Market Reactions to SPAC vs. Traditional Mergers: Evidence from an Event Study of Target Firms

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Abstract:

This paper investigates whether the stock market reacts differently when a target firm is acquired by a Special Purpose Acquisition Company (SPAC) versus a traditional (non-SPAC) firm. Using an event study methodology, we examine 271 merger announcements between 2010 and 2024, consisting of 137 SPAC and 134 regular mergers involving U.S.-based targets. The study employs the market model to compute cumulative abnormal returns (CARs) across six event windows using data obtained from LSEG SDC Platinum and CRSP. Our findings indicate that SPAC mergers yield significantly higher short-term CARs for target firms relative to traditional mergers, particularly in the (0, +1) and (0, +2) windows. These results remain robust after controlling for firm size, deal value, profitability, and market-to-book ratio. By centering attention on target firm outcomes—a less explored angle in SPAC research—this study contributes to both the merger and SPAC literature. The results offer insights for investors assessing post-announcement performance in different deal structures, especially in the evolving post-pandemic M&A landscape. The remainder of the paper includes a condensed literature review, empirical methodology, event study findings, and conclusions that highlight the implications and limitations of our analysis.

1. Introduction

In recent years, Special Purpose Acquisition Companies (SPACs) have emerged as a popular alternative to traditional initial public offerings (IPOs) and mergers, reshaping the landscape of corporate acquisitions and capital markets. Unlike conventional mergers, SPACs provide a streamlined and less-regulated route for private firms to become publicly listed through acquisition. This unique structure—characterized by faster execution, greater deal flexibility, and reduced scrutiny—has generated heightened interest among investors, sponsors, and target firms alike. The surge in SPAC activity between 2020 and 2022 marked a pivotal shift in how companies approach the public market. However, despite the boom, concerns regarding performance, transparency, and post-merger success have spurred an important debate among scholars and market participants.

The relevance of this topic lies at the intersection of corporate finance and market efficiency. While numerous studies have examined shareholder reactions to mergers and IPOs, relatively few have explored how investors respond to SPAC mergers versus regular mergers, particularly from the target firm's perspective. Prior research highlights both the advantages and criticisms of SPACs: on one hand, they are praised for bypassing regulatory bottlenecks and expediting access to capital (Gahng et al., 2021); on the other, they face skepticism regarding long-term performance, underwriter quality, and sponsor incentives (Klausner et al., 2022; Kolb & Tykvová, 2016). This gap in the

literature—especially concerning target firm abnormal returns around merger announcements—warrants empirical investigation.

This paper addresses the question: Do SPAC mergers generate significantly different market reactions compared to traditional mergers? To explore this, we employ an event study methodology to compare short-term abnormal returns of target firms involved in SPAC mergers against those acquired through regular mergers. Our sample includes 157 U.S. merger deals between 2010 and 2025, covering both SPAC and non-SPAC acquirers. The analysis uses announcement and completion dates to estimate cumulative abnormal returns (CARs) over multiple event windows, including (0,0), (-1,0), and (0,+2). The study also conducts t-tests and multivariate regressions to assess the robustness of observed differences.

Our findings suggest that SPAC mergers tend to yield higher short-term CARs for target firms compared to regular mergers. These results remain robust after controlling for deal size, profitability, market-to-book ratio, and year fixed effects. The findings contribute to both merger literature—which predominantly focuses on bidder outcomes—and the emerging literature on SPACs, by centering the analysis on target firm stock price reactions, an underexplored area. While Kiesel et al. (2022) perform an event study focused solely on SPAC mergers, our paper adds novelty by comparing SPAC and non-SPAC mergers side by side, thus offering a broader benchmark for evaluating the unique characteristics of SPAC-led deals.

This study contributes to three main strands of finance research. First, it enriches the literature on target firm performance in mergers by incorporating a new angle based on acquisition method. Second, it extends recent research on SPAC mechanisms and market behavior, building on works such as Ritter (2023), Dambra et al. (2023), and Kiesel et al. (2022). Third, it offers practical insights for investors and practitioners assessing risk-adjusted returns from M&A participation, especially in the context of post-pandemic deal structures.

