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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") within a specified timeframe (typically 15-24 months).

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. Once dismissed as a backdoor to the public markets and tarnished by the excesses of the 2020-2021 boom, SPACs have been quietly rebuilding momentum. Serial SPAC sponsors with proven track records are succeeding, and the average redemption rates of recently completed de-SPACs are significantly lower than during the boom years. When used correctly, SPACs play a vital role in public capital formation and democratization.

Due to their complexity, careful legal and financial planning and structuring by experienced professionals are critical to successful SPAC transactions. For founders considering the public markets, investors evaluating SPAC opportunities, and potential sponsors considering launching a SPAC, this article provides a detailed overview of how SPAC transactions work, the historical and current market landscape, advantages and disadvantages compared to other listing methods, common misconceptions, key considerations for deal participants, and the road ahead in 2026.

I. How SPAC Transactions Work

1. SPAC IPO: Creating the Listing Vehicle

The founder of a SPAC is typically referred to as the sponsor. It commits "at-risk capital" to fund the SPAC's expenses from formation through the business combination, sets the SPAC's IPO structure, assembles the SPAC's management team and board of directors, and leads both the IPO and business combination processes. In exchange for its "at-risk capital," the sponsor receives the SPAC's securities, which will either become the combined company's securities upon the closing of the business combination or become worthless if the SPAC fails to consummate a business combination. The sponsor also makes loans to the SPAC, the post-IPO portion of which will only be repaid or converted into the combined company's securities at the closing of the business combination.

Before the IPO	At the IPO
• Sponsor contributes $25,000 to purchase founder shares, a small portion of which are often transferred to the SPAC's officers and directors before the IPO. These founder shares, which are often referred to as the "sponsor promote": ➢ typically represent approximately 20%-25% of the SPAC's total outstanding shares immediately after the IPO (excluding any other private placement securities), although such ratio is often renegotiated downward at the de-SPAC stage; ➢ are issued at a nominal price, enabling their holders to realize substantial profits even if the	• SPAC raises IPO proceeds from public shareholders and issues, at a price of $10 per unit or per share, either (i) public units consisting of (a) a public share and a fraction of a warrant to purchase the combined company's share, (b) a public share and a right to receive a fraction of the combined company's share, or (c) a public share, a fraction of a warrant to purchase the combined company's share, and a right to receive a fraction of the combined company's share, or (ii) public shares. Public shareholders: ➢ have the option to redeem their shares in connection with their vote on the business combination and certain other matters (regardless of how they vote), at a per-share

combined company trades far below the SPAC IPO price; ➢ have the same vote per share as the SPAC's public shares, but only founder shares can vote on certain matters, such as the appointment and removal of directors; ➢ have no redemption or liquidation rights. • Sponsor makes a working capital loan of $300,000 to $400,000 to the SPAC to cover part of its IPO expenses, which will be repaid at IPO closing. • SPAC files a registration statement with the U.S. Securities and Exchange Commission (the "SEC"), applies for listing with Nasdaq/NYSE, and conducts investor outreach. • SPAC prices the deal after receiving regulatory clearance and sufficient indications of interest from IPO investors.	price based on the amount then on deposit in the trust account; and ➢ can retain their warrants and rights to capture upside gains even if they redeem the shares. • Sponsor purchases additional private placement securities of the SPAC, often at the same price as the public securities. The subscription amount primarily depends on the IPO size, underwriting commission rate, and the SPAC's estimated working capital requirements. For a $100 million SPAC IPO with a low upfront underwriting commission, the sponsor's at-risk capital is typically around $2 million. • Proceeds from the IPO and related private placement(s), minus IPO expenses and estimated post-IPO working capital, are typically placed in a trust account that may invest only in U.S. Treasury securities and can only be used for the business combination or redemptions by the SPAC's public shareholders. If the SPAC fails to complete a business combination within the required timeframe, the funds will be returned to public shareholders, and their rights and warrants will become worthless.

SPACs typically undertake to IPO investors and underwriters that, prior to the effective date of its IPO registration statement, it has not selected any specific business combination target and neither it nor anyone acting on its behalf has engaged in any substantive discussions, directly or indirectly, with any target regarding an initial business combination with the SPAC. Accordingly, before a proposed business combination is announced, SPAC public shareholders' investment decisions 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.

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

SPACs typically undertake to complete a business combination within 15-24 months from IPO closing. 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 injections from the sponsor into the trust account, (ii) can lead to redemptions by public shareholders, and (iii) is subject to regulatory limits.

