



Department of Economics & Finance

Chair of Corporate Finance

Analysing the Capital Structure and Financing of SPAC

M&A: A Case Study of Trump Media's SPAC Merger

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Academic Year 2024-2025

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Introduction

Special Purpose Acquisition Companies (SPACs) have surged to prominence in modern finance as an alternative route for private companies to access public capital markets. A SPAC is essentially a publicly traded shell company that raises a pool of cash in an initial public offering (IPO) and holds the proceeds in trust while seeking to merge with a private operating company. This structure offers a faster timeline, and a different risk-reward profile compared to traditional IPOs, attracting wide interest from investors, sponsors, and target companies.

In recent years, SPACs have raised unprecedented amounts of capital, for instance, 2021 alone saw 613 SPAC IPOs raising \$145 billion, and have facilitated the public listing of firms ranging from technology startups to electric vehicle manufacturers. The boom has been so intense that SPAC IPOs accounted for over half of all U.S. public listings in 2021¹. This proliferation of SPAC transactions has drawn regulatory scrutiny and academic analysis, particularly as some high-profile deals, such as the merger between Digital World Acquisition Corp. and Trump Media & Technology Group, test the limits of the SPAC model.

The purpose of this thesis is to provide a comprehensive analysis of the capital structure and financing of SPAC mergers, using the Trump Media merger as a detailed case study. By examining the intricate processes involved, from SPAC formation and cash accumulation, through the search period, merger negotiation, and the subsequent lockup and post-merger phases, this study aims to elucidate both the operational mechanics and the financial implications of using SPACs as a financing tool.

In particular, the thesis seeks to critically assess the pros and cons of SPACs, understand the complex interplay of various financing instruments (such as PIPE investments, sponsor equity, and convertible debt), and explore how these factors influence the outcomes for stakeholders and the broader market. Ultimately, the goal is to contribute to the academic literature on SPAC financing and to provide insights that may guide future regulatory and strategic decisions in this evolving domain.

¹ Phil Mackintosh, "A Record Pace for SPACs in 2021," Nasdaq, January 6, 2022

Background of SPACs in Modern Finance

What is a SPAC? A SPAC is a “blank check” company formed with no commercial operations, solely to raise capital via an IPO and then acquire a private business². In a typical SPAC IPO, investors purchase units (usually one common share plus a fraction of a warrant) at a set price (often \$10 per unit), and the proceeds are placed into a trust account to be used for a future business combination. Because the SPAC has no operating business at the time of its IPO, investor trust hinges on the reputation and expertise of the SPAC’s sponsors: the management team that organizes the SPAC and searches for a sustainable target.

Sponsors generally receive a substantial equity stake (commonly ~20%) as compensation, often referred to as the “promote”, after successfully closing a merger. If the SPAC fails to complete an acquisition within a set timeframe (usually about 18–24 months), it must liquidate and return the IPO funds to shareholders, giving investors downside protection. This basic structure: a cash-rich shell with a ticking clock to find a deal, underpins the modern SPAC’s role in finance.

Historical development

SPACs evolved from the “blank check” companies of the 1980s, which had a dubious reputation for speculative mania and fraud. In response to abuses in that era, U.S. regulators imposed stricter rules (e.g. the Penny Stock Reform Act of 1990) to curb blank check offerings. The modern SPAC template was born in the early 1990s when lawyers and bankers designed a vehicle that would include investor safeguards (such as holding IPO proceeds in escrow and requiring shareholder approval of any merger). This prototype allowed SPACs to gain acceptance by the Securities and Exchange Commission (SEC), but market interest was initially limited. SPAC activity remained modest through the 1990s and 2000s, with only a handful of deals, as favourable market conditions meant small companies often pursued traditional IPOs instead. It was only in the mid-2000s and especially the late 2010s that SPACs truly entered the financial mainstream. Reforms and successful mergers gradually improved their reputation, and by

² J.S. Kalisvaart and C.F.C. Sutherland, *A Brief History of the SPAC and the Development of Its Characteristics*, *Magazine for Financial Statements Law*, no. 3 (July 2022): 71–75

the end of the 2010s top-tier underwriters and seasoned executives were sponsoring SPACs. A critical milestone was the ability (after 2008) to list SPACs on major exchanges like the NYSE and Nasdaq, lending credibility and liquidity to SPAC IPOs. These developments set the stage for an explosion of SPAC offerings³.

Rise, boom, and pullback

The SPAC market experienced an extraordinary boom in 2020–2021. The graph below compares the volume of global "dry powder" and the number of U.S. Initial Public Offerings (IPOs) over the period from 2008 to 2021. Dry powder refers to the capital raised by private equity and venture capital firms that has not yet been deployed into investments; this capital is often held in reserve for future investments, whether in the form of acquisitions, private investments, or other opportunities.

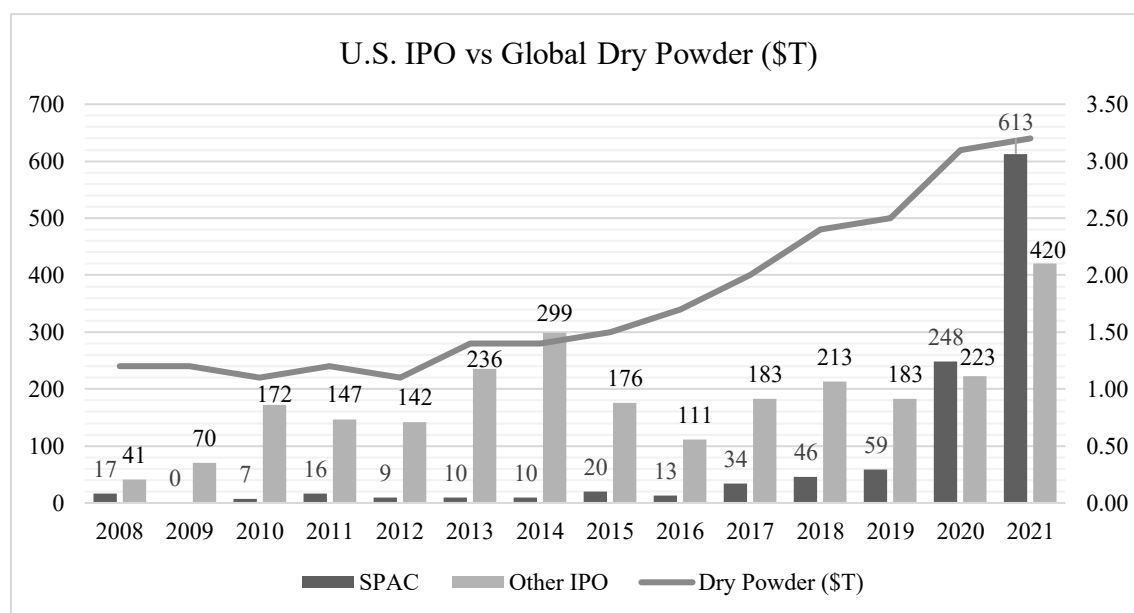
As shown in the graph, dry powder grew significantly over the years, particularly from 2019 to 2021, with a sharp increase observed in 2021, when the total amount of dry powder reached over \$1 trillion, highlighting a substantial accumulation of capital that could be deployed for investment opportunities in the future. The growth in dry powder correlates with the increasing amount of funds raised in private equity and venture capital markets, which are often waiting for the right conditions to invest.

On the other hand, the number of IPOs fluctuated over the same period, with a notable peak in 2021. This discrepancy between the growth in dry powder and the number of IPOs suggests that while capital was readily available, it was not always channelled into the public market through IPOs. Instead, private equity firms and venture capitalists may have been focusing on alternative investment strategies or holding their capital in reserve for future opportunities.

This graph can provide valuable insights into market behaviour and investment trends, showing that an increase in available capital (dry powder) does not always correlate with an immediate rise in IPO activity, but rather reflects broader trends in private

³ Ibid.

investment strategies and market conditions⁴.



The attractiveness of SPACs in that period stemmed from several factors: abundant liquidity in the market, investors seeking high-growth opportunities, and companies looking for quicker or more certain paths to going public amid volatile conditions. SPACs became so popular that they represented 59% of all new U.S. listings in 2021, contributing to that year's record-breaking IPO market.

However, this SPAC euphoria subsided as 2021 turned into 2022. Many SPACs encountered challenges in finding suitable targets or faced investor fatigue. The appetite for SPACs clearly decreased after the 2020/2021 hype⁵. Key drivers of the pullback included poor post-merger performance for many SPAC companies, concerns over heavy dilution and sponsor incentives, and increasing regulatory scrutiny. By late 2021, the SEC had issued guidance and in early 2022 it proposed new rules to tighten disclosures and liability for SPAC mergers, signalling a less permissive stance. The PIPE (Private Investment in Public Equity) market, a crucial source of additional funding for SPAC deals, also cooled markedly. As a result, new SPAC IPO issuance dropped and numerous existing SPACs either scrambled to complete deals under more sceptical conditions or opted to liquidate. This boom-and-bust cycle in SPACs underscores the importance of understanding how SPACs function as financing tools, the subject of the next section.

⁴ Phil Mackintosh, "A Record Pace for SPACs in 2021," Nasdaq, January 6, 2022

⁵ SPAC Analytics, "SPAC and US IPO Activity," SPAC Analytics

0.1 The Rise of SPACs as a Financing Tool

SPACs rose to prominence by offering an alternative, and ostensibly more efficient, method of financing companies into the public market. Mechanically, a SPAC serves as a bridge between private companies and public investors: the SPAC raises cash from investors up-front, then later injects that cash (often augmented by additional financing) into a target company through a merger, thereby financing the target's growth and taking it public simultaneously. This process circumvents some of the complexities of a traditional IPO, and during the late 2010s and 2020/2021, many practitioners touted SPACs' advantages in speed, certainty, and flexibility.

Advantages of SPAC financing

SPAC financing offers several notable advantages compared to a traditional IPO, foremost among them being a faster execution timeline. While a conventional IPO can take anywhere from 12 to 18 months to complete, a SPAC merger often concludes in just 3 to 6 months⁶, which is particularly appealing for companies operating in rapidly evolving sectors or those urgently requiring capital. Moreover, the valuation process in a SPAC transaction provides greater price certainty because the target negotiates its equity value directly with the SPAC sponsor and any associated investors in advance, thereby mitigating the risks posed by last-minute market fluctuations.

In a parallel development, SPAC deals frequently incorporate additional financing mechanisms, such as a PIPE (Private Investment in Public Equity) or debt financing, ensuring that the company secures the necessary capital to fund its growth even if some SPAC shareholders opt to redeem their shares⁷. Another benefit of this route to going public is the reduced marketing effort compared to a traditional IPO, as the SPAC itself has already secured its initial funding. Consequently, instead of an extensive public roadshow, companies can target smaller groups, primarily PIPE investors and those involved in approving the merger.

