ClearThink CAPITAL

The **Return** of the **SPAC Merger**

Why Companies are Merging With SPACs

By ClearThink Capital
clearthink.capital

ClearThink Capital's SPAC Expertise

ClearThink Capital is a leading SPAC advisory firm, having advised dozens of SPAC sponsors and companies seeking to merge with SPACs

Extensive SPAC Expertise	Connectivity to SPACs and Sources of Capital	Extensive Expertise in Structuring and Executing Complex SPAC Transactions

Past SPAC Clients Include

Integrated Wellness Acquisition Corp · Bannix Acquisition Corp · byNordic Acquisition Corp. · SMX · 10X CAPITAL · NUKKLEUS GROUP · Alchemy Investments Acquisition I

240 Public Offerings	$100B+ M&A	$15B+ Capital Transactions	Dozens of SPAC Transactions

Robert Brown
Chief Executive Officer

- Worked on the first SPAC in 1991
- Worked with the SEC to write Rule 419, the rule on which SPACs are based
- Active in SPACs through each wave since

Contents

Starting With the Basics: What is a SPAC?

A SPAC, or Special Purpose Acquisition Company, is a publicly traded company that went public with the sole purpose of merging with a (usually private) company to bring the company public and provide the company with capital. The SPAC typically has 12-24 months to find a company and complete a merger otherwise, the SPAC liquidates. In some cases, the SPAC team can extend beyond their initial tenor.

Upon a SPAC's IPO, when the SPAC goes public to find a company to acquire, it raises capital. This capital is intended for use by the company the SPAC acquires. The amount typically ranges from $50M to $500M, although most are roughly $150M, at $10 per unit. A unit consists of a share and either a partial warrant to purchase a share or a right that converts into a partial share. 100% of this capital raised is placed in a trust and that trust is invested in Treasuries.

- **If the SPAC is unable to find a target in its tenor**, the holders are returned their investment plus interest.
- **If the SPAC finds a target but the holders elect to redeem**, the holders are returned this investment plus interest, and the holders retain their rights or warrants.

Redemptions, or shareholders asking for their capital back upon the close of the merger, tend to be very high today. As a result, the SPAC and company generally raise a PIPE financing to close simultaneous with the closing of the merger and/or put in place non-redemption agreements with holders to ensure the company has the capital they need.

Is a SPAC an Exit or an IPO?

Many companies confuse a SPAC merger with a private equity acquisition. A SPAC is more accurately a substitute for an IPO. SPACs are stock-for-stock mergers, meaning the shareholders of the company merging with a SPAC do not exit upon the close of the transaction. They are given shares in the public entity which is a combination of the SPAC and company merging in.

SPAC

1 Investor invests in SPAC at IPO at $10/unit.

2 The proceeds of the IPO are held in trust and invested in Treasuries

1 Share

¼-1 Warrant

3 For the $10 investment, each investor receives one share valued at $10, and ¼-1 warrant to purchase a share or a right that converts to a portion of a share upon the merger close

4 Once the SPAC goes public, it tries to find a target company to acquire and bring public

Redeem Investment **OR** Shares in New Company

5 If the SPAC finds a target company to acquire, each investor can vote to get their $10 back plus interest, or get shares in the new company

SPAC

6 If the SPAC does not find a target company to acquire, the investors get their $10 back plus interest

Why Companies Pursue SPAC Mergers in 2025

More companies are choosing SPAC mergers over private financing and traditional IPOs.

Liquidity for Shareholders

Once the SPAC merger is successfully completed, the private company that merges with the SPAC becomes publicly traded on Nasdaq or NYSE. This provides shareholders liquidity, although it may be over time due to restrictions for control persons or affiliates, or negotiated lockups.

But why not just go through a traditional IPO? There are several benefits of merging with a SPAC vs completing a traditional IPO.

The SPAC process is much **faster**. A SPAC merger can be completed in less than 6 months, while an IPO generally takes 12-18 months. **Valuation is negotiated up front**. In a SPAC merger, valuation is finalized before the transaction is announced, unlike an IPO, where valuation is negotiated right before the IPO. A SPAC merger is **less risky.** Throughout the IPO process, a company can expect to spend $5M to $10M+ on expenses. If structured right, a SPAC merger can have sub-$2M of expenses, however most have more. The difference is that these SPAC expenses are **due on the close** of the transaction. If the SPAC merger does not close, the company will likely have spent well under $1M on fees throughout the process.

