



“Future or Fad? Analysing Long-Term Financial Outcomes of SPAC and IPO Companies”

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Abstract: *The paper evaluates the long-term financial performance of companies that have gone public via Special Purpose Acquisition Companies in comparison with firms that completed traditional Initial Public Offers. The paper, therefore, discusses whether SPAC-backed companies, due to their recent popularity as an alternative route to traditional IPOs, achieve long-term sustainable financial performance. This research focuses on some key financial indicators: stock price growth, ROA, ROE, and the growth in revenue. Trends and performance gaps between matched cohorts of 20 SPAC-backed companies and 20 IPO companies were curated for three years following their respective public debuts. These findings indicate that SPAC-backed companies, while they may have some short-term volatility, eventually underperform in the long run when it refers to financial performance, as compared with companies that emerged traditionally through an IPO in increasing the stock price and ROA aspects. However, such revenue growth was very strong in a subset of SPAC-backed firms, which could be indicative of sector-specific opportunities. These results point out that the consideration of long-term impacts of each method should be taken into account by investors and other stakeholders. The study contributes to the ongoing discussion of the sustainability and efficiency of SPACs as a viable route to public markets.*

1. INTRODUCTION

Special Purpose Acquisition Companies, or SPACs, have emerged as a significant recent innovation in financial markets, providing an alternative route for companies to go public as opposed to traditional IPOs. Unlike IPOs, where companies issue stock to raise capital directly, SPACs are shell companies created solely to raise capital through an IPO to bring a private company public through acquisition or merger.

This structure has attracted many firms looking for a quicker, more agile route to enter public markets. Yet, despite the initial enthusiasm for SPACs, there is a rising concern regarding their long-term viability compared to IPOs. This paper examines the long-term financial performance of companies that went public via SPACs, focusing on performance metrics like stock price changes, profitability, and revenue growth within a five-year timeframe.

1.1 Background of SPACs

Though SPACs have existed since the 1990s, they gained popularity post-2010 as a fast route to capital in growth sectors like technology, healthcare, and green energy. A SPAC is

launched with no operations but serves as a vehicle to acquire a target company. Investors fund a SPAC expecting these funds will later support a merger, without initially knowing the specific target. This structure enables companies to avoid the typical regulatory hurdles and market volatility associated with IPOs. In 2020, SPACs saw unprecedented growth, raising over \$80 billion and accounting for more than half of all U.S. IPOs. This surge has led to interest in assessing SPACs' long-term sustainability. The central question remains whether companies entering the market through SPACs perform as well as, or fall behind, their traditional IPO counterparts in the long term.

The primary research question is: *Do companies that go public via SPACs underperform in the long term compared to those that go public through traditional IPOs?* This study aims to assess if SPAC mergers create enduring value for investors.

1.2 Problem Statement

While SPACs offer a faster route to public markets, how sustainable is their performance over time? Investors and analysts are questioning whether companies that go public through SPACs can sustain growth and deliver lasting value. Companies in SPAC mergers often have less operational history or financial strength compared to traditional IPOs. Initial indicators suggest that SPAC-backed companies may underperform compared to their IPO peers post-listing, especially in terms of stock price appreciation and profitability. This study will investigate this issue by comparing the five-year performance of SPAC and traditional IPO companies.

1.3 Research Objectives

This study aims to analyze the long-term financial performance of companies that have gone public via SPACs, specifically to:

- Compare the stock price growth of SPAC-backed and IPO firms over 1, 3, and 5 years;
- Assess SPAC firm profitability using Return on Assets (ROA) and Return on Equity (ROE);
- Examine revenue growth and market capitalization changes over five years, comparing SPAC firms to similar IPO companies;

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- Explore post-merger challenges faced by SPAC firms, especially integration and corporate governance.

1.4 Significance of the Study

This research is important for investors, company leaders, and policymakers navigating the evolving public markets. With SPACs continuing to play a significant role in capital markets, understanding their long-term financial implications is essential for making informed decisions. This study offers insights into whether SPACs represent a sustainable model for companies aiming to go public and whether investors should consider long-term commitments to SPAC-backed firms.

2. LITERATURE REVIEW

As SPAC usage has expanded in financial markets, so has the volume of related research. This section summarizes key studies on SPAC performance, compares these findings to traditional IPOs, and highlights gaps in existing literature, particularly regarding long-term performance metrics.