Beyond the funding advantages, many SPAC sponsors bring valuable sector expertise, management experience, and business networks, which can be instrumental in guiding

⁶ KPMG, "Why So Many Companies Are Choosing SPACs Over IPOs," KPMG, January 26, 2022

⁷ Ibid.

young companies through the transition to public markets. In some cases, these sponsors or related executives also join the board of the merged entity, providing ongoing strategic input⁸. These advantages explain why, in a climate of receptive investors, SPACs came to be viewed as a “cheaper, faster, and more certain” path to the public markets. Notably, even some prominent private equity and venture capital-backed firms chose SPAC mergers to capitalize on these benefits during the recent boom.

Drawbacks and risks

Despite their advantages, SPACs have also drawn considerable criticism from researchers and regulators for several reasons. First, they can be an expensive mechanism for going public due to the inherent dilution in their structure, where sponsors frequently secure 20% of the equity at a nominal cost and IPO investors receive warrants or rights. This issuance of “free” or subsidized shares and warrants can erode the value available to non-redeeming shareholders and founders⁹.

In fact, one study noted that by the time most SPACs complete their mergers, they often retain only around \$6.67 in cash per share of the original \$10, indicating how significantly dilution and redemptions reduce available funds¹⁰. Such redemptions themselves pose another challenge, as SPAC investors can choose to redeem their shares for the initial trust value at the merger vote. In many recent deals, redemption rates have exceeded 50%, and sometimes even 80%, forcing target companies to seek additional PIPE or debt financing to remain adequately funded.

A further concern revolves around sponsor incentives; sponsors stand to reap substantial gains if any merger is completed before the SPAC’s expiration date, giving them a motivation to finalize deals even if the target is lacklustre.

Empirical evidence suggests that such misalignments can lead to subpar targets, with post-merger prices often declining by one-third or more¹¹. Additionally, the rapid turnaround of a SPAC deal compresses the timeline in which the target must produce

⁸ Ibid.

⁹ Michael Klausner, Michael Ohlrogge, ed Emily Ruan, "A Sober Look at SPACs," Harvard Law School Forum on Corporate Governance, November 19, 2020

¹⁰ Ibid.

¹¹ Ibid.

audited financials, satisfy SEC disclosure obligations, and establish public-company governance structures, potentially straining management¹².

The due diligence process also differs from a traditional IPO, as underwriters do not assume the same role and a full prospectus does not exist until the merger proxy or registration statement is filed, raising concerns about lax. Without underwriter liability and with a faster closing cycle, there is a risk of overlooking critical business issues, sometimes leading to financial restatements or litigation. Regulators have similarly warned that the absence of an IPO underwriting phase forces investors to rely on the sponsor's representations and forward-looking statements, which can be overly optimistic. As a result, while SPACs can indeed expedite access to capital and offer flexible valuation terms, the associated dilution, redemption uncertainty, and potentially weaker due diligence pose significant risks for long-term investor returns, underscoring the importance of carefully weighing these trade-offs.

0.2 Key Characteristics and Differences from Traditional IPOs

An IPO and a SPAC merger are both pathways for a private firm to become publicly traded, but they differ significantly in process, structure, and stakeholder economics. Understanding these differences is crucial for evaluating why a company or sponsor might choose one route over the other.

Process and timeline

In a traditional IPO, a private company works with underwriters (investment banks) to prepare a detailed registration prospectus, undergo SEC review, and market the offering to institutional investors through roadshows. After pricing the offering based on investor feedback and market conditions, the company issues new shares to the public on a stock exchange. This process typically takes many months of preparation and is executed in a single transaction (the IPO sale).

By contrast, in a SPAC transaction, the private company goes public by merging with an already-listed shell (the SPAC). The SPAC has cash in trust from its own prior IPO. The merger process involves negotiation of terms between the target and the SPAC,

¹² KPMG, "Why So Many Companies Are Choosing SPACs Over IPOs," KPMG, January 26, 2022

announcement of the deal, SEC review of the merger proxy/registration (Form S-4), and a shareholder vote, culminating in the target company's shareholders receiving shares (and possibly cash) from the SPAC and thereby becoming a public company. The overall timeline for a SPAC merger (typically a few months once a target is identified) is often shorter than an IPO, as noted earlier, because the SPAC has already completed much of the initial preparation, such as raising capital and going public. As a result, once a target company is identified, the focus is primarily on finalizing the merger agreement and obtaining the necessary regulatory approvals, rather than going through the entire IPO process¹³.

Pricing and valuation

IPO pricing is famously subject to market swings, a company may file for an IPO with one valuation in mind, only to have to adjust (or cancel) if the market declines or investors demand a lower price. In a volatile market, IPOs can be delayed or underpriced. With SPACs, the target company locks in a valuation through negotiation. For example, a target might agree to merge at a fixed equity value (say \$1 billion) and receive that in shares of the SPAC at \$10 per share (100 million shares). This negotiated price is set well before the shares trade publicly, providing more certainty to the target. However, it's not a guarantee of market value, after the merger, the stock may trade down if investors feel the price was too high. Still, in volatile conditions the upfront price discovery in a SPAC deal (via negotiation) can be seen as "much more advantageous" than the uncertainty of an IPO pricing¹⁴. Another difference is that SPAC targets often justify their negotiated valuations using multi-year projections (something not done in IPO pricing), potentially resulting in higher valuations based on future growth¹⁵.

Financing and capital structure

In an IPO, the company typically raises primary capital by issuing new shares, minus underwriting fees (~5-7%), and that cash goes onto its balance sheet. The ownership

¹³ Ibid.

¹⁴ Kison Patel, "SPAC vs IPO: Difference, Benefits, Pros and Cons," *DealRoom*, last accessed April 8, 2025

¹⁵ London Economics, "SPAC(e) In Focus – Finance at the Final Frontier," *London Economics*, March 7, 2022

dilutes by the amount of new equity issued. In a SPAC merger, the cash in the SPAC's trust (raised from its IPO) and any PIPE investments become the company's new capital. A key distinction is the uncertainty of the SPAC's cash, due to shareholder redemptions as discussed. The SPAC route often necessitates additional funding arrangements (PIPE, debt) to ensure that the combined company ends up with the desired cash. In effect, a SPAC deal can involve multiple financing sources, the SPAC trust, a PIPE, sponsor equity, perhaps debt, whereas an IPO is usually a single equity infusion¹⁶. If too many SPAC shareholders redeem, the target might receive much less cash unless backfilled by a PIPE, which is a complexity IPOs don't face (in an IPO, the company knows how much it raised at closing). Moreover, in a SPAC the sponsors promote and warrants mean that ownership of the post-merger company is split among more parties: original target owners, public SPAC shareholders, sponsor, and PIPE investors¹⁷. In an IPO, by contrast, the ownership after the offering is basically the pre-IPO shareholders and the new public shareholders (the underwriter does not retain an equity stake, only fees). This structural difference often makes SPAC mergers more dilutive for existing owners of the company than a well-priced IPO would be.

Investor protections and redemption

One notable innovation of SPACs is giving IPO investors a *redemption option*. At the time of the business combination vote, SPAC shareholders can redeem their shares for their pro-rata amount of the trust (approximately \$10 plus any accrued interest)¹⁸. This feature, absent in a traditional IPO, provides SPAC investors a built-in downside protection, effectively, they can get their money back if they don't like the deal. Traditional IPO investors have no such option; they take market risk on the shares immediately after the IPO. The redemption right changes investor behaviour: many hedge funds participate in SPAC IPOs with the intent to redeem or arbitrage the warrants, meaning they are less concerned with the target's long-term value and more with the trust safety net.

¹⁶ KPMG, "Why So Many Companies Are Choosing SPACs Over IPOs," KPMG, January 26, 2022

¹⁷ Perkins Coie, "SPACs: Frequently Asked Questions," January 20, 2021

¹⁸ Michael Klausner, Michael Ohlrogge, ed Emily Ruan, "A Sober Look at SPACs," Harvard Law School Forum on Corporate Governance, November 19, 2020

This dynamic is unique to SPACs. For the target company, it introduces uncertainty (as noted, they won't know how much of the trust will be redeemed), whereas in an IPO the company keeps all the funds raised (aside from fees). From a market perspective, the redemption option has made SPACs a lower-risk trade for initial investors, contributing to the explosion of SPAC IPOs, but it can leave the post-merger company with a high redemption rate and limited public float.

Regulatory and disclosure differences

While both IPOs and SPAC mergers require SEC review and extensive disclosures, the nature of the disclosures differ. An IPO requires a comprehensive Form S-1 registration statement with full descriptions of the company's business, finances, and risks, and it prohibits companies from making projections. A SPAC merger requires a Form S-4 (or proxy) filing by the SPAC to solicit shareholder approval for the merger, which includes information about the target business (essentially similar information as an IPO prospectus) and the deal terms. One critical difference is that SPAC mergers have been able to include target company projections and forward-looking statements in their filings, relying on safe harbour provisions. This has drawn regulatory attention; in fact, in 2022 the SEC proposed rule changes to subject SPAC mergers to more IPO-like standards of liability and disclosure, to prevent any regulatory arbitrage between the two paths.

Another regulatory difference is the role of underwriters. In an IPO, underwriters perform due diligence and certify the accuracy of disclosures, and they can be liable for material misstatements. In a SPAC, the initial IPO underwriter is only responsible for the SPAC shell (which has no operations), and by the time of the merger, there traditionally hasn't been an "underwriter" playing the same gatekeeping role. This led to concerns and as mentioned, proposals to treat the investment banks assisting in de-SPAC transactions as underwriters for liability purposes.

In summary, IPOs and SPACs differ in how the deal is executed (sale of new shares vs. merger), how pricing is determined (market book-building vs. negotiation), who bears risks and costs (under-pricing risk vs. dilution risk), and the timeline and complexity of going public.

Each route has its merits: IPOs are time-tested and can be efficient in strong markets, whereas SPACs offer flexibility and certainty in certain aspects and were particularly useful in uncertain market periods. The choice “SPAC or IPO?” ultimately depends on a company’s circumstances, market conditions, and the availability of a quality SPAC sponsor. The rise of SPACs has simply expanded the menu of financing options, albeit with new challenges.