Growth Capital

The vast majority of companies merging with SPACs plan to raise at least some capital as part of their merger. Those that don’t are solely looking for liquidity. The amount of cash a company needs in a SPAC merger can vary from a few million dollars to hundreds of millions. The mistake many companies make is assuming they will secure the capital they need from the SPAC’s trust account.

Every SPAC holder reserves the right to request their pro rata portion of the trust back at the close of the merger. Realistically, SPAC mergers today average over 90% redemptions with many at 99%+ redemptions. That’s why the SPAC and company will raise a PIPE to close simultaneous with the merger to ensure the company has the capital it needs.

SPAC vs. IPO vs. Private Equity

Compared to a **traditional IPO**, companies choose a SPAC merger as it is:

- **Faster,** as a SPAC merger can be completed in as little as 6 months
- **Less expensive,** as the out-of-pocket expenses for a company are a fraction of those of an IPO
- **Less subject to macroeconomic shocks** as valuation and terms are negotiated early in the process

Compared to a **private equity acquisition,** companies choose a SPAC merger as it:

- Allows the current executives, board, and team continue to operate the company and **stay in control**
- Generally provides **higher valuations** for the target company

ClearThink Capital guides our clients through the SPAC merger process.

Learn More

Visit us at www.clearthink.capital
Contact us at info@clearthink.capital

The SPAC Merger Process

1: Preparation

2: Preliminary Discussions

3: LOI

4: Due Diligence

5: BCA and Announcement

6: Proxy Filing

7: PIPE

8: Stockholder Meeting

9: Closing

1. Preparation

The first in the SPAC process for a company seeking to merge with a SPAC is the preparation. The company should make sure they are ready to start the process. This includes:

- Commencing a PCAOB (US public company standard) audit
- Assembling a comprehensive data room
- Engaging experienced advisors

2. Preliminary Discussions

Once the company is ready, they will begin discussions with a SPAC (or multiple). Generally, the company has meetings with the SPAC so the SPAC can garner a deep understanding of the company. The SPAC will usually request a few preliminary diligence items to review.

3. LOI

Once the SPAC and company decide to move forward, they will sign a non-binding LOI. This outlines the very basic transaction terms.

4. Due Diligence

Once the LOI is signed, the SPAC begins an extensive due diligence process. This generally involves accountants, auditors, and counsel from both parties.

5. BCA and Announcement

Once the due diligence is complete, both parties begin drafting the BCA (Business Combination Agreement). This document outlines the detailed terms of the transaction. Once the BCA is signed, the SPAC and company will publicly announce the planned merger. The SPAC then publicly discloses the transaction through a press release and investor presentation, detailing valuation, deal structure, and pro forma ownership. The announcement is often accompanied by investor calls or presentations explaining the rationale for the merger and the projected performance of the combined company.

6. Proxy Filing

The next step is preparing the S-4, of F-4 for foreign issuers, and submitting it to the SEC. This document provides shareholders with all material information about the proposed transaction, including financial statements, valuation models, risk factors, and management discussions. The SEC reviews and comments on the filing, sometimes over several rounds, to ensure the disclosure is complete and accurate. Once the SEC declares the filing effective, the SPAC sets a shareholder meeting date to vote on the merger.

7. PIPE

Simultaneous with the drafting of the S-4 or F-4, the PIPE process begins. The PIPE is the financing that will take place simultaneous with the close of the merger. This can range from common stock with warrants to a more structured product like an equity line. This will ensure that regardless of redemptions, the company has the capital it needs to succeed.

8. Stockholder Meeting

At the stockholder meeting, SPAC management and underwriters present the merger to shareholders and encourage approval. Investors have two options: they can vote for the deal and roll their equity into the new public company, or they can redeem their shares for their portion of the trust value (typically $10 plus accrued interest).

9. Closing

If shareholders approve the merger and closing conditions are met, including regulatory approvals, minimum cash requirements, and PIPE funding, the SPAC completes its business combination. The combined entity becomes a publicly traded operating company, usually adopting the target’s name and ticker symbol.

The Ideal SPAC Targets

While SPACs are a great method to go public and raise capital, they don't work for every company. Companies with these characteristics make great SPAC targets:

High and Justifiable Valuation

Most SPACs have $100M+ in their trust accounts. From a technical standpoint, these SPACs cannot acquire a company valued at less than 80% of the size of the SPAC. From a practical standpoint, these SPACs want to acquire a company valued at 2-3x+ the size of the SPAC.

