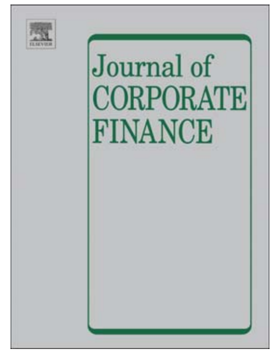

Going public via special purpose acquisition companies: Frogs do not turn into princes

Johannes Kolb, Tereza Tykvová

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Going public via special purpose acquisition companies: Frogs do not turn into princes

Johannes Kolb[a]
Tereza Tykvová[b]

[a]University of Hohenheim, Wollgrasweg 49, 70599 Stuttgart, Germany, Phone: +49-711-459 24507, E-mail: johannes.kolb@uni-hohenheim.de, Fax: +49-711-459 24505
[b]Corresponding author. University of Hohenheim, Full Professor of Corporate Finance, Wollgrasweg 49, 70599 Stuttgart, Germany, Phone: +49-711-459 24501, E-mail: tereza.tykvova@uni-hohenheim.de, Fax: +49-711-459 24505

Abstract

Special purpose acquisition companies (SPACs) are cash shells that try to buy private operating firms to which they confer a public-listing status. Private operating firms tend to use SPACs as an alternative way to get listed, particularly in years with weak IPO activity and volatile markets, such as 2008 and 2009. In these two years, approximately 31% of firms went public through a SPAC acquisition rather than through an IPO. Our results from the analysis of 127 SPAC acquisitions and 1,128 IPOs during the wave of "new-generation" SPACs starting in 2003 lend support to the conjecture that particular small and levered firms with low growth opportunities tend to use this vehicle. SPAC acquisitions also may be fueled by the cash-out motives of existing shareholders. Venture capitalists and private equity investors tend to refrain from using SPAC acquisitions as an exit route. Tracking long-term abnormal returns, we find that SPAC firms are associated with severe underperformance in comparison to the market, the industry and (comparable) IPO firms.

Keywords: special purpose acquisition company (SPAC); initial public offering (IPO); going public; performance

JEL Classification: G12; G24; G34