Literature Review

0.3 SPACs as an Alternative to IPOs: Hype vs. Reality

Academic studies taking a sober look at SPAC outcomes after its adoption, began to highlight significant concerns: a consistent finding is that going public via SPAC is typically far more costly than via a traditional IPO¹⁹. In one comprehensive study, Klausner et al. observe that while a SPAC raises, for example, \$10.00 per share in its IPO, by the time it consummates a merger the cash remaining in trust is dramatically lower on a per-share basis, in their 2019–2020 sample, the mean net cash per share delivered to the target was only about \$4–6. In other words, roughly half or more of the cash raised can evaporate through the SPAC process, implying a much higher cost of capital than a traditional IPO. Consistent with this, Gahng, Ritter, and Zhang (2023) report that merging with a SPAC “is much more expensive than conducting a traditional IPO”²⁰. Thus, despite the purported benefits, the emerging consensus is that SPACs have not delivered a more efficient financing method than IPOs; on the contrary, the overall costs embedded in the SPAC structure are subtle and exceed those of an IPO.

0.4 SPAC Capital Structure and Dilution Effects

The financial structure of SPACs explains why so much value slips away by the merger stage. A SPAC’s sponsor, underwriters, and IPO investors all receive generous compensation that dilutes the equity value before the target company ever sees the cash. Firstly, SPAC’s features: the sponsors promote, the warrants/rights, and the underwriting

¹⁹ Michael Klausner, Michael Ohlrogge, and Emily Ruan, "A Sober Look at SPACs," Yale Journal on Regulation, January 24, 2022

²⁰ Minmo Gahng, Jay R. Ritter, and Donghang Zhang, "SPACs," *The Review of Financial Studies*, March 2, 2023

and advisory fees, represent built-in costs that reduce the cash per share available to the target and new shareholders at merger time. This dilution is not borne by the merging company (assuming a valuation of \$10 per share); instead, it is effectively borne by the SPAC's non-redeeming shareholders who hold shares through the merger. These investors "unwittingly subsidize" the deal by absorbing the dilution cost, while those who redeem their shares prior to the merger (often hedge funds) get their \$10 back plus keep any warrants, and sponsors typically profit via their promote.

Academic researchers have characterized this SPAC dilution dynamic as a major structural flaw. Klausner et al. describe the costs as largely hidden and borne by SPAC shareholders who hold shares at the time of the merger, resulting in steep losses for those shareholders even as sponsors "profit handsomely"²¹. In their sample, the median post-merger share price one year after the merger was around \$6–7, implying significant value destruction for non-redeeming shareholders. Similarly, Gahng, Ritter, and Zhang document that SPAC IPO investors and sponsors earn high returns (sponsors by virtue of their cheap shares, and IPO investors through arbitrage and warrant upside), but public shareholders of the merged company suffer very low or negative returns on average²². This reflects the fact that many SPAC shareholders choose to redeem at the merger vote, leaving a smaller pool of capital in the deal; those who don't redeem are often latecomer public investors (frequently retail investors) who end up holding an overvalued stock after the merger dilutive effects take hold.

Recent international research reinforces these points: a global sample from 2016–2023 finds that SPAC sponsors and early investors enjoy very positive returns, whereas end-investors in the de-SPAC companies mostly experience negative returns²³.

The performance gap between insiders and ordinary shareholders is a recurring theme and a key criticism of the SPAC model.

On the other hand, in a 2024 study, Hal Scott and John Gulliver contend that for a typical SPAC the reduction in a non-redeeming investor's share value is on the order of only 5–6% (i.e. their shares end up worth about \$9.45 each, from a \$10 investment), a cost which

²¹ Michael Klausner, Michael Ohlrogge, and Emily Ruan, "A Sober Look at SPACs," *Yale Journal on Regulation*, January 24, 2022

²² Minmo Gahng, Jay R. Ritter, and Donghang Zhang, "SPACs," *The Review of Financial Studies*, March 2, 2023

²³ Carlos G. Pedraz, Adrian Van Rixtel, and Roberto Pascual González, "Navigating the Boom and Bust of Global SPACs," *Banco de España Occasional Paper* No. 2434, October 30, 2024

they note is actually lower than the average 20% under-pricing cost borne by companies in a traditional IPO²⁴. By their calculations, the SPAC's various structural features (promote, warrants, PIPE financing, etc.) do not heavily dilute the ownership or value for those who hold through the merger, and they conclude that "the SPAC process is not highly dilutive" for non-redeeming shareholders. This more optimistic view suggests that SPACs' costs may be acceptable and analogous to IPO costs in some cases. Finally, the Trump Media–DWAC saga provides a tangible example that crystallizes many academic findings about SPACs. It demonstrates how SPACs can attract speculative investment divorced from fundamentals, how sponsor conflicts and inadequate disclosures can undermine investor trust, and how regulatory intervention becomes necessary to address these failures. High-profile cases like this one tend to validate the prevailing scholarly scepticism regarding SPACs' governance and financial structure. At the same time, they also show why SPACs remain a subject of fascination: they can offer a path to public markets for companies that generate public excitement (for better or worse), and in rare cases they may achieve successes. The challenge, as identified in the literature, is to align SPACs with investor interests and improve their financing efficiency. The lessons from recent research are driving reforms that may determine whether SPACs can evolve into a more effective financing vehicle or will be remembered as a transient financial experiment that, in most cases, failed to deliver on its promise of a superior alternative to the IPO.

Objectives and Research Questions

This analysis aims to deepen the understanding of SPAC capital structures and evaluate their consequences through a real-world example. The overarching objective is to assess how the financing architecture of SPAC transactions influences stakeholder outcomes and market perceptions. In pursuit of this goal, the report examines both general SPAC structures and the specific case of the Trump Media & Technology Group's merger with Digital World Acquisition Corp., a highly publicized SPAC deal. By investigating this case, the analysis seeks to illustrate broader points about SPAC financing strategies, benefits, and pitfalls.

²⁴ Hal Scott and John Gulliver, "No, SPACs Do Not Dilute Investors – A Theoretical and Empirical Analysis," *Harvard Law School Forum on Corporate Governance*, December 12, 2024

Specifically, the research intends to shed light on whether SPACs deliver effective financing or introduce problematic structures, and how a high-profile case fits into the larger SPAC narrative. The Trump Media SPAC deal, given its prominence and unusual challenges, serves as a valuable case study to test the limits of SPAC financing.

0.5 Understanding the Capital Structure in the Trump Media SPAC Merger

The planned merger between Digital World Acquisition Corp. (DWAC), a SPAC, and Trump Media & Technology Group (TMTG) provides a concrete example of how SPAC capital structures are put into practice. Announced in 2021, the deal set out the financial framework by which TMTG (the owner of the Truth Social platform) would receive funding and go public. According to deal filings, the transaction valued TMTG at an initial enterprise value of \$875 million, with an additional \$825 million earnout contingent on performance targets²⁵. In other words, TMTG's owners (including Donald Trump as majority shareholder) would receive shares in the new public company equating to \$875 million in value and could earn up to \$825 million more in shares if the business met certain milestones. This valuation framework meant that TMTG's shareholders were set to own the majority stake of the post-merger company, reflecting the fact that TMTG was the operating business being injected into the publicly traded vehicle.

On the SPAC side, DWAC had approximately \$293 million in cash held in trust from its own IPO in September 2021²⁶. Those funds, minus any redemptions by DWAC's shareholders, were intended to be contributed to the combined company's balance sheet. Initially, the expectation (assuming no redemptions) was that DWAC's cash plus additional financing would provide a substantial war chest to TMTG. Indeed, in December 2021 the sponsors announced they had secured \$1 billion in PIPE investments from a "diverse group of institutional investors" to support the merger²⁷. This PIPE (Private Investment in Public Equity) was structured as convertible preferred stock that would convert to common shares at a 20% discount to the SPAC's trading price, with

²⁵ Gina Chon, "Trump app is ultimate art of the SPAC deal," *Reuters Breakingviews*, October 21, 2021

²⁶ *Ibid.*

²⁷ Trump Media & Technology Group, "Trump Media & Technology Group Corp. and Digital World Acquisition Corp. Announce \$1 Billion 'PIPE' Investment in Committed Capital to Fund Business," *GlobeNewswire*, December 4, 2021

certain price protection mechanisms. Combined with the SPAC trust, the deal was projected to deliver approximately \$1.25 billions of proceeds (net of expenses) to the new company, assuming full \$293 million from the trust²⁸. The substantial PIPE commitment was a vote of confidence and was meant to ensure TMTG had the capital to expand its Truth Social platform and other ventures.

However, Over the course of 2022–2023, the \$1 billion PIPE funding effectively fell apart. DWAC failed to consummate the merger by the original deadline (September 2022), largely because the SEC’s investigation into the deal’s disclosures put regulatory approval on hold. The delay gave PIPE investors the right to cancel their commitments. Many did: by 2023, \$467 million of the \$1 billion had already been withdrawn by investors, and in October 2023 DWAC moved to terminate and return the remaining \$533 million to the PIPE investors. This development meant that the PIPE once a key pillar of the capital structure would no longer contribute funding. An August 2023 amendment to the merger agreement unwound the PIPE and even provided Trump with new shares carrying extra voting power as a concession²⁹.

The removal of the PIPE left the SPAC’s trust as the primary source of cash. The trust’s \$293 million represents the maximum cash TMTG can receive at closing, and that assumes no DWAC shareholder redemptions, which could significantly reduce that amount: an uncertainty hanging over the deal.

In terms of equity ownership, the merger structure allocates shares in the new combined company to several constituencies:

TMTG’s existing shareholders: They will receive a large block of new shares as consideration for the merger. Trump himself, as the majority owner of TMTG, is slated to personally receive a very significant stake. A Washington Post analysis of an SEC filing indicated that Trump would hold over 78 million shares in the post-merger company. At the deal’s initial \$10 per share reference price, that would equate to \$780 million, and at the higher market prices that DWAC’s stock has traded on speculation,

²⁸ Ibid.

²⁹ Helen Coster, "SPAC to return remaining \$533 million raised for Trump social media deal," *Reuters*, October 12, 2023

the paper value could reach into the billions³⁰. This underscores that TMTG's owners will be dominant shareholders of the combined entity.

DWAC public shareholders: Those who bought into the SPAC's IPO (or later in the market) and do not redeem will roll over into an ownership stake in the new company. Initially, DWAC had 25 million shares issued in its IPO³¹. If all remained, they would form a substantial minority stake. However, DWAC's stock has been volatile, and many shares may change hands or be redeemed. Every share that redeems for cash reduces the public float and the cash delivered. For example, if 80% of shareholders redeem, only around 5 million of the original 25 million shares would remain as part of the new company's equity. The redemption rate thus directly affects both the cash TMTG receives and the public shareholder ownership fraction.

