going public. Regulatory actions from the SEC, such as the April 2021 guidance on warrant accounting, the July 2022 rule proposals to enhance disclosure and investor protection, the final rules that were adopted in January 2024 and became effective in July 2024, and increased enforcement actions, also cooled down the market and, in many cases, lengthened the time required to clear SEC comments and close deals.

As a result of the factors above, over 350 of the SPACs from the boom years were unable to find a suitable target or consummate a business combination and ultimately liquidated, returning billions in capital raised in their IPOs to investors. Starting in the second half of 2024, investors have been increasingly looking to redeploy that capital.

2025 marked a clear comeback for SPACs, as SPACs continued to mature into a more transparent and governance-driven vehicle for accessing the capital markets. Key features and developments of the 2025 SPAC market include:

- **Overall market sentiment shifted from caution to optimism.** The number of SPAC IPOs and de-SPACs, the percentage of SPAC IPOs among total U.S. IPOs, and the average deal size have all increased significantly in 2025. The PIPE market has also become more active, with an increasing percentage of de-SPACs closing with PIPE financing since the second quarter of 2025 and more deals announcing PIPE commitments alongside the business combination.
- **Market dominance by serial SPAC sponsors, followed by the rise of first-time SPAC sponsors.** The success record of serial sponsors gives investors more confidence in their deal sourcing, due diligence, valuation, and execution capabilities. IPOs led by serial sponsors accounted for approximately 80% of total SPAC IPOs in the first two quarters of 2025. Encouraged by an increasing number of successful de-SPACs, more first-time sponsors closed their SPAC IPOs in the fourth quarter of 2025, bringing down the ratio to 47.8%.
- **More efficient deal execution.** Approximately one-third of the de-SPACs announced in 2025 were with SPACs that completed their IPOs earlier in the year, indicating stronger deal execution capabilities and a more supportive regulatory environment.
- **Lower overall redemptions.** While redemption rates remained high in the first two quarters of 2025, often exceeding 90% (consistent with the post-boom level), the average redemption rate was down to approximately 69% in the fourth quarter of 2025.
- **Increased number of syndicated deals and larger sponsor promote.** More SPAC IPOs now have syndicated at-risk capital across family offices and institutional investors. These investors approach SPACs as a public venture capital portfolio and take on a non-managerial role akin to fund LPs. This has lowered the entry barrier for launching SPACs and also led to the standardization of larger sponsor promote (i.e., 25% instead of 20%) at the time of IPO.
- **Digital asset treasury.** A notable structural innovation of the 2025 SPAC market was the introduction of cryptocurrency-based trust account. For example, Subversive Bitcoin Acquisition Corp., which is currently in registration, contemplates two separate trust accounts for its IPO proceeds, with 90% in cash and the remaining 10% in crypto.

According to SPAC Research, a total of 24 SPAC IPOs closed in 2026, raising an aggregate of \$5,619 million. The numbers represent slight increases compared to December 2025 and are the highest since February 2022. Recent data from both the SPACInsider IPO Performance Tracker and the SPACResearch Warrant Index also shows continued positive market sentiment and growing confidence in successful de-SPAC deals.

III. Comparisons with Other Listing Methods

1. V.s. Traditional IPO

While traditional IPOs remain the most common way for private companies to go public, the preference for larger size, greater predictability and consistent historical results during the IPO book building process makes it more challenging for certain types of companies, such as earlier-stage, high-growth companies with limited operating history, companies with complex or hard-to-understand models, and companies operating in emerging industries, to raise significant capital through the traditional IPO route. By comparison, a de-SPAC is particularly suitable for companies with limited track records or that require deliberate investor education. Regardless of the company profile, the de-SPAC route also offers many other advantages.

a. Advantages Over Traditional IPO

	De-SPAC	Traditional IPO
(1)	<p>A more certain and faster way to go public:</p> <ul style="list-style-type: none"> The combined company can go public as soon as the applicable listing requirements and other closing conditions are met Valuation is directly determined by the SPAC and the target, with no external input required in advance When top-tier investment banks are unavailable to underwrite the IPO, a high-quality target can quickly find multiple sponsor teams with strong credentials and complementary backgrounds to start the de-SPAC process 	<ul style="list-style-type: none"> “Go/no go” is dictated by investor interest and market conditions The book building and price discovery processes are usually time-consuming and have long backlogs Companies set on using bulge-bracket underwriters typically face longer wait times
(2)	<p>Synergy and interest alignment. The SPAC sponsor and other SPAC insiders:</p> <ul style="list-style-type: none"> function as strategic partners for the target rather than mere financial intermediaries and often take board seat(s) or otherwise maintain ongoing involvement after closing; are economically incentivized to ensure strong post-closing stock performance, especially when long-term, performance-based earn-outs are put in place; and in the case of highly technical businesses, provide credible validation for the company’s business model and growth potential through their expertise and due diligence capabilities 	<p>IPO underwriters typically are no longer involved post-IPO or are simply engaged as an advisor</p>
(3)	<p>More flexible and creative deal mechanics, such as earn-outs, lock-ups, convertible securities, and minimum cash provisions</p>	<p>Standardized structure</p>