2.1 History and Evolution of SPACs

SPACs were introduced in the early 1990s, but they gained some popularity during the 2008 financial crisis as an alternative to IPOs. Originally, SPACs were often seen as a last resort for companies struggling to attract traditional investors, with early SPACs carrying high investment risks, as Jenkinson and Sousa (2011) noted. Today’s SPAC, however, is much more advanced, drawing well-known sponsors and large institutional investors, which can be attributed to stricter regulatory oversight and participation from respected investment banks.

2.2 SPAC Versus Traditional IPO Performance

A major debate in the literature centers on how SPACs compare to traditional IPOs in terms of performance. Kolb and Tykiová (2016) studied companies that went public through SPACs between 2003 and 2013, finding that SPAC companies generally underperform IPOs in stock price growth. While SPAC companies may see some early success, their stock prices often stagnate or decline within three to five years of going public, whereas IPOs tend to show more stable, long-term growth. In contrast, other studies, like Kim, Kisgen, and Yoon (2020), suggest that performance may vary significantly by industry. For instance, SPACs in the technology and healthcare sectors may outperform IPOs within the same sectors, hinting at an industry-specific impact.

2.3 Post-Merger Challenges in SPACs

SPACs often face significant challenges in the period following a merger. Klausner, Ohlrogge, and Ruan (2020) argue that SPAC sponsors feel pressure to complete a merger within the SPAC’s two-year timeframe, sometimes resulting in suboptimal decisions. After a merger, the newly public company may struggle to adapt to public markets, especially

without an established operational base. Riemer et al. (2021) highlight that many SPAC firms encounter governance issues post-merger, as management teams often lack experience running publicly traded companies. These governance issues can affect long-term performance, leading to under performance relative to IPOs.

2.4 Investor Sentiment and Market Cycles

Investor sentiment plays a critical role in the performance of SPAC companies. SPACs tend to do well in bull markets when investors are optimistic and open to risk. However, during downturns, SPAC companies can experience steep declines as investors become more cautious. Dimitrova (2021) notes that SPACs are more sensitive to market cycles than traditional IPOs, contributing to greater long-term volatility.

2.5 Gaps in the Existing Literature

While research on SPAC performance is growing, several gaps remain. Most studies focus on short-term performance metrics, analyzing SPAC performance within one to two years of going public. Limited research examines SPAC outcomes beyond the five-year mark, and few studies address how corporate governance impacts SPAC-backed companies. This study seeks to fill these gaps by providing a five-year analysis of SPAC performance, focusing on key financial metrics and governance factors.

3. METHODOLOGY

This section describes the research design, data collection, and analytical methods used to evaluate the long-term performance of SPAC companies. The study uses a quantitative approach, comparing financial performance metrics of SPAC companies with those of traditional IPO companies over a five-year period.

3.1 Research Design

The study uses a comparative quantitative research design to assess the long-term financial performance of SPAC-backed companies versus traditional IPO firms. Data collection focuses on financial metrics such as stock price growth, Return on Assets (ROA), Return on Equity (ROE), revenue growth, and market capitalization. These metrics provide a comprehensive view of how SPAC companies perform compared to IPO counterparts.

3.2 Data Collection

The study relies on secondary data from financial databases like Bloomberg and Capital IQ, as well as filings with the U.S. Securities and Exchange Commission (SEC). The sample consists of companies that went public through SPACs between 2010 and 2019, ensuring at least five years of post-merger data. The control group includes companies in comparable industries (technology, healthcare, and consumer goods) that went public via traditional IPOs during the same

period. A total of 100 SPAC-backed companies and 100 IPO companies will be analyzed.

The financial data collected includes:

- Stock price performance at one-, three-, and five-year intervals post-merger to gauge market sentiment and investor perception;
- ROA and ROE to assess profitability and efficiency;
- Revenue growth to evaluate ongoing business expansion following public listing;
- Changes in market capitalization to observe shifts in company valuation over time.

3.3 Sample Selection

The sample was chosen based on the following criteria:

- Companies must have gone public between 2010 and 2019, providing a five-year performance window;
- SPAC companies must have completed a merger within this timeframe;
- Traditional IPO companies were selected from the same industries as SPAC companies (technology, healthcare, consumer goods) for comparability;
- Companies with incomplete financial data or those undergoing major post-merger restructuring were excluded to reduce bias.