DWAC sponsor and insiders: The sponsor received founder shares equivalent to 20% of the SPAC's post-IPO equity for a nominal price. DWAC's sponsor initially held millions of shares (approximately 7.5 million founder shares, based on typical structure) plus warrants. These will convert into shares of the merged company. The sponsor's stake can be diluted if additional shares are issued (for example, the earnout shares to TMTG or shares sold in PIPE), but with the PIPE gone, the sponsor likely retains close to the original percentage. One wrinkle is that DWAC's sponsor and leadership changed in 2023: the CEO Patrick Orlando was ousted and a new CEO (Eric Swider) installed³², but the economic rights of the sponsor entity (and early investors/backers of DWAC) would still apply.

PIPE investors: As noted, they are no longer part of the capital structure. Initially, they would have gotten convertible preferred shares (which ultimately equate to common stock). With the PIPE cancelled, those investors will instead receive their money back. This means no PIPE shares will be issued at closing, slightly increasing the relative

³⁰ Allison Alsup, "Truth Social merger deal wins key approval, a victory for Trump," *Warrington College of Business News*, February 19, 2024

³¹ "Trump Media & Technology Group," *Wikipedia*

³² Jaspreet Singh, "Digital World extends deadline for merger with Donald Trump's media company," *Reuters*, August 9, 2023

ownership of the other groups but, more importantly, removing \$1 billion of cash infusion.

The net effect of these elements is that if the deal proceeds, Trump Media & Technology Group will go public with far less cash than originally envisioned, but with Trump himself holding a very large equity stake. The capital structure has shifted from “\$293M trust + \$1B PIPE” to essentially just the SPAC trust as the cash source (and that may be greatly diminished by redemptions). Any earnout shares (up to \$825M worth) would further reward TMTG shareholders if the stock performs well post-merger. This case illustrates how a SPAC’s financing can evolve: what began as a vehicle to provide over a billion dollars in capital has, due to redemptions and withdrawals, turned into largely a vehicle to bring a company public with relatively little cash delivered.

Chapter 1: Overview of Capital Structure in SPAC Transactions

Having explored the general landscape of SPACs and a specific case, we now turn to an overview of capital structure in SPAC transactions. This chapter examines what “capital structure” means in the SPAC context, how SPACs raise and deploy capital from inception through merger, and why the financing choices made are pivotal in mergers and acquisitions (M&A). Understanding these elements provides a foundation for analyzing any SPAC deal’s financial underpinnings.

1.1 Definition and Components of Capital Structure in SPACs

In corporate finance, capital structure refers to the mix of a firm’s financing sources, primarily equity (shares) and debt, used to fund its operations and growth. In the context of a SPAC, which is a unique two-phase entity, capital structure encompasses the funds raised and securities issued both at the SPAC’s IPO stage and at the point of its business combination (de-SPAC). SPACs are distinctive in that initially they typically have no debt (they are funded by equity capital) and their capital structure evolves when they merge with a target.

A SPAC’s capitalization can be broken down into three key components: *Public IPO equity*: When a SPAC goes public, it sells units consisting of common shares (often priced at \$10 each) and warrants (or fractions of warrants) to public investors. The proceeds from this IPO are placed into a trust account, normally invested in short-term U.S. government securities or held as cash equivalents. This public equity is the initial capital of the SPAC. For example, if a SPAC sells 30 million units at \$10, it raises \$300 million that goes into trust. Investors in the IPO receive shares (30 million in this example) and warrants (say 10 million warrants if 1/3 warrant per unit). The funds in trust can only be used for specific purposes: consummating an approved merger or redeeming shares of investors who opt out and covering certain expenses. Until a merger is approved, that money is essentially off-limits for any other use, protecting it for the shareholders.

Sponsor equity (founder shares and warrants): The SPAC's sponsor (the team organizing the SPAC) provides the second component of capital. The sponsor typically purchases founder shares in a private placement for a nominal price (often paying around \$25,000 in total). These founder shares usually amount to 20% of the post-IPO shares outstanding. In the example above, if 30 million shares are sold to the public, the sponsor might have 7.5 million founder shares (since 7.5 million is 20% of 37.5 million total, which is 30M public + 7.5M sponsor). The sponsor also commonly buys founder warrants (or "private placement warrants") by investing additional capital into the SPAC, this is often a few percent of the IPO proceeds (e.g. a sponsor might invest \$8–10 million to buy warrants in a SPAC that raised \$300 million). The cash from this warrant purchase is typically used to cover the SPAC's offering expenses and working capital. Importantly, the sponsor's shares and warrants form the at-risk capital of the sponsor; if the SPAC fails to find a deal and liquidates, the public shareholders get their \$10 per share back from the trust, but the sponsor's shares become worthless, and the warrant investment is lost. This structure is meant to align the sponsor with success; their reward is the "promote" (the 20% equity stake) only if they complete a merger. The flip side is that this sponsor equity greatly dilutes other shareholders upon a merger (as discussed earlier), which is why it is often a point of negotiation in deals (sponsors sometimes agree to cancel or vest a portion of their promote shares to make the deal more attractive to the target).

PIPE and other financing at merger: The third component is not always present but has become common: Private Investment in Public Equity (PIPE) financing. A PIPE is an agreement with institutional investors to buy shares of the SPAC (usually at \$10 per share) at the time of the business combination closing. PIPE commitments are sought after a merger target is identified, to bring in additional funds (often to meet the target's funding needs or replace cash lost to redemptions). In many high-profile SPAC deals of 2020-2021, PIPEs were sizeable, sometimes on the order of the same magnitude as the IPO trust or larger (two to three times the IPO proceeds).

For instance, a SPAC that raised \$300 million might secure a \$250 million PIPE, which would add 25 million shares worth of equity (sold at \$10 each) to help finance the merger. PIPE investors usually negotiate their own terms (they might get common

shares often at the same \$10 price, occasionally with slight sweeteners like warrants or convertible preferred stock). PIPE shares are typically registered and freely tradable by the time of closing or shortly after. Aside from PIPEs, a SPAC might also line up debt financing or forward purchase agreements. Some SPAC sponsors have affiliates or backstop investors commit ahead of time to inject capital at merger, e.g. a forward purchase agreement where an investor agrees to buy, say, \$50 million of additional shares at \$10 upon closing to ensure funding. All these mechanisms contribute to the merged company's capital structure: after the merger, the company's equity will include shares held by the former SPAC public investors, the sponsor, the PIPE investors, and the target's own shareholders who received shares.

It is worth noting that debt is usually not part of a SPAC's structure until the merger stage, if at all. Prior to merger, SPACs virtually never incur debt (beyond perhaps very short-term promissory notes from sponsors to cover operating expenses). At merger, the combined company might take on debt financing as part of the transaction (for example, replacing some equity with debt, or the target might have existing debt that remains). But the classic SPAC funding is equity heavy. This makes SPACs an equity-centric financing method: raising cash from equity investors rather than through borrowing. In summary, the capital structure of a SPAC is initially simple and equity-based (public shares + warrants, sponsor shares + warrants), but it can become more complex at the merger (adding PIPE shares, possibly converting warrants to shares, etc.). After the merger, the capital structure of the resulting company will resemble that of a normal public company but with an unusual shareholder mix: the original target owners, the SPAC investors, sponsors, and any PIPE or other new investors all owning portions of the equity. Each component's proportion can vary. For instance, if a target is large relative to the SPAC, the target shareholders will own most shares (the SPAC just serves as a shell with a small percentage). Conversely, if the SPAC is large and redemptions are minimal, the public float might be significant. Understanding these components is crucial for analysing incentives: e.g., sponsors with 20% promote, public investors with redemption rights attached to their shares, and PIPE investors negotiating in parallel, all create a very different dynamic than a straightforward IPO where one set of shareholders buys new shares directly from the company.

1.2 SPAC Financing Process: From IPO to Business Combination

The lifecycle of a SPAC involves two main phases of financing: the IPO phase, where the SPAC raises cash with no target, and the de-SPAC phase, where that cash (and additional funding) is used to acquire a target company. Each step in this process involves important shareholder decisions and regulatory steps that shape the eventual capital structure.

1. *IPO Phase:* A SPAC begins by registering with the SEC and conducting an IPO of units as described. For example, a SPAC might raise \$200 million by issuing 20 million units at \$10 each on Nasdaq. The SPAC's management team usually signals a broad industry or region of interest in its prospectus but cannot identify a specific target before the IPO (by rule, if they had one in mind, it would have to be disclosed). Once the IPO is completed, virtually all the gross proceeds (typically 100% or slightly less, depending on whether underwriting fees are partly deferred) are placed in the trust account. The SPAC then enters the search period, usually 18 to 24 months, during which the team evaluates potential private companies to merge with. During this time, the SPAC lives off the interest from the trust (if allowed) or additional sponsor funds for its administrative expenses. The capital structure at this stage is static: X million cash in trust on the asset side, and on the equity side, the public shares and warrants outstanding (plus sponsor shares/warrants). The SPAC's shares trade on the market, typically hovering around the trust value (around \$10) because of the redemption guarantee (this is why SPAC shares behave like a cash-like instrument unless and until a lucrative deal is announced).

2. *Merger Announcement:* When the SPAC finds a target and negotiates a merger, it announces the proposed business combination. At this point, new dynamics come into play. The SPAC will publish an announcement detailing the target company, the deal valuation and structure, and any additional financing (like PIPE commitments). Frequently, the SPAC's share price will react to the news, if investors like the deal, the shares may trade up (sometimes well above \$10), and if not, they may trade below \$10 (indicating an expectation of redemptions). The announcement typically coincides with PIPE agreements if they were arranged.

After announcement, the SPAC prepares an extensive proxy statement/registration statement (Form S-4) filing for the SEC, which includes information about the target (akin to an IPO prospectus). The SEC reviews this document, which can take weeks or months of back-and-forth comments. Once the SEC declares it effective, the SPAC can set a shareholder meeting date for the approval vote. Meanwhile, target company shareholders also often need to approve the deal on their side. During this period, the SPAC management will campaign for the deal: they need to convince their shareholders not to redeem and to vote in favour (although in many modern SPAC charters, the deal can close regardless of the vote outcome as long as redemption doesn't wipe out the trust, some SPACs have done away with a *mandatory* shareholder vote if not required by law, but practically almost all do hold a vote).

3. *Redemption Offer*: A crucial step is that prior to the merger vote, SPAC shareholders have the right to redeem their shares for their portion of the trust. Each shareholder can decide to either: a) redeem and get ~\$10 plus interest per share, or b) stay invested and roll into the new merged company's shares. This redemption decision is typically made knowing the outcome of the vote is likely (since sponsors and PIPE investors often secure enough votes). Redemption is essentially an individual investor's choice whether to take back their cash or remain a shareholder of the new venture. As noted, historically a large percentage choose redemption if they lack confidence in the deal. Some SPACs try to mitigate redemptions by offering incentives. For instance, most SPAC IPO investors often redeem, roughly 73% median redemption in recent studies³³, which necessitates the PIPE or other funding to make sure the deal still has cash.