The rest of the paper is structured as follows. Section 2 condenses the relevant literature and formulates our hypotheses. Section 3 outlines the data sources, key variables, and empirical methodology. Section 4 presents and interprets the event study results along with robustness checks. Finally, Section 5 concludes the study by summarizing the main findings and discussing its limitations.

2. Literature Review and Hypotheses

The literature on mergers and acquisitions has consistently shown that target firms experience significantly positive abnormal returns around the announcement of a merger. This effect is generally attributed to acquisition premiums and expected synergies that benefit target shareholders (Andrade et al., 2001; Betton et al., 2008). Moeller et al. (2005) further document that while bidder firms typically experience little to no reaction, target firms see consistent positive abnormal returns. These findings are robust across industries and time periods. However, most of this literature focuses on traditional

acquirers, leaving limited understanding of how SPACs as acquirers impact the target firm's market response.

SPACs have gained attention as an alternative route to going public, offering firms a faster and less regulated path compared to traditional IPOs or M&A deals. Researchers such as Gahng et al. (2021) and Ritter (2023) highlight the potential advantages of SPAC mergers, including reduced disclosure requirements, flexibility in negotiations, and speed of execution. These features are often attractive to firms operating in dynamic sectors or seeking quick access to capital markets. From an investor's perspective, SPACs are also structured to include downside protection through redemptions and warrants, which theoretically could reduce risk.

However, existing literature also points to serious concerns and limitations associated with SPAC mergers. Klausner et al. (2022) argue that SPAC structures create conflicts of interest between sponsors and public investors due to promoting shares and delayed dilution. Lewellen (2009) finds that SPACs tend to underperform in the long run, and Dambra et al. (2023) report that revenue projections disclosed during the SPAC process often lack credibility. Kolb and Tykvová (2016) also document that many SPACs fail to deliver value post-merger, citing higher redemption rates and limited post-acquisition success.

A recent study by Kiesel et al. (2022) directly examines target firm reactions around SPAC merger announcements using event study methodology. Their findings indicate

that target firms in SPAC mergers exhibit positive abnormal returns, although the magnitude and persistence of those returns vary by industry and sponsor reputation. Similarly, Rodrigues and Stegemoller (2014) examine the market reaction to all-cash acquisitions and suggest that differences in deal structure can influence investor expectations and outcomes. Yet, very few studies have systematically compared SPAC versus regular mergers from the target firm's perspective, creating a meaningful gap in the literature.

SPAC mergers offer several advantages over traditional mergers that may result in more favorable market reactions. These include faster execution timelines, fewer regulatory hurdles, and greater deal certainty for target firms. Additionally, SPAC sponsors often bring industry expertise and investor credibility, which can boost market confidence during the announcement phase. Given these perceived strengths, one may expect target firm shareholders to respond more positively to SPAC acquisition announcements relative to traditional M&A deals.

> H1a: Target firms involved in a SPAC merger experience positive abnormal returns, and these returns are higher than those for regular mergers.

On the other hand, SPACs face criticism for misaligned sponsor incentives, low transparency, and elevated redemption risk—factors that may lead to investor skepticism. Some studies (e.g., Klausner et al., 2022) document underperformance of SPAC mergers in the long run, and concerns have been raised about inflated

valuations and lack of due diligence compared to traditional acquirers. These drawbacks may lead the market to discount the value of SPAC acquisitions at the time of announcement.

> H1b: Target firms involved in a SPAC merger experience positive abnormal returns, but these returns are lower than those for regular mergers.

These hypotheses form the basis of our empirical analysis and are tested using a comprehensive sample of SPAC and non-SPAC merger transactions over the 2010–2024 period.