Following the IPO, the SPAC:

- commences its target outreach, 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 SEC along with a comprehensive investor presentation of the target;
- files a registration statement/proxy statement with the SEC and continues to raise PIPE if necessary;
- seeks regulatory clearance and shareholder approval for the business combination; and

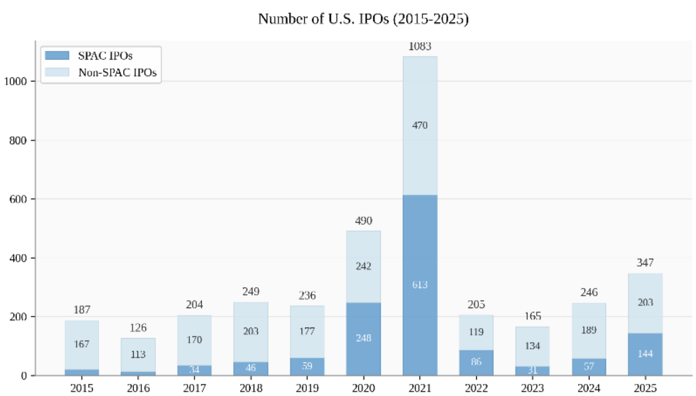
- consummates the business combination upon satisfaction of applicable listing requirements and other closing conditions and returns capital to redeeming shareholders.

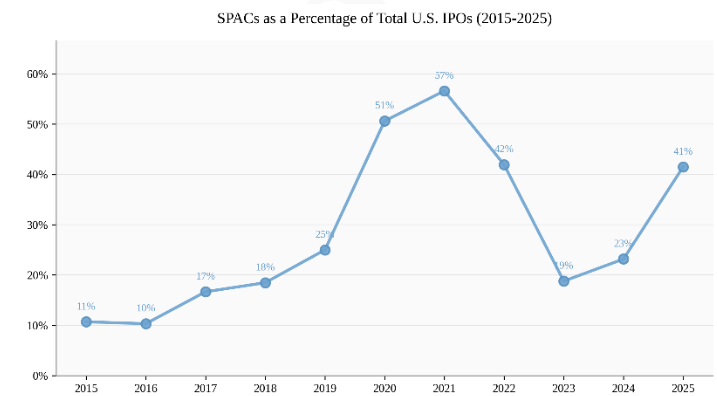
Once a deal is announced, public shareholders can gather insight into the combined company's post-closing trading and operational performance from the SPAC's trading price, the availability, timing and terms of PIPE financing, and information filed with the SEC.

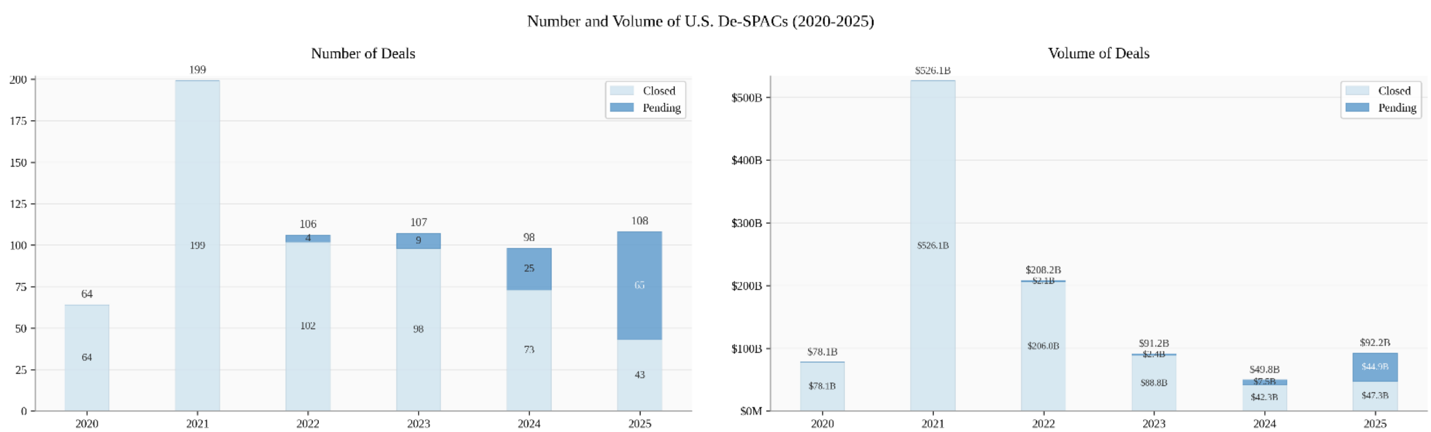
If a SPAC is unable to consummate a business combination within the required timeline, it must redeem all outstanding public shares at a per-share price based on the amount then on deposit in the trust account (including interest earned and net of taxes and certain expenses).

II. Historical and Current Market Landscape

1. From Inception to 2025







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, 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 consummate a business combination and ultimately liquidated, returning billions in capital raised in their IPOs to investors. Since the second half of 2024, investors have been increasingly looking to redeploy that capital.