The reason for this is the sponsor's equity carry. The sponsor has an equity carry equal to somewhere between 20% and 35% of the size of the SPAC. The larger the company the SPAC acquires, the less dilutive the sponsor's carry is. So realistically, a company should be able to be valued at a minimum of $175M to qualify for a SPAC merger, and even at that level, it is on the smaller side.

While valuation is negotiated between the SPAC and target, the market has the final say. If the valuation is too high, it will be difficult to secure the capital the company needs and the stock price will fall post-close. The best way to justify valuation is to show that relative to comparable companies, your valuation is reasonable.

SPAC transactions allow for the flexibility to put additional shares into earnouts that vest over time. For example, if a company is expecting dramatic growth over the next two years, they can negotiate for additional shares if they meet their projected growth.

Strong Fundamentals or Excellent Growth Prospects

While SPACs used to be more focused on moonshot investments, hoping for the stock price to go from $10 to $200, the SPAC market today is far more realistic and values must be rooted in fundamentals. Companies with strong revenue and EBITDA jump to the top of SPAC teams' target lists.

The right speculative companies can still qualify for SPAC mergers if they have good stories.

PCAOB Audit

Audits are one of the top deal killers. Completing a PCAOB audit for a first-time audited company takes months of time, time that a SPAC does not have. If a SPAC has to wait for a company to complete their audit, they will likely move on, as they have a limited timeframe to close their deal.

It's best to start your audit prior to pursuing SPACs, and ideal to complete the audit in advance.

Strong Management Team

The company must have a public-ready management team. Being a public company CEO is vastly different than a private company CEO. You're constantly interfacing with investors, working with regulators, and handling filings.

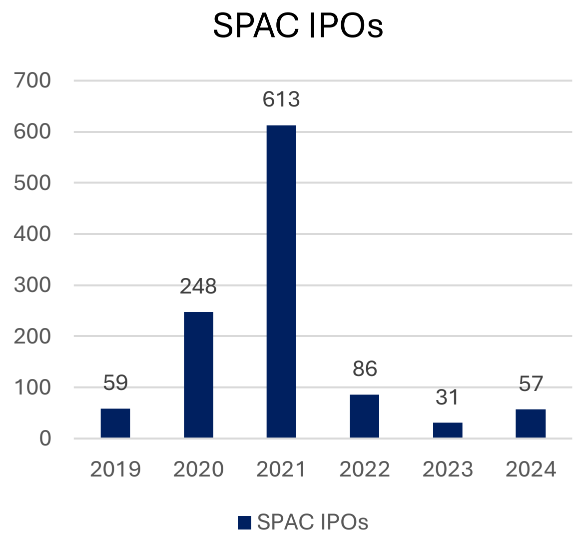
It's also helpful but not required if the management team has SPAC expertise. This will boost investor confidence in the post-close performance.

These Companies Should not Merge with SPACs

While SPAC mergers can be great for the right company, they are definitely not fits for every situation. If a company has any of the following characteristics, we recommend they do not pursue a SPAC merger.

- **Under $150M market cap:** this makes the sponsor's equity position too dilutive to the transaction, unless merging with a very small SPAC or SPAC that has extended and liquidated the majority of its trust account.
- **Difficult to audit:** any company merging with a SPAC must complete a PCAOB audit. If this is not possible, the company will not be able to merge with a SPAC.
- **No path to revenue:** there are some cases where pre-revenue SPAC targets can be successful, but once you're public, it's important to have constant positive news flow to maintain investor confidence.
- **Existing holders need to exit at the close of the merger:** SPAC mergers are entirely stock-for-stock mergers. Target company shareholders are unable to sell shares in the transaction, however once public, they can sell into the market.

What Has Changed in the SPAC Market?



In 2019-2021, there was constant high-profile SPAC news. Then suddenly, it seemed like everyone stopped talking about SPACs at once. There were fewer IPOs, fewer mergers announced, and more liquidations. In 2025, SPACs have made a comeback. This is primarily due to these factors:

Higher Quality SPAC Teams

While there were many high-quality SPAC teams that completed IPOs from 2019-2024, many SPAC teams were unqualified. These teams did not have sufficient connectivity to targets, did not have the expertise and experience to execute transactions, and did not have the knowledge to select quality targets.

As a result, many teams completed poor transactions where the stock price plummeted post-close, and many teams were unable to close transactions and had to liquidate.

This year, a much larger percentage of new SPACs are sponsored by previous sponsors or teams with SPAC expertise.