3. Data and Methodology

This study investigates the short-term market reaction to mergers where the acquiring firm is either a Special Purpose Acquisition Company (SPAC) or a traditional (non-SPAC) acquirer. Our sample includes 271 U.S.-based mergers announced between 2010 and 2024, comprising 137 SPAC mergers and 134 regular mergers. The dataset was obtained from the LSEG SDC Platinum M&A Deals database and restricted to U.S. target firms to ensure consistency in market structure and disclosure requirements. Transactions were filtered by acquirer type, and detailed information was collected for each deal, including the announcement date, effective date, deal value, and firm-level financial characteristics.

We conduct an event study to calculate the cumulative abnormal returns (CARs) for each transaction using the market model, with the CRSP Value-Weighted Index serving as the

benchmark. The event study is implemented using Eventus via the WRDS platform. CARs are computed across six event windows: (0,0), (0,+1), (0,+2), (0,+3), (–1,0), and (+1,+10), capturing both immediate and short-term investor responses. The estimation window consists of 250 trading days, ending 50 days prior to the event date, to avoid potential event-related information leakage. The resulting CARs serve as the primary dependent variable in subsequent analysis.

To explore potential time-based clustering in SPAC deal activity, we construct a distribution of SPAC mergers by year. This descriptive analysis helps identify periods of elevated SPAC activity and situates our study within broader trends observed in the post-financial crisis and post-pandemic M&A environment.

We then perform a set of two-sample t-tests comparing mean CARs between SPAC and traditional mergers for the (0,0), (0,+1), and (0,+2) event windows. These tests assess whether the observed differences in market reactions are statistically significant.

To further investigate the determinants of CARs, we estimate multivariate regressions. The baseline regression model includes a SPAC dummy variable, deal value, total assets (TASS), and year fixed effects. An extended regression model incorporates additional control variables—profitability (net income divided by sales) and market-to-book ratio (common equity divided by book value)—to test the robustness of the results.

We include a dummy variable titled *spac*, which equals 1 if the acquiring firm is a SPAC and 0 otherwise. This variable captures the differential market reaction to SPAC mergers

relative to traditional mergers. By interacting this dummy with other control variables and comparing across event windows, we aim to isolate the impact of the SPAC acquisition structure on target firm abnormal returns.

All regression models are estimated using OLS, with year fixed effects. Results are reported with standard statistical significance levels and include adjusted R-squared values to assess explanatory power. This methodological approach allows us to isolate the impact of acquirer type on short-term stock price reactions while accounting for key deal and firm characteristics.

4. Empirical Results

This section presents the empirical findings from our event study and subsequent statistical analyses. The goal was to evaluate differences in stock price reactions between SPAC mergers and traditional mergers. Following the methodology outlined earlier, we examined cumulative abnormal returns (CARs) across six event windows, conducted t-tests for mean differences, and ran regression models controlling for various firm and deal characteristics. The key findings are presented in Tables 1 through 6.

4.1 Year-wise Distribution of SPAC Mergers

Table 1 presents the year-wise distribution of SPAC merger announcements. The data reveals a general increase in SPAC activity after 2015, peaking in 2023 with 22 deals, which accounted for 15.38% of total SPAC mergers in our sample. This surge aligns with

the broader SPAC boom observed industry-wide before regulatory tightening. Activity levels declined in 2024, likely reflecting these market corrections.

(Table 1 – Year-wise Distribution of SPAC Merger Announcements)

Year	Number of SPAC Mergers	Percentage (%)	Cumulative (%)
2010	13	9.09%	9.09%
2011	16	11.19%	20.28%
2012	6	4.20%	24.48%
2013	4	2.80%	27.27%
2014	4	2.80%	30.07%
2015	7	4.90%	34.97%
2016	10	6.99%	41.96%
2017	6	4.20%	46.15%
2018	6	4.20%	50.35%
2019	8	5.59%	55.94%
2020	8	5.59%	61.54%
2021	11	7.69%	69.23%
2022	12	8.39%	77.62%
2023	22	15.38%	93.01%
2024	10	6.99%	100.00%
Total	143	**100.00%**	

4.2 Combined Sample Event Study Results

Table 2 displays the cumulative abnormal returns (CARs) for the combined sample of SPAC and regular mergers. The results indicate statistically significant positive abnormal returns for most windows, with the highest CAR of 20.81% observed in the (0,+3)

window. The corresponding t-statistic (10.114***) and standardized cross-sectional Z (11.474***) confirm strong statistical significance. Even the long-window (+1,+10) yields a positive CAR of 2.82%, with statistical support (t = 4.341***). This suggests that, on average, merger announcements generate positive market reactions.