As shown in the charts above, 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. The number of SPAC IPOs and de-SPACs, the percentage of SPAC IPOs among total U.S. IPOs, and the average deal size all increased significantly in 2025. The PIPE market was also more active, with an increasing percentage of de-SPACs closing with PIPE financing and more deals announcing PIPE commitments concurrently with the deal announcement. In addition to increased capital availability, the following factors also contributed to the continued recovery of the SPAC market.

- **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.

- **More syndicated deals.** Syndicating at-risk capital among family offices and institutional investors lowers the barrier to entry for launching SPACs and allows investors to approach SPACs as a public venture capital portfolio, taking on a non-managerial role akin to fund LPs.

2. 2026 Year-to-Date: First Half Review

Building on the momentum of 2025, the SPAC market has carried its positive trajectory into 2026.

Based on data from SPAC Research:

- **In the first half of 2026, 117 SPACs completed their IPOs**, representing an approximately 85.7% increase year over year and accounting for approximately 60.0% of total IPOs during this period. The market was broadly balanced between serial and first-time sponsors, with a slight tilt toward serial sponsors.

- **On the de-SPAC side, 46 deals were announced, and 22 deals were closed during the first half of 2026**, representing an approximately 58.6% increase and an approximately 4.3% decrease, respectively, year over year. In addition, **the average size of completed de-SPACs nearly doubled** year over year. The slower pace compared to SPAC IPOs and more robust transaction fundamentals reflect both caution and optimism from target companies, investors, and SPAC sponsors.

- **As of June 30, 2026, there were a total of 363 active SPACs, of which 109 had announced a deal, and 254 were searching for targets or negotiating unannounced deals**.

Based on SEC filings, **de-SPACs that closed during the first half of 2026 had an average redemption rate of approximately 76%** (excluding extension-related redemptions), reflecting a significant improvement over prior years. Of these deals, nine had redemption rates above 90%, six were between 80% and 90%, five were between 50% and 80%, one was below 1%, and one had zero redemptions.

III. Comparisons with Other Listing Methods

1. vs. Traditional IPO

Traditional IPOs remain the most common way for private companies to go public. However, IPO investors' preference for larger size, consistent historical results, greater predictability, and business models that do not require extensive investor education limits the pool of ideal IPO candidates. In addition, regardless of company profile, traditional IPOs are highly contingent on market conditions, making it difficult for issuers to control timing, valuation, or capital raising.

By comparison, **a de-SPAC is particularly suitable for (i) companies that are more likely to be undervalued in the traditional IPO process**, such as earlier-stage companies, companies with complicated, highly technical, or less predictable businesses, or companies operating in emerging sectors where valuations and competition remain evolving, **(ii) companies that value certainty, speed, and valuation control in their going public process**, and **(iii) companies that can significantly benefit from long-term, strategic partnerships with SPAC sponsors.** While historically SPACs have primarily served as a financing solution for small and micro-cap companies, many large, industry-leading companies have chosen to go public via the de-SPAC route in recent years.

a. Advantages Over Traditional IPO

	De-SPAC	Traditional IPO
(1)	**A more certain and potentially faster way to go public**: • 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 well in advance of going public (which leaves ample room for subsequent adjustment based on market reaction) • A high-quality target can quickly find multiple sponsor teams with strong credentials and complementary backgrounds to jump-start the de-SPAC process	• "Go/no go" and deal valuation are 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)	**Synergy and interest alignment**. The SPAC insiders: • 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	IPO underwriters are typically no longer involved post-IPO or are simply engaged as an advisor

(3)	**More flexible and creative deal mechanics**, such as earn-outs, lock-ups, convertible securities, and minimum cash provisions, **with no mandatory discount**	Standardized structure, with standard IPO discount
(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)	**Greater ability to "test the waters" before going public**: • 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 begins, despite what the issuer may have assumed from pre-IPO testing-the-waters meetings and roadshows
(6)	**Extended, larger-scale investor education from deal announcement to listing**, which works well for the kinds of companies mentioned above and could boost investor interest, broaden access to strategic investors, and strengthen post-closing stock performance.	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' efforts 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. vs. Direct Listing

Direct listing is primarily used by mature, well-known companies to provide liquidity to existing shareholders rather than to raise growth capital. These companies have sufficient brand recognition and investor awareness to generate organic trading, although the 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. vs. M&A with a Non-SPAC Public Company

The due diligence required of non-SPAC public companies is typically much more extensive than that of SPACs, which can lead 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 requirements for going public the traditional way are not necessarily 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.
2.	SPACs are a roundabout way to bypass regulatory scrutiny.	The legal and regulatory review for de-SPACs is comparable to that of traditional IPOs.
3.	Investors are more likely to lose money on a de-SPAC than a traditional IPO.	A company's path to going 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 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 and a potentially faster path to going public, 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. Key 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. Main 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 and (ii) will not receive repayment for its working capital loans or expense advances;
- Significant time investment; and
- Potential litigation and reputational 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.