(4)	Higher acceptance level for publicly disclosed projections , which favors earlier-stage companies with strong growth potential but a more limited track record	Limited use of projections due to underwriter liability concerns
(5)	Ability to “test the waters” before going public: <ul style="list-style-type: none"> • how well the SPAC’s stock trades following the announcement of the business combination is a reliable indicator of market reception of the deal and how well the combined company’s stock likely will perform; and • parties’ ability to raise PIPE, the timing, size and terms of the PIPE, and the profile of the PIPE investors all serve as real-time market checks on the deal 	Reality only hits when trading begin, despite what the issuer may have assumed from pre-IPO testing the water meetings and roadshows
(6)	Extended, large-scale investor education from deal announcement to listing , which works well for companies with highly complicated or technical businesses	More compressed and restrictive investor education

b. Disadvantages Over Traditional IPO

	De-SPAC	Traditional IPO
(1)	Redemption risks, although such funding uncertainty can be mitigated by strong company fundamentals, responsible valuation, PIPE financing, and backstop/non-redemption arrangements	Going public is conditioned on having secured sufficient funding
(2)	Higher litigation risks on average	Litigation risks are mitigated by underwriters’ effort to establish their due diligence defense under Section 11 of the Securities Act of 1933
(3)	More paperwork and accounting complexity	Simpler transaction documents and accounting treatment

2. V.s. Direct Listing

Direct listing is primarily used by mature, well-known companies to provide liquidity to existing shareholders rather than raise growth capital. These companies have sufficient brand recognition and investor awareness to generate organic trading, although first-day trading price can be subject to immediate market volatility.

Compared to direct listings, de-SPACs, while more dilutive and often more expensive due to higher transaction costs, allow companies to raise new capital and conduct extensive investor education long before listing and offer greater clarity on the post-closing trading price.

3. V.s. M&A with a Non-SPAC Public Company with Limited Operations

The due diligence required on non-SPAC public companies is typically a lot more extensive than SPACs, which can subject the private company to significant risks and costs. For high-quality targets, a well-structured de-SPAC can offer a cleaner and more mainstream path to raising meaningful capital, even though it may take longer to close the deal.

IV. Demystifying Common Misperceptions

	Misconceptions	Reality
1.	Only companies that can't IPO the traditional way go public via a de-SPAC.	The legal requirements for going public the traditional way are not higher than those for de-SPACs. Many companies with strong fundamentals have chosen to go public through de-SPACs led by star sponsors, while many companies that are not ideal de-SPAC targets have gone public through small IPOs underwritten by lower-tier banks.
2.	SPACs are a roundabout way to bypass regulatory scrutiny.	De-SPAC registration statements/proxy statements are subject to the same level of SEC review as the registration statements for traditional IPO.
3.	Investors are more likely to lose money on a de-SPAC than a traditional IPO.	A company's path to public does not dictate its trading outcome. For earlier-stage de-SPAC targets, stock performance often strengthens as operations mature and fundamentals improve.
4.	SPAC insiders always profit at the expense of SPAC public shareholders and are always incentivized to inflate deal valuation.	Performance-based earn-outs align SPAC insiders' interests with those of public shareholders and significantly limit insiders' investment returns if the earn-out conditions are not met. In addition, disciplined valuations are often required by today's PIPE investors and post-announcement SPAC investors and can help lower redemptions and improve post-closing trading performance.
5.	De-SPACs are more expensive than traditional IPOs.	While a de-SPAC may require more paperwork and negotiations than a traditional IPO, the cost can still be lower than a traditional IPO, considering savings on underwriting commission, especially when the transaction terms are straightforward.
6.	De-SPACs are more dilutive than traditional IPOs.	Market data shows otherwise. In addition, the sponsor promote is often renegotiated to a much lower percentage at the de-SPAC stage and is subject to forfeiture if earn-out conditions are not met.

V. Considerations for Potential SPAC Sponsors

Deal sourcing and fundraising capabilities are the primary requirements for SPAC sponsors. Common backgrounds of SPAC sponsors include investment professionals, venture capitalists, family offices, executives, operators, and industry veterans.

1. Benefits for Sponsoring a SPAC

- Substantial investment gains made possible by the low cost basis of the sponsor promote;
- Leadership role during the SPAC IPO and de-SPAC processes and potential board seat or advisory role after de-SPAC; and
- For serial SPAC sponsors, each successful deal is a data point of their long-term credibility and helps them build the trust needed for future capital raising.