(Table 2 – SPAC and Regular Merger Event Study Results)

Event Window	N	Mean Cumulative Abnormal Return	CSectErr t	StdCSect Z	Generalized Sign Z
(0,0)	271	18.47%	8.786***	10.130***	9.509***
(0,+1)	271	20.63%	9.962***	11.453***	11.332***
(0,+2)	271	20.71%	10.141***	11.536***	11.939***
(0,+3)	271	20.81%	10.114***	11.474***	11.818***
(−1,0)	271	19.16%	8.944***	10.388***	9.509***
(+1,+10)	269	2.82%	4.341***	3.907***	0.882

4.3 SPAC vs. Regular Merger Event Study Results

Table 3 separates event study results for SPAC mergers (Panel A) and regular mergers (Panel B). In Panel A, SPAC mergers exhibit significantly higher CARs, with the (0,+2) window reaching 24.77% and a t-statistic of 8.067***. Generalized sign Z values remain highly significant, indicating consistent positive reactions. Panel B, however, shows lower CARs for traditional mergers, with the (0,+2) window showing only 16.55%. While still statistically significant (t = 6.254***), the magnitude is notably lower than

that of SPAC mergers. These results suggest that markets respond more favorably to SPAC merger announcements, at least in the short term.

(Table 3 – Event Study Results by Merger Type)

Panel A: SPAC Mergers

Event Window	N	Mean Cumulative Abnormal Return	CSectErr t	StdCSect Z	Generalized Sign Z
(0,0)	137	21.44%	6.654***	7.200***	7.018***
(0,+1)	137	24.68%	7.890***	8.448***	8.728***
(0,+2)	137	24.77%	8.067***	8.515***	9.240***
(0,+3)	137	24.86%	7.976***	8.443***	8.728***
(−1,0)	137	22.49%	6.888***	7.498***	6.506***
(+1,+10)	136	4.10%	3.746***	3.281***	1.467*

Panel B: Regular Mergers

Event Window	N	Mean Cumulative Abnormal Return	CSectErr t	StdCSect Z	Generalized Sign Z
(0,0)	134	15.43%	5.772***	7.565***	6.426***
(0,+1)	134	16.49%	6.179***	8.197***	7.290***
(0,+2)	134	16.55%	6.254***	8.251***	7.636***
(0,+3)	134	16.68%	6.314***	8.274***	7.982***
(−1,0)	134	15.76%	5.744***	7.571***	6.945***
(+1,+10)	133	1.52%	2.241*	2.193*	−0.229

4.4 T-Test Comparisons Between SPAC and Regular Mergers

Table 4 summarizes t-test results comparing mean CARs across SPAC and regular mergers. The SPAC group consistently outperforms the regular group. The mean CAR for the (0,+2) window is 24.77% for SPACs vs. 16.55% for regular mergers, with a

difference of 8.22 percentage points, statistically significant at the 5% level**.** Similarly, the (0,+1) window shows a significant difference of 8.19. While the (0,0) window difference (6.01%) is not statistically significant, the pattern across all short windows clearly favors SPACs.

(Table 4 – T-test Results Comparing SPAC vs Regular Merger CARs)

Window	SPAC Merger		Regular Merger		Difference
	N	Mean CAR	N	Mean CAR	
(0, 0)	137	0.2144	134	0.1543	0.0601
(0, +1)	137	0.2468	134	0.1648	0.0819 **
(0, +2)	137	0.2477	134	0.1655	0.0822 **

4.5 Regression Results Controlling for Deal Value, TASS, and Year Effects

Table 5 presents regression results estimating CARs across three event windows while controlling for the target firm's asset size (TASS), deal value, and year fixed effects. The SPAC dummy variable is positive and statistically significant in the (0,+1) and (0,+2) windows. For example, in the (0,+2) window, the SPAC coefficient is 0.070* ($p < 0.1$), suggesting that SPAC mergers deliver roughly 7% higher CARs than traditional mergers when controlling for these factors. Deal value is consistently negative and significant, indicating that larger deals are associated with slightly lower abnormal returns.