4. Key Factors to Consider When Selecting a Target

- Company fundamentals, such as market position, growth potential, capital resources, prior financing terms, and management and shareholder profile;
- Readiness, determination, and the reasons for going public;
- Alignment on valuation and sponsor economics;
- Cultural fit; and
- Deal execution risks.

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 sources 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 the target business and industry and their ability to provide strategic guidance, help grow the business, attract fundamental investors, and broaden strategic partnerships;

- The SPAC's investor profile, their potential value-add to the target company, and whether the SPAC has any backstop or non-redemption agreements with existing investors;
- The SPAC's equity and financial conditions and their potential dilutive effects (e.g., the amount and structure of outstanding warrants and/or rights, the percentage of sponsor promote, trust account balance, and the amount of deferred underwriting commission and other transaction-related fees payable upon completion of the de-SPAC);
- The amount of time left for the SPAC to consummate a business combination and extension-related costs; and
- The SPAC's relative bargaining power with respect to valuation and SPAC insiders' economics.

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

- Company fundamentals;
- The SPAC insiders' background and relevant experiences;
- Deal valuation, including both current merit and upside potential for long-term investors;
- The SPAC's investor base (e.g., the percentage of fundamental/strategic investors who have been holding their shares since the SPAC IPO or who 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 more cautious and redeem more).

4. Key Reasons that Proposed De-SPACs Fall Through

- Failure to meet listing standards or 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. 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-SPACs. We anticipate the following trends in the 2026 SPAC market:

- **U.S. equity markets are expected to remain strong despite geopolitical tensions.** The traditional IPO market in 2026 skews heavily toward larger, later-stage companies. In the first half of 2026, 69 traditional IPOs raised approximately $132 billion, compared with 32 traditional IPOs raising approximately $16 billion during the same period of 2025. However, given the sheer amount of capital raised and expected to be reserved for upcoming blockbuster IPOs, the total number of traditional IPOs in 2026 is expected to be significantly lower than the 221 recorded in 2025. **When traditional IPOs become more challenging, de-SPACs continue to offer greater certainty regarding deal execution, valuation, and speed.** Dual-track exploration of both the traditional IPO and de-SPAC paths is also expected to become increasingly popular as companies seek to preserve optionality.
- Despite SPAC IPO levels reaching a new high since 2021, the substantial backlog of private companies looking to go public indicates that the market is not yet overheated. In a market where sponsors are more cautious about launching deals, **new SPAC IPOs tend to be backed by sponsors who are particularly confident about the deal outlook**. Continued interest from high-quality private companies considering a

de-SPAC and from SPAC sponsors looking to capitalize on the broadening opportunity set is expected to lead to **more de-SPAC announcements and higher transaction volume**.

- **Investors are expected to remain highly discerning with both SPAC IPOs and de-SPACs, which bodes well for post-closing stock performance.** PIPE financing will continue to serve as a strong indicator of deal quality and trading performance. With competition among new SPACs intensifying, more investor-friendly SPAC IPO terms are expected to remain the norm, and the percentage of self-funded at-risk capital is expected to continue to increase.
- As the market continues to mature, **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.
- **High-growth sectors driven by innovation and structural demand,** such as AI and related infrastructure, quantum computing, robotics/autonomous technology, digital assets, clean energy, nuclear, critical minerals, defense technology, healthcare, and life sciences, **are expected to remain hot areas for de-SPACs**, although assets/revenue, capitalization, execution efficiency, and investor alignment matter more than sector tailwinds.
- **The SEC's recent rule proposals to improve fundraising efficiency and flexibility and reduce public-company costs have further strengthened market confidence.** Meanwhile, Nasdaq Rule 5101 and Rule IM-5101-3, which give the exchange broad discretion over initial and continued listings, may still delay some closings and discourage certain companies from listing on Nasdaq. **As stock exchanges continue to tighten, or propose tightening, their rules for smaller IPOs, more companies are likely to pursue de-SPACs to improve their chances of satisfying listing requirements.**

(Updated July 11, 2026)

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If you have any questions about this Client Alert, please contact Olivia Y. Wang 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, Olivia worked at the Beijing and Hong Kong offices of Kirkland & Ellis from 2017 to 2024, where she led the securities law aspects of most of the firm's SPAC transactions in Asia during that period. Olivia received her J.D. from the University of Virginia School of Law, where she was a Karsh Scholar and Salzburg Cutler Fellow. A Chinese version of this article is available upon request.