2. Costs for Sponsoring a SPAC

- If a SPAC fails to consummate a business combination within the required timeline, the sponsor, whether syndicated or self-funded, (i) will lose the entirety of its at-risk capital, the size of which primarily depends on the IPO size, underwriting commission rate and the SPAC's working capital requirements, and (ii) will not receive repayment for their working capital loans or expense advances;
- Significant time investment; and

- Potential litigation risks.

3. Key Characteristics of Successful SPAC Sponsors

- High-quality, executable and proprietary deal flow;
- Demonstrated success in sourcing, executing, and closing de-SPAC transactions;
- Reliable reputation, strong investor confidence, and existing relationships with fundamental investors;
- Clear sector focus and strategic vision;
- Significant synergy with, and value-add to, de-SPAC targets;
- Robust governance and discipline;
- Transparent disclosures and open communication with investors; and
- More favorable SPAC IPO and PIPE terms.

VI. Considerations for Potential De-SPAC Targets

1. Key Factors to Consider When Deciding Whether to Go Public

- Public company readiness (e.g., operationally, financially and culturally);
- Pros: greater liquidity for existing shareholders and potential employees, more efficient capital raising on the public market, stronger investor confidence, and enhanced corporate branding and visibility; and
- Cons: heightened disclosure requirements, short-term earnings pressure from analysts and activists, and ongoing costs for compliance, audits and investor relations.

2. Key Factors to Consider When Selecting a SPAC

- The source of the sponsor's at-risk capital (e.g., entirely self-funded vs. broadly syndicated);
- SPAC insiders' track record of deal execution and fundraising;
- SPAC insiders' familiarity with your business and industry vertical and their ability to help you grow the business, attract fundamental investors, and broaden strategic partnerships;
- The SPAC's investor profile, their potential value-add to your company, and whether the SPAC has any backstop or non-redemption agreements with existing investors;
- The SPAC's IPO terms (e.g., rights vs. warrants, whether there is a hefty back-end underwriting commission payable at de-SPAC closing, and the deadline to complete the business combination); and
- The amount of time left for the SPAC to consummate a business combination and extension-related costs.

3. Key Factors Affecting Redemption Rates, PIPE Funding, and/or Post-closing Stock Performance

- The target's market position, growth potential, prior financing terms, management profile, and public company readiness;
- The SPAC insiders' credentials and success records;
- The reasonableness of deal valuation;
- The SPAC's investor base (e.g., the percentage of fundamental/strategic investors who have been holding their shares since the SPAC IPO or bought their shares after deal announcement vs. arbitrage-focused or fixed income-oriented investors who may choose to redeem or sell their shares regardless of deal specifics); and
- Market conditions (e.g., when market volatility and interest rates are high, investors tend to be cautious and redeem more).

4. Key Reasons that Proposed De-SPACs Fall Through

- Failure to meet listing standards;
- Failure to obtain regulatory approval;
- Insufficient capital at closing (e.g., high redemptions plus no PIPE/backstop); and
- Failed negotiations on deal economics.

VII. 2026 Outlook

With more experienced sponsors, better-aligned incentives, more robust governance and disclosures, and a more educated and discerning investor base, SPACs are expected to continue to play a meaningful role in public market access in 2026.

- **U.S. equity markets are expected to remain strong** despite geopolitical risks and potential delays from government shutdowns.
- Continued interest from high-quality private companies considering going public through a de-SPAC and from SPAC sponsors looking to capitalize on the broadening opportunity set are expected to lead to **more de-SPAC deal announcements and higher transaction volume.**
- Despite SPAC IPO levels reaching a new high in recent years, the substantial backlog of private companies looking to go public indicates that **the market is not yet overheated.** SPAC sponsors who do not have executable deal flows will more quickly exit the market amid heightened competition among SPACs, whereas successful de-SPAC deals will continue to encourage SPAC sponsors with proprietary, high-quality deal flows to enter the market.
- **The costs for launching a SPAC and closing a de-SPAC are expected to further decline** compared to deals of similar sizes and complexities in the past.
- Following the recent uptick in SPAC activities, **investors are expected to become more discerning** with both SPAC IPOs and de-SPACs, which bodes well for post-closing stock performance.
- **Certain sectors**, such as AI and related infrastructure, quantum computing, digital assets, clean energy, critical minerals, healthcare, and life sciences, **are expected to remain as hot areas for de-SPACs.**

If you have any questions about this Client Alert, please contact [Olivia Y. Wang](mailto:olivia.wang@rimonlaw.com) at olivia.wang@rimonlaw.com or the Rimon attorney with whom you normally consult. Olivia has significant experience advising clients on a wide range of corporate and securities matters and is one of the most experienced capital markets attorneys advising Asian companies on SPAC deals. Before joining Rimon Law in 2024, Olivia worked at the Beijing and Hong Kong offices of Kirkland & Ellis and received her J.D. from the University of Virginia School of Law, where she was a Karsh Scholar and Salzburg Cutler Fellow.