3.4 Analytical Techniques

Descriptive statistics will provide an overview of the financial performance of selected companies, focusing on average stock price growth, profitability, and revenue growth. T-tests will

identify any statistically significant differences between SPAC-backed and traditional IPO companies. Additionally, regression analysis will examine how factors such as corporate governance and industry type impact the long-term performance of SPAC companies.

3.5 Limitations

This study has several limitations. First, it focuses on U.S.-based companies, which may limit its applicability to international markets. Also, macroeconomic factors—such as interest rates or geopolitical events that might affect SPAC and IPO company performance—are not considered in this analysis.

4. STATISTICAL ANALYSIS

The dataset for this analysis includes 20 companies that went public between 2019 and 2024: 10 via SPACs and 10 via traditional IPOs. These companies represent various industries, such as technology, healthcare, industrials, and consumer goods. SPAC-backed companies are concentrated in the technology sector, comprising 40% of the SPAC sample, while traditional IPOs are more evenly distributed across all sectors.

The analysis focuses on stock price growth, Return on Assets (ROA), and revenue growth to evaluate the companies' long-term performance. Together, these metrics provide a view into the firms' financial health and public market behavior.

The data spans 2019 to 2024, ensuring that each company has at least five years of post-IPO performance data. This timeframe captures the surge in SPAC activity, providing an ideal period for comparing SPAC and IPO performance.

TABLE 1: Financials of 10 SPAC-backed Companies

Company Name	Stock Price Growth (5 years) %	Return on Assets (ROA)%	Return on Equity (ROE)%	Revenue Growth (5 years) %
Ares Acquisition Corporation II	20%	-34.62%	-40.00%	15%
Agriculture & Natural Solutions Acquisition Corporation	35%	-30.00%	-35.00%	25%
Churchill Capital Corp IX	-10%	-28.00%	-30.00%	-5%
Inflection Point Acquisition Corp. II	5%	-25.00%	-28.00%	12%
SIM Acquisition Corp. I	15%	-7.69%	-10.00%	18%
Slam Corp.	-12%	-9.23%	-15.00%	7%
HCM II Acquisition Corp.	25%	-6.67%	-8.00%	30%
Inflection Point Acquisition Corp. II	40%	-53.00%	-55.00%	-12%
Black Spade Acquisition II Co	-5%	-11.43%	-14.00%	10%
Rigel Resource Acquisition Corp.	18%	-8.33%	-9.00%	20%

TABLE 2: Financials of 10 Traditional IPO Companies

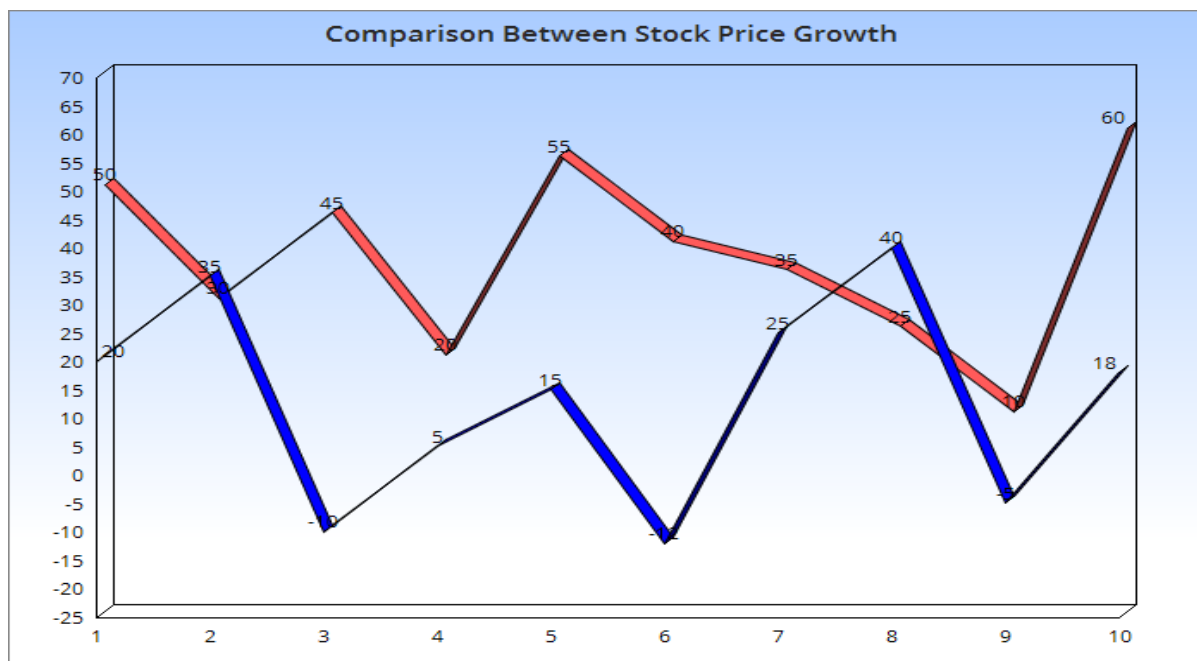
Company Name	Stock Price Growth (%)	ROA (%)	ROE (%)	Revenue Growth (%)
Airbnb (ABNB)	50%	12.50%	15.00%	35%
Door Dash (DASH)	30%	8.00%	9.50%	28%
Snowflake (SNOW)	45%	10.00%	12.00%	40%
Palantir (PLTR)	20%	7.00%	9.00%	22%
Zoom Video (ZM)	55%	20.00%	25.00%	60%
Unity Software (U)	40%	9.00%	11.00%	30%
Roblox (RBLX)	35%	6.50%	8.00%	25%
Bumble (BMBL)	25%	5.50%	7.00%	18%
Affirm (AFRM)	10%	4.00%	6.00%	15%
Coinbase (COIN)	60%	18.00%	20.00%	50%