Focus on Quality Transactions

As a result of higher quality SPAC teams, the transactions that have been announced and closed have been higher quality transactions. Gone are the days of dramatically inflated valuations for small companies. The institutions behind SPACs are not willing to support overinflated values and as a result these companies cannot raise the capital they need.

Capital Availability

The debt and equity markets have opened back up over the last 12 months. Previously, it was difficult to raise the capital a company needed. While this is an overall market trend and not SPAC-specific, it eases the process of raising the capital needed to close a merger.

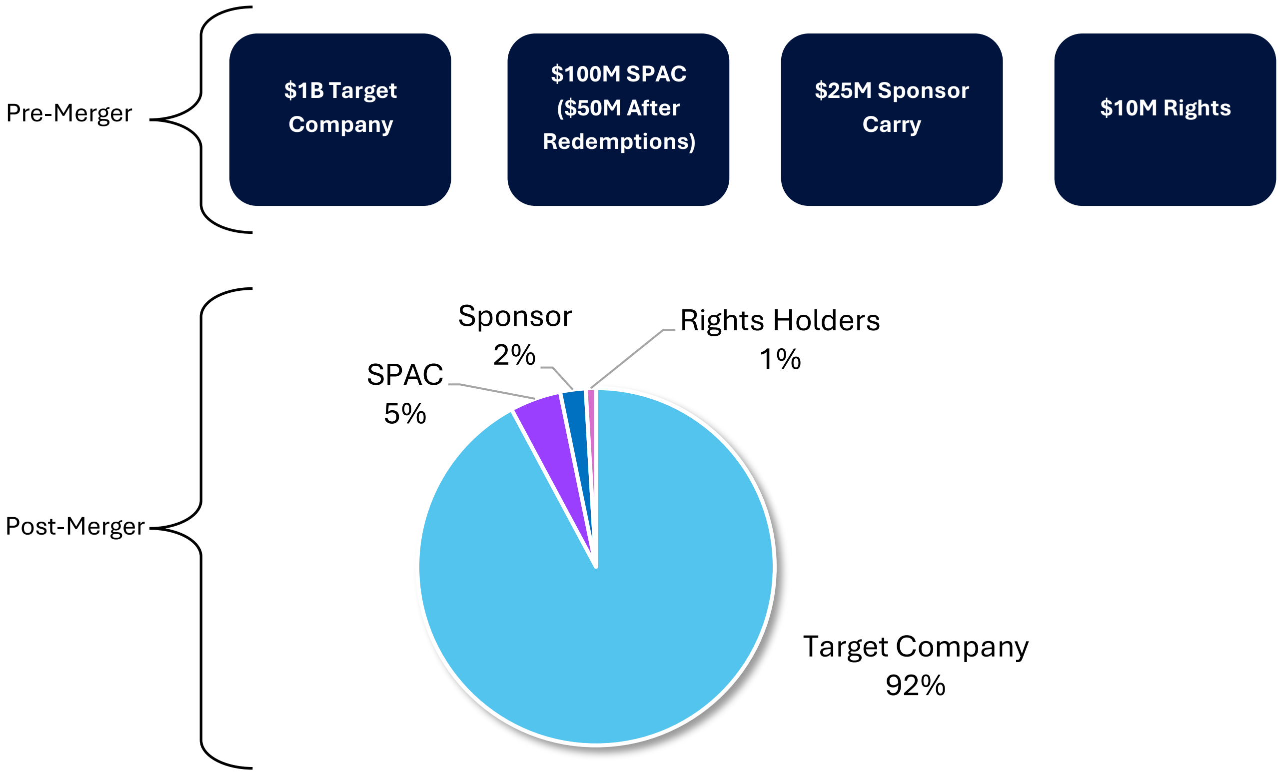
Lower Fees for Companies

The terms for SPAC professionals have been standardized over the last few years. This is changing. Underwriters are getting more creative with how they structure their fees. Companies and SPACs are finding less expensive counsel. As a result of these changes, the fees paid at the close of a merger are in many cases a fraction of what they were previously.

SPAC Transaction Example

This example is meant to show the representative economics of a SPAC transaction with the following assumptions:

- $100M SPAC with 25% total sponsor carry
- 50% redemptions
- 1/10 right
- $1B target
- No PIPE



How to Get Started

So you've read through this whitepaper and have decided to merge your company with a SPAC. What is the first step?

The first step is to engage an experienced advisor like ClearThink Capital to guide you through the process. The SPAC process is an extremely complicated M&A process and should be handled with professionals by your side. ClearThink will take a preliminary look at your company to determine whether your company is a fit for a SPAC merger.

Learn More