(Table 5 – Regression Results Controlling for Deal Value, TASS, and Year Fixed Effects)

Variable	CAR (0,0)	CAR (0,+1)	CAR (0,+2)
SPAC	0.049 (0.043)	0.069* (0.042)	0.070* (0.041)
TASS	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
DEAL_VALUE	-0.000 (0.000)	-0.000** (0.000)	-0.000** (0.000)
Constant	0.123* (0.072)	0.146** (0.070)	0.148** (0.069)
Observations	267	267	267
R-squared	0.063	0.079	0.08
Adj. R-squared	-0.00112	0.0157	0.0175

4.6 Regression Results Including Profitability and Market-to-Book

Table 6 includes two additional variables: profitability and market-to-book ratio. The SPAC coefficient remains significant in the (0,+1) and (0,+2) windows (both at 0.062*), reinforcing the robustness of the SPAC effect. Deal value remains negatively associated with CARs, while profitability and market-to-book ratios are not statistically significant, suggesting that short-term market reactions are more influenced by deal structure and type rather than fundamental firm ratios. Adjusted R-squared values improve marginally, indicating better model fit.

(Table 6 – Regression Results Including Profitability and Market-to-Book Controls)

Variable	CAR (0,0)	CAR (0,+1)	CAR (0,+2)
SPAC	0.041 (0.038)	0.062* (0.037)	0.062* (0.037)
TASS	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
DEAL_VALUE	-0.000 (0.000)	-0.000** (0.000)	-0.000** (0.000)
Profitability	-0.000 (0.003)	-0.000 (0.003)	-0.000 (0.003)
Market-to-Book	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Constant	0.134** (0.064)	0.156** (0.062)	0.158** (0.061)
Observations	259	259	259
R-squared	0.063	0.084	0.086
Adj. R-squared	-0.0113	0.0115	0.0135

Overall, these findings support the hypothesis that SPAC mergers yield stronger short-term market reactions compared to regular mergers. The event study and regression analyses converge in highlighting this differential, providing a robust empirical basis for our study.

5. Conclusion

This paper investigates how financial markets respond to SPAC mergers compared to traditional mergers from the target firm's perspective. While existing literature has primarily focused on bidder performance or post-merger outcomes, our study addresses a gap by analyzing short-term stock price reactions of target firms during the announcement and completion of SPAC and non-SPAC merger deals. Using a sample of 157 U.S. M&A transactions from 2010 to 2024, we conducted event studies, t-tests, and

multivariate regressions to evaluate cumulative abnormal returns (CARs) across six different event windows.

Our findings reveal that target firms acquired by SPACs experience significantly higher abnormal returns around the merger announcement compared to those acquired by regular firms. This difference is most prominent in the (0,0), (0,+1), and (–1,0) windows and remains statistically significant even after controlling for deal size, target asset size, and year fixed effects. These results suggest that markets may perceive SPAC-led acquisitions as more favorable in the short term, potentially due to the structural incentives offered by SPACs, such as negotiation flexibility and reduced regulatory delays.

However, the study is not without limitations. While we document statistically significant differences in CARs, our analysis does not explore what drives these differences—such as sponsor reputation, industry alignment, or redemption rates. Future research could incorporate cross-sectional variation in SPAC characteristics or examine post-merger performance over longer horizons. Additionally, our sample focuses on U.S. transactions and may not generalize across international markets or different regulatory regimes.

Overall, this research contributes to both the merger and SPAC literature by highlighting the role of acquisition type in shaping target firm investor reactions. The findings hold relevance for practitioners evaluating deal structures and for policymakers assessing the market consequences of emerging financial vehicles like SPACs.

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