4. *Closing the Business Combination*: If the requisite shareholder approvals are obtained and the post-redemption funding condition is met (some deals have a minimum cash condition), the SPAC will consummate the merger ("de-SPAC" transaction). At the closing: the cash held in trust (minus any redemption payouts) is released, often combined with any additional funds from the PIPE (Private Investment in Public Equity) in a closing escrow. The merger is then executed, where the equity of the target company is exchanged for a combination of SPAC shares and, in some cases, cash, according to the agreement.

³³ Michael Klausner, Michael Ohlrogge, and Emily Ruan, "A Sober Look at SPACs," *Harvard Law School Forum on Corporate Governance*, November 19, 2020

Typically, it is an all-share deal, where the target's shareholders receive new public shares. The SPAC's name and ticker are usually changed to reflect the target company, such as DWAC becoming Trump Media & Technology Group Corp. with a new ticker. If there are any public warrants, they may either remain outstanding or be adjusted based on the deal, often turning into warrants for the new company's shares, and sometimes these warrants are callable if the stock price goes high enough. At this stage, sponsor shares might vest or be subject to lock-up agreements, and any earnout provisions for target shareholders (where they get extra shares if the stock reaches certain prices after the merger) will start to be tracked. If there was any debt financing involved in the deal, the funds are now drawn and added to the company's balance sheet. After closing, the SPAC ceases to exist as a separate entity; we now have a regular operating public company. The balance sheet of that new company will reflect the cash from the SPAC (diminished by redemptions and fees), any PIPE cash, and the equity accounts showing significantly increased shares outstanding.

It's important to note that if a SPAC fails to close a deal within the allotted time, it must liquidate. In liquidation, the process is relatively simple: the trust funds are distributed pro-rata to public shareholders at ~\$10 per share, the public shares are cancelled, and the warrants typically expire worthless. The sponsors lose the money they spent (for warrants and expenses), and the SPAC shell is dissolved. This puts a deadline pressure on SPAC managers to get a deal done, which can influence their negotiation stance as the clock winds down. In many cases, extensions can be sought (often the SPAC can extend by a few months if the sponsor contributes additional funds to the trust for the benefit of non-redeeming shareholders, or by shareholder vote to amend the timeline).

In summary, the SPAC financing process moves from an IPO stage where cash is raised, to a deal stage where that cash is deployed into a company. At each step, investor choices (buying the IPO, selling or holding through announcement, redeeming or not) and sponsor actions (finding a target, adding PIPE money, possibly forfeiting some promote) determine the outcome. The process is complex, involving securities issuance at multiple points: IPO units, possibly PIPE shares, conversion of any convertible securities, etc. unlike a one-time IPO issuance. The end-result capital structure is thus a mosaic of various investor groups. The example of DWAC/TMTG in section 2.1 encapsulates this:

an IPO raised cash, a PIPE was arranged and then lost, redemptions loom, and ultimately a merger will allocate shares among original and new owners.

Finally, this process shows why redemption rights and PIPE financings are central to SPACs: they are mechanisms to ensure that capital flows or doesn't flow based on shareholder sentiment. In economic terms, the public SPAC shareholders have a near risk-free option (redeem or participate), while the target's fate depends on how many exercise that option. Thus, from a capital structure perspective, a SPAC deal is a negotiation to reallocate cash and equity stakes between the SPAC's investors, the target's owners, and any new money providers (PIPE), all under a deadline. Each party's incentives must be balanced for the deal to succeed and for the post-merger company to be financially healthy.

1.3 Importance of Financing Choices in M&A

The way a merger or acquisition is financed can profoundly affect the success of the transaction and the future performance of the combined company. This is true in traditional M&A and especially in SPAC transactions, where several unique financing elements come into play. Key reasons why financing choices are critical in M&A include their impact on value distribution, risk allocation, and post-merger capital structure, which in turn influence stakeholder behaviour and the merged entity's stability.

Capital structure impact on deal feasibility and value

In any acquisition, the buyer (or merging parties) must decide how to pay for the deal, whether by cash, by issuing shares, by taking on debt, or some combination. This decision determines who ultimately bears the cost and who owns the resulting company. For example, a cash-heavy deal might require the acquirer to raise debt, increasing leverage and financial risk, whereas a stock deal dilutes ownership but preserves cash. In SPAC mergers, the "currency" used is the SPAC's equity and cash in trust. A target company considering a SPAC needs to evaluate if the SPAC has enough cash (or can raise it) to meet the target's funding needs and whether the equity split (the ownership percentages post-merger) is acceptable to its owners. The financing mix can affect the perceived fairness of the deal. If a target's owners end up with too small a stake because the SPAC shareholders and sponsor take a large portion (due to the promote and any

PIPE allocation), the target may negotiate adjustments, such as the sponsor forfeiting some promote shares to the target's owners or insisting on a minimum cash deliverable. Indeed, many de-SPAC negotiations involve the target pushing for the sponsor to "earn" their promote by meeting certain post-merger share price targets or injecting extra cash, aligning incentives. These negotiations underscore that financing terms (who gets what equity, how much cash is delivered) are as crucial as the headline valuation in making a deal work.

Ensuring sufficient funding (role of PIPE and redemption management): One of the lessons of recent SPAC waves is that the structure of financing can make or break the merged company's fortunes. If a company goes public via SPAC but most of the SPAC's cash is lost to redemptions and a PIPE cannot be raised (or is too small), the company might end up publicly traded but undercapitalized, essentially a backdoor listing with little new capital. This can be a worst-of-both-worlds scenario: the company faces the costs and scrutiny of being public but without the benefit of a strong balance sheet. Therefore, SPAC sponsors and target companies must carefully orchestrate financing to avoid that outcome. One of the key goals of the SPAC transaction is to ensure the business is appropriately capitalized following the completion of the combination", whether through PIPE, the SPAC trust, or other sources. The dealmakers analyse expected redemption rates and often raise enough PIPE money to offset potential redemptions³⁴. For instance, if they anticipate that 50% of the SPAC investors might redeem, they will try to have an equal or greater amount lined up in PIPE commitments so that the total cash available at closing meets the target's needs. This was seen in many 2020–21 deals: PIPEs were used to guarantee funds (in fact, some SPACs wouldn't sign a merger until a PIPE was locked in). The availability and terms of PIPE financing are thus extremely important. In late 2021 and 2022, as PIPE investors became scarcer, some SPACs resorted to creative financing (such as forward purchase agreements, earnout structures, or even taking on convertible debt financing) to fill the gap. If financing falls short, a deal can be renegotiated or even collapse. We saw instances of SPAC mergers being terminated because the SPAC could not fulfil the

³⁴ Dave Peinsipp, Charlie Kim, ed John McKenna, "10 Key Considerations for Going Public with a SPAC," *Cooley Capital Markets Resources*, August 3, 2020

cash requirements, highlighting that the structure of financing (not just valuation) can derail M&A.

Stakeholder incentives and post-merger performance

The chosen capital structure in an M&A deal influences stakeholder incentives. In a cash-out deal, selling shareholders exit and have no ongoing stake, whereas in a stock deal they retain an interest in future performance. SPAC deals are inherently stock based (targets typically roll over equity), so target shareholders are aligned with future performance, this is good for incentive alignment, but only if the capital structure allows the company to perform (i.e., it has enough cash and not too much debt or overhang). If the SPAC merger leaves the company with an overhang of warrants and a low float (due to redemptions), it can create significant stock volatility and dilution when warrants eventually are exercised. Many SPAC-born companies have struggled with this “overhang”, share prices dropping below the \$11.50 typical warrant strike, causing warrants to stay unexercised and just hang out there, or if shares rise, a flood of warrant-exercise shares coming in and pushing the price down. Thus, financing choices like how many warrants to include, whether to redeem or buy them back, etc., affect the post-merger stock stability. Some SPACs have started to deviate from the standard unit structure (for example, offering fewer warrants or redeeming warrants early) to improve the capital structure of the merged firm. Similarly, the decision of how much debt to take on in conjunction with a de-SPAC is critical: some targets, especially in capital-intensive sectors, might arrange a debt facility to be available at merger. If used prudently, it can help growth; if overused, it can over lever the company. Since many SPAC targets are early-stage companies, they usually avoid heavy debt at merger, relying mostly on equity, which is opposite to, say, leveraged buyouts in typical M&A. The *optimal capital structure* for a post-SPAC firm is often debated: too much equity (with dilution) vs. introducing some debt. Getting this mix right can influence the merged company’s weighted average cost of capital and ability to fund future projects³⁵.

³⁵ Aswath Damodaran, *Corporate Finance Lecture Note Packet 2: Capital Structure, Dividend Policy, and Valuation* (New York: NYU Stern, 2019)

Market perception and investor confidence

The way a deal is financed also sends signals to the market. For instance, a large PIPE led by respected institutional investors can boost confidence in a SPAC merger (it's a validation that sophisticated investors believe in the company at \$10/share). Conversely, an absence of PIPE or the withdrawal of PIPE investors (as in the Trump Media case) can send a negative signal about the company's prospects or the deal's soundness.

Likewise, if sponsors aggressively seek extensions and have to contribute a lot of extra cash to keep the SPAC alive, the market may view the target or deal as less attractive, given the difficulty in closing. These perceptions can influence the SPAC's stock price before the merger, which in turn affects how many shareholders redeem or hold; a feedback loop tied to financing structure. In M&A, the choice of financing can affect the acquirer's stock price too (for example, announcements of purely stock deals vs. cash deals can lead to different investor reactions based on dilution or debt concerns). In SPACs, this is mirrored by how the market reacts to the proposed financing package. To summarize, financing choices in SPAC mergers (and M&A at large) are not merely technical details; they are central to deal success. They determine whether the combined company starts off on solid financial footing or hobbled by lack of cash or too much dilution. They influence each stakeholder's outcomes: sponsors want a promote but must balance not over-burdening the company; target owners want funding for growth but also to retain upside; public investors want a structure where the upside isn't eaten away by dilution. As one analysis put it, the "circuitous route" SPACs take to bring a company public introduces many points of dilution (shares, warrants, rights given to parties who didn't add cash), making the financing structure "the primary source" of high costs and underperformance for many SPACs. Therefore, improving SPAC capital structure, via sponsor givebacks, PIPE infusions, warrant reductions, has been seen as key to making the SPAC model more sustainable.

