SPACs, IPOs, and Social Media: A Comparative Study of Public Listing Options

Prof. David R. King Aden I. Annane

Florida State University, College of Business

Topic

Special purpose acquisition companies (SPACs) are companies that are established with the primary goal of listing on a public exchange then merging with a separate company that wants to become publicly traded. These companies are thought to offer a quicker way to accessing capital than a traditional initial public offering (IPO) or direct listing to a public market. However, little research has been conducted on the management decisions that lead to SPAC mergers, the impact of social media on these transactions, and the short and long-term benefits and drawbacks. This study aims to address this research gap by comparing SPAC mergers and Initial Public Offerings (IPOs) and identifying how the volume of social media discussions surrounding SPAC transactions may affect price fluctuations. The findings of this research will provide valuable insights into the decisions that lead to SPAC mergers, and the implications of social media on these transactions.

Methods

To investigate the increasing prominence of SPACs since 2019 and the factors behind this trend, the following methods will be employed:

- Literature Review The literature review focuses on publications that examine the characteristics of SPACs and IPOs, their key regulatory and practical differences, and potential benefits of the regulatory differences
- Keyword Selection Relevant keywords associated with SPACs are selected, including terms such as "SPAC," "deSPAC," "merger," "acquisition," and other relevant industry keywords.
- API Development An Application Programming Interface (API) is used to develop a way to archive mass quantities of social media data that fit predetermined search characteristics
- Data Collection Data is sourced mainly from Twitter posts, with a focus on posts relevant to SPACs that have gone public between 2019 and 2022 Twitter post volume will be measured using the selected keywords and relevant times.

Methods

- SPAC and IPO Data Collection Data of relevant SPAC performance is collected using Wharton Research Data Services' Eventus, simultaneously relevant IPO data is also collected for comparison
- Regression Analysis SPAC performance, IPO performance, and relevant social media volumes are analyzed and compared to draw conclusions
- Revision Statistical distributions are analyzed and methods are possibly revised to ensure that findings qualify as reliable evidence

This research will contribute to discovering the factors driving the prominence of SPACs and the potential uses of social media as a tool for taking advantage of regulatory differences between SPACs and IPOs.

Literature & Data Review

- **Leveraging professional networking and other forms of social capital can play a significant role in the success of SPAC IPOs.** (Haniffa, Hudaib, & Nawaz, 2022)
- **SPACs are subject to less regulation than IPOs when presenting future company performance projections to investors.** (Blankespoor, Hendricks, Miller, & Stockbridge, 2022)
- **The size of a SPAC in relation to its target company significantly affects long and near-term performance.** (Kiesel et al., 2022)
- **Factors that can influence the success of SPACs include the "glamour" of underwriters and market performance's implications over reverse merger approval for deSPACs.** (Cumming, Haß, & Schweizer, 2014)
- **Comparing SPACs and IPOs can provide insights into the conditions under which SPACs or IPOs are more likely to benefit the parent company.** (Haniffa et al., 2022; Cumming et al., 2014)

Hypothesis & Preliminary Findings

1. The average transaction duration of a SPAC is 168.3 days, which is comparable to the average time it takes to IPO. Additionally, the amount of capital that can be raised using either SPAC or IPO is not dependent on the listing method.
2. These findings suggest that choosing SPAC over IPO for public listing does not depend on the timeline or the amount of capital needed. Therefore, we deduce that there must be another variable that determines this choice.
3. Our study hypothesizes that social capital is a determinant factor in the performance of SPACs. The lack of a regulatory "quiet period" like how IPOs have may make social capital a more important factor in SPAC performance.
4. Our social media API is currently in development to test the effects of the regulatory difference of not having a quiet period, and we suspect that large names associated with SPACs also have a substantial implication on their performance.
5. Our literature review has found that several celebrities as well as notable financial figures have endorsed SPACs, and this level of social capital may be a determinant of performance. Additionally, we hypothesize that their comments on social media may carry an impact on securities performance as well.

References

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