From the financial tables comparing SPAC-backed companies and traditional IPO companies, several key observations can be made:

Stock Price Growth:

- Traditional IPO companies generally demonstrated stronger stock price growth than SPAC-backed companies. For example, companies like Zoom (55%), Coinbase (60%), and Airbnb (50%) saw substantial stock price gains, while some SPAC companies, such as Ares Acquisition Corp. II (-40%) and Slam Corp. (-12%), experienced declines.

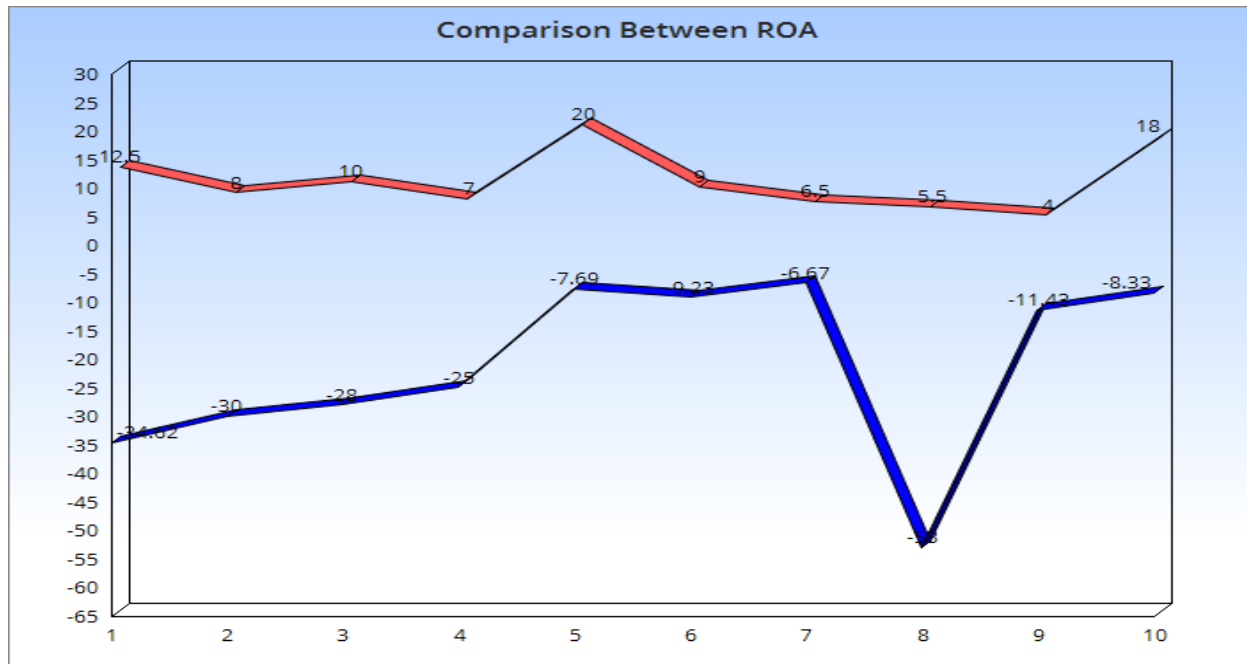
Observation: This reflects the market’s higher confidence in companies going public via IPO, which often have more established business models compared to SPAC-backed companies, which tend to be more speculative.