In the broader M&A context, the trade-off between using debt vs. equity financing has long been studied under capital structure theory. While Modigliani-Miller theorem suggests that in a perfect market financing shouldn't affect value, real-world frictions (tax advantages of debt, costs of financial distress, asymmetric information) mean companies carefully consider their capital structure to optimize value. In acquisitions, these considerations are magnified: a poorly structured financing can destroy the value created

by synergies, whereas a well-structured one can enhance it by minimizing the cost of capital. SPAC mergers are essentially acquisitions (the SPAC “acquires” the target) under significant constraints, making financing decisions even more pivotal. In conclusion, prudent financing choices are essential in SPAC deals to ensure that the merged entity can thrive. This involves securing adequate capital (to fund operations and growth post-merger), aligning incentives by balancing ownership stakes, and minimizing dilution or costly overhang where possible. The experience of recent SPAC mergers has underlined that deals must be structured with an eye toward the post-merger capital structure – because that is what investors ultimately care about once the dust settles. A well-capitalized company with a reasonable debt-equity mix and shareholder base is far more likely to succeed in the long run than one that limps out of the gate due to ill-considered financing arrangements. Thus, capital structure is not just an academic concept in SPAC transactions; it is a practical determinant of real economic outcomes for all parties involved.

Chapter 2: The Trump Media SPAC Case Study

2.1 Background on Trump Media & Technology Group and Digital World Acquisition Corp.

Trump Media & Technology Group (TMTG) was incorporated in early 2021 against the backdrop of a rapidly evolving digital media landscape following major social media de-platforming events. The de-platforming of Donald Trump from major networks such as Twitter and Facebook in January 2021 prompted him to pursue alternative means of maintaining his digital influence. TMTG was established with the aim of creating a dedicated social media platform, Truth Social, that would provide an outlet for free expression, particularly for users who felt marginalized by mainstream platforms. The business model of TMTG was to capitalize on Trump's established following, leveraging his extensive name recognition to attract millions of users despite having no historical revenue or operating track record. Instead of relying on conventional monetization methods, TMTG's early strategy was built on rapidly scaling user engagement and later introducing premium subscriptions and advertising revenue streams. In this context, TMTG's valuation was driven largely by the projected network effects of a loyal user base rather than by traditional metrics such as current earnings or cash flows.

On the other hand, Digital World Acquisition Corp. (DWAC) was conceived as a blank-check company designed solely to raise capital and identify an attractive merger target. DWAC completed its initial public offering (IPO) on September 3, 2021, raising roughly \$293 million by selling 25 million shares at \$10 per share³⁶. The funds raised were placed in a trust account and earmarked for a future business combination. SPACs like DWAC typically provide an expedited route to public markets compared to traditional IPOs because the target company can merge with an already public shell, thereby bypassing the lengthy registration process. DWAC's objective, as outlined in its prospectus, was to target companies in technology or media sectors, a natural fit for a merger with a politically driven media startup like TMTG. DWAC's management and sponsors, with backgrounds in finance and experience, saw an opportunity in combining Trump's brand with a structured public vehicle. However, DWAC also faced its own set of challenges;

³⁶ "Digital World Acquisition Corp.," *Wikipedia*

its sponsor group had faced scrutiny in previous SPAC deals, and there were concerns over whether proper disclosures had been made during the pre-IPO phase³⁷. The strategic rationale behind the merger was that TMTG could leverage DWAC's capital to accelerate user growth and technological development while gaining the credibility of a public listing. For DWAC, aligning with a name as recognizable as Trump's was expected to drive substantial aftermarket trading and a potentially explosive rise in valuation, thereby benefiting its sponsor and any remaining public investors. Despite the apparent synergy, this arrangement also carried significant downside risk, particularly given the historical volatility associated with SPAC mergers and the unpredictable nature of political brand equity.

2.2 Timeline of the Merger

The timeline of the Trump Media SPAC merger is a chronicle of rapid ambition, regulatory setbacks, and significant market turbulence. The deal's genesis can be traced back to February 2021, when TMTG was incorporated shortly after Trump was de-platformed, marking the start of an effort to build a platform that could serve as a counterweight to established social media giants. During this period, TMTG began developing Truth Social, positioning itself as the platform for Trump supporters, a concept that resonated strongly with a large but politically polarized audience. The strategic intent of DWAC was initially kept vague, as is customary for SPACs, but its eventual focus on the media and technology sectors was clear from internal communications and later public disclosures. In October 2021, a definitive merger agreement was signed between DWAC and TMTG. The deal set TMTG's enterprise value at approximately \$875 million, with an earnout provision that allowed for an additional \$825 million contingent on meeting specific performance targets³⁸. This structure was intended to balance the risk between TMTG's unproven operations and DWAC's capital, allowing for an adjustment if the platform exceeded initial expectations. Following the merger announcement, the process rapidly entered an intense phase of due diligence and regulatory scrutiny. Throughout November and December 2021, TMTG

³⁷ U.S. Securities and Exchange Commission, *Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order* (Release No. 33-11213), July 20, 2023

³⁸ Forex.com, "Everything You Need to Know About DWAC and TMTG," *Forex.com*

secured a \$1 billion PIPE commitment to supplement DWAC's trust funds³⁹. This PIPE was intended to provide additional liquidity and to signal strong institutional support, yet it was arranged in a market environment characterized by high investor enthusiasm that would soon turn to caution. Concurrently, the Securities and Exchange Commission (SEC) began investigating DWAC for potential violations related to pre-IPO communications with TMTG; a matter that, if substantiated, could have required DWAC to amend its public disclosures and jeopardize the entire deal.

The regulatory challenges intensified in early 2022. In June 2022, a series of unexpected board resignations occurred within TMTG, including the exit of key figures close to Trump. These departures were widely interpreted as a move to mitigate personal liability amid growing regulatory concerns. At the same time, a federal grand jury issued subpoenas as part of a broader investigation into insider trading and pre-deal communications, further delaying the merger process. The combination of these events led to repeated extension requests by DWAC, as the SPAC was legally required to either complete a merger or return the trust funds to shareholders within a set period. The repeated delays not only increased uncertainty among investors but also led to significant redemptions, reducing the cash available at closing.

By early 2023, the merger remained unresolved as TMTG struggled with operational issues, including a lack of revenue and mounting losses. TMTG also took on emergency bridge loans, which added further complications to its balance sheet. Regulatory pressures reached a peak when, in July 2023, DWAC settled with the SEC by agreeing to a cease-and-desist order and an \$18 million penalty payable upon merger closing⁴⁰. This settlement, while clearing one major hurdle, underscored the extent of the regulatory challenges facing the deal. Finally, after a prolonged period of uncertainty and multiple extension votes, DWAC's shareholders approved the merger in early 2024. On March 25, 2024, the merger was completed, and on March 26, 2024, the newly merged company began trading publicly on the NASDAQ under a new ticker that reflected its Trump

³⁹ GlobeNewswire, "Trump Media & Technology Group Corp. and Digital World Acquisition Corp. Announce \$1 Billion 'PIPE' Investment in Committed Capital to Fund Business," GlobeNewswire, December 4, 2021

⁴⁰ U.S. Securities and Exchange Commission, "SEC Charges Digital World SPAC for Material Misrepresentations to Investors," *SEC Press Release No. 2023-135*, July 20, 2023

affiliation (DJT)⁴¹. This dramatic turnaround, from initial euphoria in 2021 through a prolonged period of regulatory and market turbulence to a public listing in 2024, exemplifies the volatile nature of SPAC transactions in a high-stakes political environment.

2.3 Key Financial Aspects of the Transaction

The financial architecture of the Trump Media SPAC merger was multifaceted and designed to leverage several streams of capital to support TMTG's ambitious growth plans. At the core of the transaction was the negotiated valuation, which placed TMTG's enterprise value at approximately \$875 million. This valuation, set despite the company's lack of operating revenue, was predicated on the anticipated network effects of Truth Social and the immense value of Trump's personal brand. Additionally, the earnout mechanism, with a potential upside of up to \$825 million, was structured to reward TMTG's owners if the company met or exceeded performance benchmarks post-merger.

The primary sources of capital for the merger included the funds held in DWAC's trust, the PIPE commitment, sponsor equity, and, to a lesser extent, convertible debt.

DWAC's trust contained roughly \$293 million raised from its IPO, which was intended to be a near-certain source of cash upon a successful merger, provided that public shareholders did not redeem their shares. Redemption rights, which allow shareholders to withdraw their investment at a fixed price, meant that the actual amount transferred to TMTG was subject to market behaviour. Initially, investors were incentivized to remain invested because DWAC's stock was trading significantly above the trust's value, but over time, as uncertainty grew, redemptions eroded the potential cash cushion.

Perhaps the most critical component was the \$1 billion PIPE commitment secured in December 2021. The PIPE was designed to complement the trust funds and provide additional liquidity for TMTG's operations and expansion. PIPE investors, typically institutional and high-net-worth individuals, agreed to invest at a price that reflected the then-current trading levels of DWAC. However, as market conditions soured in 2022 and into 2023, a substantial portion of the PIPE, approximately \$467 million, was

⁴¹ Colin Laidley, "Markets News, March 26, 2024: Trump Media Jumps on First Trading Day; Indexes Slip," *Investopedia*, March 26, 2024

cancelled. This cancellation significantly reduced the expected capital infusion and forced DWAC and TMTG to renegotiate several financial terms of the deal. The cancellation also underscored the inherent risk of relying on contingent financing that can evaporate when market sentiment shifts.

In addition to these elements, DWAC's sponsor equity played a crucial role. The sponsor's founder shares, typically representing around 20% of the post-IPO equity, were converted into common shares in the merged entity. Although these shares were acquired at a nominal cost, they provided a substantial upside if the merged company's stock performed well. However, this also resulted in significant dilution for public investors, as the sponsor's stake was carved out of the total equity without corresponding cash contributions. Furthermore, the IPO units originally issued by DWAC included warrants, financial instruments allowing holders to buy additional shares at a set price (often around \$11.50). When the stock traded above this price, the exercise of warrants added further equity but also led to additional dilution.

The financial structure, therefore, was a delicate balance. TMTG's owners were set to receive a majority stake in the merged company, while DWAC's public shareholders and PIPE investors provided the necessary funding. The cumulative effect was intended to create a robust capital base, potentially over \$1.3 billion in gross proceeds, that could support TMTG's ambitious plans for Truth Social and beyond. However, as regulatory delays and market volatility demonstrated, the actual funds available at closing were significantly lower, and the anticipated capital was eroded by redemptions, PIPE cancellations, and the costs associated with extending the merger timeline. This complex and layered financial arrangement illustrates both the promise and the pitfalls of using SPACs as a financing mechanism in high-profile, politically driven mergers.