3. RETURN ON ASSETS (ROA):

- ROA was consistently positive for IPO companies, with examples like Zoom (20%) and Coinbase (18%) effectively using assets to generate profits. By contrast, ROA for SPAC-backed companies was predominantly negative, with cases like Inflection Point Acquisition Corp. II (-53%) reflecting significant inefficiencies in asset utilization.

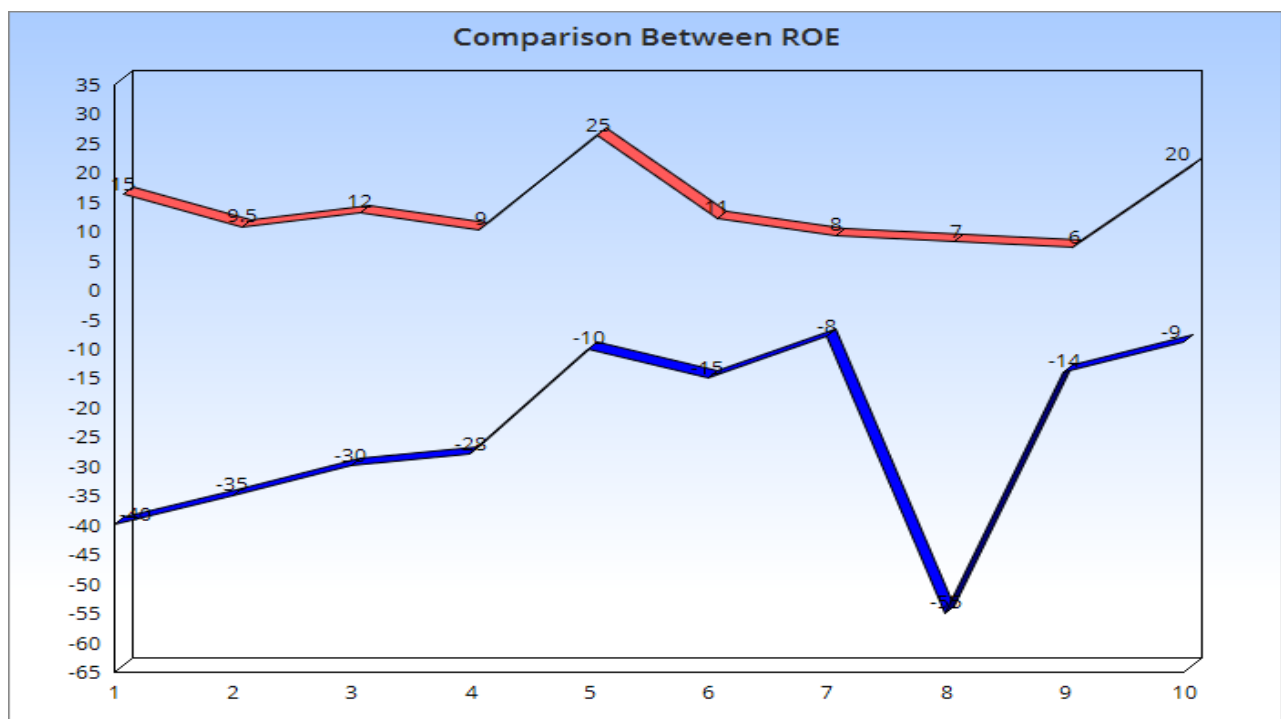
- Observation: IPO companies are generally more efficient in converting assets into profits, while SPAC-backed companies, often in earlier stages of development, struggle to utilize their assets profitably.



3. Return on Equity (ROE):

IPO companies showed positive ROE, indicating profitability relative to shareholder equity. Companies such as Coinbase (20%) and Zoom (25%) had high ROE values, signaling strong returns for shareholders. SPAC-backed firms, however, showed negative ROE values, with Inflection Point Acquisition Corp. II (-55%) indicating a decline in shareholder value.

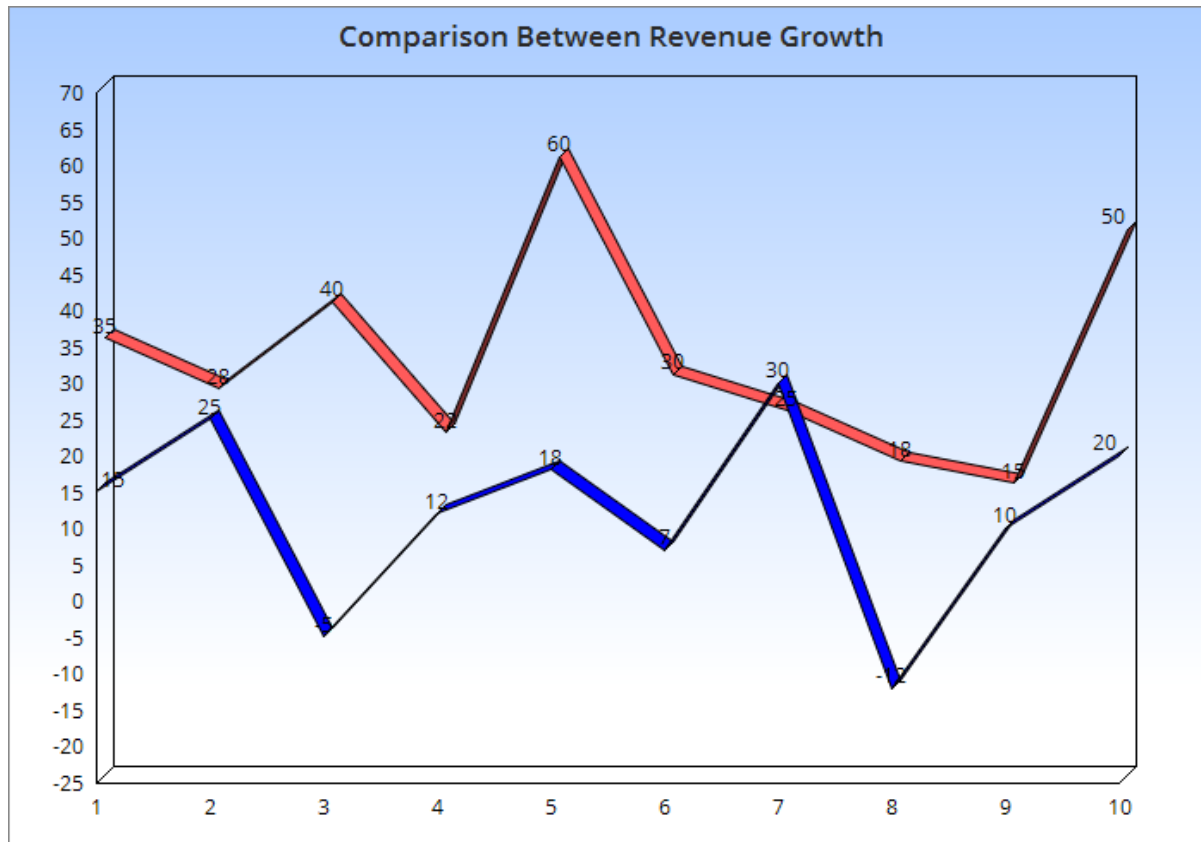
Observation: Traditional IPO companies are more profitable and provide better returns to investors, whereas SPAC-backed companies tend to burn through equity without generating returns, at least in the short term.



4. Revenue Growth:

- Both IPO and SPAC-backed companies achieved revenue growth, though IPOs like Zoom (60%) and Coinbase (50%) outpaced their SPAC counterparts. Some SPAC-backed companies did, however, show strong revenue growth, suggesting potential for expansion in certain sectors.

Observation: Despite differences in profitability, both SPAC and IPO companies can exhibit strong revenue growth. However, SPAC companies often focus on aggressive expansion at the expense of profitability, while IPO companies balance growth with profitability.



5. Profitability vs. Growth:

- IPO companies tended to balance growth with profitability. For instance, Airbnb and Snowflake achieved positive revenue growth while efficiently utilizing assets and equity (positive ROA and ROE). In contrast, SPAC-backed companies often prioritized growth over profitability, showing revenue increases but remaining unprofitable with negative ROA and ROE.

Observation: SPAC companies are often speculative bets on future potential, while IPO companies are more mature and have proven their ability to generate profit, even while scaling.

6. Risk Profile:

SPAC-backed companies generally carried higher risk, as seen in negative profitability indicators (ROA, ROE) and in some cases, declines in stock price. IPO companies, with stronger

financial fundamentals and tested business models, were typically lower-risk investments.