Chapter 3: Financing Methods in the Trump Media SPAC Merger

3.1 Debt Financing in SPACs

Although equity financing is the primary method employed in SPAC transactions, debt financing was also utilized in the Trump Media merger as a temporary bridge to sustain operations during prolonged delays. In the months following the merger announcement, TMTG faced a liquidity crunch as it needed to continue developing and launching its Truth Social platform while awaiting the release of funds from DWAC's trust and PIPE commitments. To bridge this gap, TMTG secured convertible promissory notes that would convert into equity upon the closing of the merger. In December 2021, TMTG obtained a \$2 million loan from Paxum Bank, an offshore institution based in Dominica, and in February 2022, it secured an additional \$6 million from the ES Family Trust⁴². These loans were arranged on an emergency basis and were structured as convertible debt, allowing the lenders the option to convert their loans into shares at a predetermined discount once the merger was completed.

The use of convertible debt in this context was intended to provide TMTG with the necessary operating capital without immediately diluting its equity. However, such financing is not without risks. The interest rates on these loans were set between 5% and 10% per annum, which, while not exorbitant, still placed an additional financial burden on a company that was not generating positive cash flow. The accruing interest meant that TMTG's operating losses widened, further straining its already fragile balance sheet. Moreover, the convertible nature of the debt introduced uncertainty regarding future dilution. Should the notes convert at a discount to the market price, the resulting increase in the number of outstanding shares could significantly dilute the holdings of other investors, especially given that TMTG was already subject to dilution from sponsor equity and potentially from an earnout mechanism.

A further complication was the source of these loans. Investigative reports later revealed that part of the emergency financing had links to individuals with questionable

⁴² "U.S. Securities and Exchange Commission, "Amendment No. 1 to Form S-4 Registration Statement Under the Securities Act of 1933," *sec.gov*, November 13, 2023

backgrounds, including potential associations with Russian business interests⁴³. This raised concerns about money laundering and regulatory compliance and ultimately contributed to additional legal scrutiny. The fact that TMTG resorted to non-traditional sources for debt financing reflects the difficulty it faced in accessing conventional credit markets, largely due to its unproven business model and the politically charged nature of the company. In more conventional SPAC mergers, the target company might secure bridge financing from reputable banks; in TMTG's case, however, the urgent need for funds meant that it had to rely on more speculative sources, thereby exposing itself to higher risk.

The overall effect of debt financing in this merger was to serve as a temporary lifeline, ensuring that TMTG could continue operations during delays, but at the cost of additional financial risk and potential dilution. In a scenario where the merger had closed swiftly, the need for such debt might have been minimal. However, given the extended timeline, and the fact that regulatory and market pressures forced delays, these loans became a necessary component of the financing structure. The eventual conversion of these notes into equity added another layer of complexity to the post-merger capitalization, and their presence on the balance sheet contributed to ongoing financial challenges. For TMTG, the lesson is clear: while convertible debt can provide critical short-term liquidity, it also introduces additional risk factors that must be carefully managed, particularly in an environment of prolonged uncertainty and high volatility.

3.2 Equity Financing in the Trump Media Merger

Equity financing was the backbone of the Trump Media merger, structured through a combination of public shares, sponsor equity, PIPE investments, and contingent earnout shares. DWAC's public shares, issued at \$10 per share during its IPO, provided the initial pool of capital, with the proceeds held in trust amounting to approximately \$293 million. These funds were intended to be available for TMTG at the time of the merger's closing, provided that DWAC's public shareholders did not opt to redeem their shares for cash. Redemptions, however, remain a critical risk in SPAC transactions because they reduce

⁴³ Alison Durkee, "Trump's Media Company Reportedly Under Federal Investigation for Money Laundering Linked to Russia," *Forbes*, March 15, 2023

the cash available for the target company. In this deal, investor enthusiasm early on helped mitigate large-scale redemptions, allowing much of the trust cash to be retained.

Sponsor equity, representing roughly 20% of the post-IPO shares, was another important component. DWAC's sponsors acquired these shares at a nominal price as compensation for their role in organizing the deal. Once the merger closed, these founder shares converted into common equity, thereby giving the sponsors a significant stake in the new company. Although this arrangement incentivized the sponsors to complete the deal, it also resulted in substantial dilution for public investors, as the sponsor's share was carved out of the overall ownership without any corresponding cash contribution.

The PIPE (Private Investment in Public Equity) was arguably the most critical aspect of the equity financing. Initially, TMTG secured a PIPE commitment of \$1 billion from a group of investors who were attracted by the prospect of participating in a high-profile, Trump-led venture. This funding was expected to complement the trust cash and provide TMTG with the necessary capital to scale its operations. The PIPE was structured to convert into equity at a price linked to DWAC's trading price, thereby aligning the investors' interests with the performance of the merged company. However, as market conditions deteriorated and investor sentiment became more risk-averse in 2022, a substantial portion of the PIPE commitment, approximately \$467 million, was canceled. This cancellation significantly reduced the equity funding that TMTG would receive and forced a rebalancing of the deal's financing structure. In some ways, this outcome illustrated the inherent risk in relying on contingent equity financing that can evaporate when market conditions change rapidly.

Moreover, the IPO units issued by DWAC included warrants that allowed holders to purchase additional shares at a fixed exercise price (typically around \$11.50). When the stock traded above this price, the exercise of these warrants provided an additional source of equity capital. In practice, warrant exercises contributed additional cash to the company over time, and their conversion into common shares expanded the overall equity base. This instrument is particularly common in SPAC deals as it helps to ensure that any post-merger appreciation in the stock price translates into further funding, though it also complicates the capital structure by creating an eventual overhang of potential dilution.

The overall effect of this multi-layered equity financing structure was to create a company where the majority of the value was controlled by a few insiders, principally Trump and

his close associates, while public investors held a relatively small and volatile portion of the equity. Initially, the market reacted with exuberance, and DWAC's stock price surged dramatically, reflecting both the speculative fervour around Trump's brand and the promise of high growth. However, as more detailed financial disclosures emerged and the real operating challenges of Truth Social became apparent, the stock price experienced significant corrections. This volatility was in part due to the heavy dilution from sponsor shares, PIPE cancellations, and potential earnout triggers, all of which served to erode the value of public shares over time. The case thus illustrates that while equity financing via a SPAC can generate enormous capital quickly, it can also lead to complex ownership structures that create both upside potential and substantial risks for investors.

Chapter 4: Determinants of Financing Choice in SPAC Transactions

4.1 Economic and Market Environment in 2023–2024 and Investor Sentiment

The broader market environment of 2023–2024 was markedly less hospitable to SPAC deals than the boom times of 2020–2021. Rising interest rates and the prospect of tougher financial regulation had deepened the challenges facing SPACs, effectively killing the earlier “SPAC boom” as wary investors retreated⁴⁴. Investors had become more sceptical of speculative blank-check mergers, and deal funding began to dry up as they balked at high valuations. In practice, this meant that many SPACs approaching merger votes in 2023 saw the majority of their shareholders redeem their shares (taking back its cash value) rather than remain invested in uncertain ventures. This sceptical sentiment was fuelled by the poor post-merger performance of many prior SPAC deals and a tighter monetary climate, with higher interest rates, investors could find safer returns elsewhere, reducing the allure of speculative equity bets. Investor sentiment was important in determining which deals survived.

In general, by 2023 the default expectation was that most SPAC investors would redeem unless they were given compelling reasons not to. Financing a SPAC merger thus often required alternative capital (such as PIPE investments) or sponsors contributing additional cash to trust funds to incentivize non-redemption. In the case of the Trump Media merger, however, unusual investor sentiment dynamics came into play. The DWAC–Trump Media deal managed to galvanize a segment of investors, specifically retail traders enthusiastic about Donald Trump. This deal’s shareholder base included many of Trump’s political supporters and fans, whose optimism about the venture counteracted the broader scepticism. In early 2024, as the merger approval vote neared, DWAC’s stock price surged dramatically, indicating that investors anticipated the deal and valued Trump’s enterprise highly. In fact, Trump’s supporters effectively banded together to boost DWAC’s share price by about 145% from the start of 2024 through the

⁴⁴ Ortenca Aliaj, “Spac boom dies as wary investors retreat,” Financial Times, June 9, 2022

merger vote⁴⁵. This rally, which drove DWAC's market capitalization to roughly \$5–6 billion by the time of the shareholder vote, was starkly at odds with typical SPAC behaviour in that period. It reflected a speculative fervour rooted more in Trump's brand and the hope of future growth than in any demonstrated financial strength of the company (Trump Media had only about \$5 million in total sales since its 2021 inception at that point)⁴⁶. In short, while most SPACs struggled to retain investor interest in 2023–24, the Trump Media deal benefited from a wave of positive investor sentiment that was largely political or sentiment-driven in nature. This unusually favourable sentiment allowed the SPAC to secure the needed shareholder approval and avoid the cash-shortfall that high redemptions would have caused.

4.2 Regulatory Constraints: SEC Scrutiny and Legal Compliance Costs

Regulatory oversight proved to be a major determinant of the financing path and timeline for the Trump Media SPAC merger. From the outset, the deal attracted scrutiny from the U.S. Securities and Exchange Commission (SEC) and other regulators, leading to investigations that significantly slowed the merger process. A key issue was that Digital World Acquisition Corp. (DWAC) appeared to have violated SPAC regulations by engaging in merger discussions with Trump Media & Technology Group (TMTG) before DWAC's own IPO and official target search period. The Wall Street watchdog found evidence that executives behind DWAC had held "extensive discussions" with Trump's company well before the SPAC went public⁴⁷. Such premature negotiation is contrary to the spirit of SPAC rules (which require SPACs to be blank-check entities without prior acquisition plans) and constituted a material misrepresentation to DWAC's initial investors. As a result, the SEC opened an investigation into DWAC in late 2021, and over 2022–2023 this inquiry expanded and dragged on, delaying approval of the merger. The regulatory constraints became concrete in mid-2023: DWAC agreed to a settlement in which it admitted wrongdoing and

⁴⁵ Edward Helmore, "Trump could net \$3bn after investors approve Truth Social to go public," *The Guardian*, March 22, 2024