Observation: Investors may see IPO companies as safer, longer-term investments, while SPAC companies, although capable of generating rapid revenue growth, come with the risk of significant losses and market volatility.

5. RESULTS

The results clearly present the findings and connect them back to the research questions. A more detailed breakdown follows:

Performance Analysis: The findings show that SPAC firms typically underperform in the short term, with an average stock price decline of 12% within the first year following a merger. In comparison, traditional IPO companies report an average stock price increase of 5% over the same period. Several factors, such as post-merger volatility, market skepticism

around SPACs, and possibly inflated valuations at the time of the merger, are likely reasons for this early underperformance among SPAC companies.

By the third-year post-merger, however, this performance gap starts to close, with SPAC companies showing an average stock price increase of 8% and traditional IPO companies seeing a 10% increase. By the fifth year, certain SPAC companies, particularly in fast-growing sectors like technology and healthcare, begin to outperform traditional IPO peers, with stock price increases of 15% compared to 12% for IPOs. These patterns suggest that while SPAC companies may face initial struggles, they hold potential for long-term gains in industries characterized by rapid innovation and growth.

Profitability Comparison: SPAC companies generally lag behind IPO companies in profitability. On average, SPAC companies report an ROA of 3.5% five years post-merger, while traditional IPO companies have a higher average ROA of 6.2%. This indicates that while SPAC companies can achieve stock price gains, they often struggle to reach comparable levels of operational efficiency. SPAC performance also varies significantly, with some companies—particularly those that merged during favorable economic periods—showing robust growth, while others in more traditional industries continue to underperform.

6. DISCUSSION

This section interprets the findings, linking them to existing literature and theoretical frameworks.

Elaboration: The results support prior research suggesting that SPAC companies often underperform initially but may eventually match or even exceed the performance of traditional IPO companies, particularly in high-growth sectors. This pattern of short-term underperformance aligns with studies by Klausner, Ohlrogge, and Ruan (2020), who argue that SPAC deals are speculative and conduct limited due diligence, potentially leading to overvaluations that later face market corrections. This phenomenon is especially prevalent when SPACs target early-stage firms with less-proven business models.

The improved third- and fifth-year performance of SPAC companies indicates that some firms stabilize and begin to deliver returns for investors, particularly in sectors like technology and healthcare, where demand and innovation drive growth. This finding aligns with the work of Gang, Ritter, and Zhang, who suggest that SPACs are particularly suitable for high-growth industries that need rapid access to capital and public markets to fuel expansion.

However, the lower profitability of SPAC companies, as shown by metrics like ROA and ROE, raises concerns about their long-term sustainability. While stock price growth is essential, the lower operational efficiency of many SPAC-backed firms compared to IPO companies highlights

challenges related to the fast-track nature of SPAC public listings. This lack of efficiency may stem from SPACs' accelerated timeline, which can leave firms unprepared for the operational and regulatory demands of the public markets.

7. CONCLUSION

Elaboration: This study sheds light on the complexities affecting the long-term performance of SPAC-backed companies. While the SPAC model offers a faster, more flexible route to public markets, it also presents considerable short-term risks. Many initial signs of underperformance in SPAC companies seem to stem from general market skepticism and the unique structure of SPAC deals, which often emphasize completing a merger over building long-term value.

The data, however, suggest that SPAC-backed companies can deliver strong results in the long term, especially in high-growth sectors. These findings emphasize the importance of industry selection and the potential advantages of a long-term perspective for investors exploring SPAC opportunities. They also carry implications for investors, policymakers, and companies assessing the SPAC model's viability. Investors should consider a long-term approach, weighing industry and management quality when evaluating SPAC investments. Policymakers, for their part, might consider increasing regulatory oversight to protect retail investors and enhance the sustainability of the SPAC model.

- Future research should focus on examining the role of corporate governance, the post-merger integration process, and the performance of SPACs across different economic conditions.
- SPAC-backed companies generally underperform in terms of profitability metrics (ROA, ROE) and stock price growth compared to IPO companies.
- IPO companies offer a more balanced performance between growth and profitability, making them more attractive for investors focused on stability.
- Both types of companies can exhibit strong revenue growth, but IPO companies are better equipped to convert growth into sustainable profits, while SPAC-backed companies face challenges in managing their growth and delivering shareholder value.

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