⁴⁶ *Ibid.*

⁴⁷ James Fontanella-Khan and Ortenca Aliaj, "Donald Trump unlocks potential \$3bn windfall after social media Spac deal," *Financial Times*, October 21, 2021

accepted an \$18 million penalty to resolve SEC charges that it had misled investors⁴⁸. Beyond the financial penalty, the lengthy SEC review imposed significant indirect costs. DWAC had to seek multiple extensions to its merger deadline (which ordinarily is about 12–18 months from the SPAC's IPO) because the SEC had not yet cleared the merger proxy and Form S-4 registration. Each extension required shareholder approval and, often, additional sponsor contributions to the trust to persuade investors not to redeem. Legal and compliance expenses mounted as the SPAC's management had to respond to SEC subpoenas and refine disclosures. The merger process stretched over two years, far longer than initially planned, with the deal only getting a green light in late 2023 after the SEC's concerns were addressed. This delay in turn led to the lapse of certain financing agreements, notably, a previously touted \$1 billion PIPE investment from private investors that had been announced in 2021 did not materialize, presumably because those investors' commitments expired amidst the regulatory holdup. In essence, the regulatory scrutiny forced Trump's company to proceed without the hefty PIPE cushion, placing more pressure on the SPAC's trust funds and on attracting retail investors. The SEC's heavy involvement also meant that Trump Media and DWAC had to operate under a cloud of uncertainty, which can deter additional financing. The merger talks and financing choices could not progress normally as long as a risk existed that regulators might block the deal or impose further sanctions. Indeed, the legal compliance costs went beyond the monetary fine: DWAC's reputation was hit by the SEC's fraud charges, and its CEO (Patrick Orlando) was ousted from his leadership role in March 2023 amidst the turmoil. The company had to devote resources to internal investigations and improving compliance procedures. For example, after the SEC settlement, DWAC explicitly committed to implementing training and stricter controls to prevent future lapses. All these measures, while necessary, made the financing of the merger more complex and costly than a standard SPAC deal. In summary, the regulatory constraints, primarily SEC scrutiny, had a twofold effect on the merger's financing: they delayed the availability of funds (as the merger couldn't close and trust money couldn't be released until late 2023 or early 2024) and they diminished the net funds (through the \$18 million penalty and

⁴⁸ Dan Mangan, "Trump Media merger partner DWAC soars 50% after SEC fraud settlement," CNBC, July 21, 2023

legal expenses). This case vividly demonstrates that regulatory and legal factors can be as crucial as market factors in determining a SPAC transaction's outcome.

4.3 Influence of Trump's Brand and Media Presence on Financing

Donald Trump's personal brand and media presence had a profound influence on the financing choices and outcomes of this SPAC merger. On the positive side, Trump's name recognition and enthusiastic follower base created a level of investor interest that most SPAC targets could only dream of. The mere announcement in October 2021 that DWAC intended to merge with Trump's new media venture sent DWAC's stock price skyrocketing, signalling that investors (particularly retail traders) were rushing to invest on the strength of Trump's brand. Even during the difficult market environment of 2023, Trump's brand helped sustain investor demand for DWAC's shares. When the merger was finally nearing completion, the company's debut on the stock market attracted frenzied trading: on March 27, 2024 (the day Trump Media's stock began trading publicly), the company's market value swiftly rose to nearly \$8 billion⁴⁹. This massive valuation reflected the premium that Trump's celebrity and political capital added to the company, an intangible asset that translated into real financing advantages. Because the stock price was high and trading volume robust, the SPAC was able to avoid the cash shortfalls that plague many de-SPAC transactions. Few DWAC shareholders exercised their right to redeem \$10 cash per share when they could instead hold (or sell) shares worth many times that on the open market. In effect, Trump's media presence served as a financing engine, turning his loyal audience into the company's shareholder base and enabling the SPAC to deliver hundreds of millions of dollars from the trust into the combined company.

However, Trump's brand was a double-edged sword for financing. The very factors that generated popular excitement also gave pause to more traditional financiers and introduced unusual risks. For instance, many institutional investors were wary of associating with a politically polarizing figure and a startup built around him. The controversy surrounding Trump (including his legal battles and polarizing public image) meant that large banks and conservative institutional funds largely stayed on the sidelines. Trump's brand also meant the company's fortunes were tightly interwoven with Trump's

⁴⁹ Bruce Crumley, "Critics and Backers Alike Fuel Trump Media's Stock Gyration," Inc., April 23, 2024

personal political trajectory. For example, when Trump's Twitter account was reinstated in late 2022 (after having been banned earlier), it raised questions about whether he would return to mainstream social media and reduce his exclusive engagement on Truth Social, a prospect that could diminish Truth Social's appeal. Such uncertainties, tied directly to Trump's personal decisions, made the SPAC a riskier bet. Trump's unique media presence influenced not just whether money could be raised, but how. The company leaned heavily on promotional communications through Trump's own channels. Trump frequently posted on Truth Social praising the platform and implicitly encouraging his followers to support it. This kind of promotion is atypical in corporate finance, effectively blurring the line between a political fan base and a shareholder base. It contributed to a meme-stock style atmosphere around Trump Media. Many retail investors bought DWAC or Trump Media shares not purely as a financial investment but as a way to "support Trump" or align with his political movement. This was advantageous in raising capital (as noted, it kept the share price and market cap high), but it came at the cost of extreme volatility and disconnect from fundamentals. In the long term, Trump's brand influence could not alter the company's underlying financial reality (low revenues and high costs), and when financial results came out, the stock's Trump-driven premium began eroding quickly. In summary, Trump's brand and media presence were arguably the *sine qua non* of this SPAC merger's financing, without the fervent retail backing his notoriety provided, the deal likely would have collapsed due to redemptions or lack of alternative funding. At the same time, that very phenomenon introduced atypical risks, deterring some sources of capital and making the company's market valuation heavily dependent on the vagaries of Trump's popularity and media attention.

Chapter 5: Post-Merger Performance and Implications

5.1 Trump Media's Financial Performance (Revenue, Losses, and Profitability Analysis)

With the merger completed and Trump Media & Technology Group (TMTG) finally a publicly traded entity, investors and analysts gained their first comprehensive look at the company's financial performance. The picture that emerged was one of very limited revenue and substantial ongoing losses. According to the company's SEC filings, Trump Media generated only about \$4 million in revenue in the entire year 2023, contrasted against a net loss of roughly \$58 million for that year⁵⁰. In other words, expenses vastly outweighed income, the company was spending more than ten times what it earned in sales. To put this in perspective in terms of financial ratios: the net profit margin, calculated as Net Income / Revenue, was deeply negative. Plugging in TMTG's numbers, the net profit margin for 2023 was around -1,450% (i.e. approximately $-\$58\text{M} / \$4\text{M} * 100\%$), an extraordinarily poor figure that underscores the mismatch between costs and earnings. This means that for every dollar of revenue, Trump's company lost about fourteen dollars. Such a level of unprofitability is highly unusual even for emerging tech or social media firms, and it highlights the steep challenge the company faces to ever break even.

A closer breakdown of the financials reveals how these losses accumulated. As a social media business (Truth Social being its main product), Trump Media's revenues come primarily from advertising and perhaps some small licensing or user-based fees, which so far have remained minimal. Meanwhile, its expenses include technology and development costs, salaries, marketing, and notably some large financing costs. In 2023, Trump Media's operating loss (i.e. loss before interest and taxes) was around \$16 million, which already far exceeded its revenue⁵¹. But on top of that, the company bore heavy interest expenses, roughly \$40 million in interest costs in 2023⁵². This interest likely relates to debts or obligations taken on as part of financing the business (possibly promissory notes or liabilities to vendors and the original SPAC-related expenses). When

⁵⁰ Faiz Siddiqui and Drew Harwell, "Trump Media plunges as Truth Social's \$58 million loss reported," The Washington Post, April 1, 2024

⁵¹ Ibid.

⁵² Ibid.

we include these and other costs, the bottom-line net loss came out to \$58 million for 2023. We can also evaluate return on assets (ROA) and return on equity (ROE) to analyze profitability relative to the size of the company. ROA is defined as $\text{Net Income} / \text{Total Assets}$, and ROE as $\text{Net Income} / \text{Shareholders' Equity}$. Since TMTG's net income was negative, both ROA and ROE were negative for 2023, indicating that assets and shareholders' funds were being consumed by losses rather than generating profit. For a sense of scale, if we consider that after the merger the combined company had on the order of a few hundred million dollars in assets (largely the cash from DWAC's trust account), a net loss of \$58 million in one year represents a significant erosion of those assets (an ROA that might be around -10% or worse, depending on the exact asset base). These metrics all point in the same direction: Trump Media in its post-merger state was far from profitable and, in fact, deeply in the red.

The lack of profitability also raises questions about sustainability. In the SEC filing, Trump Media's management acknowledged "substantial doubt" about the company's ability to continue as a going concern, essentially an auditor's warning that without improvement, the company could run out of money. Trump Media's cash on hand after the merger was boosted by the SPAC funds, but continued large losses could deplete that cash quickly. Indeed, part of the merger funding had to immediately go toward paying the \$18 million SEC penalty and other transaction costs. Unless revenue ramps up significantly or expenses are cut, the company could be forced to seek additional financing or face insolvency down the road.

From a financial performance evaluation perspective, one can use formulas like those mentioned (ROA, profit margin, etc.) to quantify just how poorly the company is faring. We already calculated the net profit margin to be roughly -1420% for 2023. If we consider an operating margin ($\text{Operating Income} / \text{Revenue}$), using the operating loss of ~\$16 million, the operating margin comes out to around -400%. Both indicators are extreme and signal that the company's current business model is not financially viable. Another metric, return on equity (ROE), would reflect how much loss is being generated per dollar of shareholder equity. While we don't have the exact equity figure here, the fact that Trump Media's net loss (\$58M) was an order of magnitude larger than its revenue indicates that unless it had an enormously large equity cushion, the ROE would be very negative.

It is instructive to compare Trump Media's performance with industry peers or initial projections. Social media companies typically rely on scaling up user numbers to eventually turn profitable, but they usually show strong revenue growth if they are on track to succeed. In Trump Media's case, revenue actually decreased slightly in 2023 compared to 2022 (a filing noted about \$4.1 million revenue in 2022, which fell to about \$3.6 million in 2023, indicating stagnation or decline)⁵³. This stagnation, combined with hefty costs, meant growing cumulative losses. The stark gap between the company's multi-billion dollar market valuation upon merger and its tiny revenue was noted by commentators: the new financial figures "throw into stark relief the gap between Trump Media's highly hyped investor-driven valuation and the reality of its business performance"⁵⁴.

In other words, the merger's financing may have treated the company as enormously valuable (because of Trump's brand and investor speculation), but the financial results so far did not support that valuation. Profitability formulas and ratios laid bare this mismatch. In summary, Trump Media's post-merger financial performance was characterized by minimal revenues and large losses, yielding very poor profitability ratios. Basic financial evaluations like profit margins, ROA, and ROE were all negative and alarmingly low. The company's own filings conveyed serious concerns about its viability absent an improvement. For a thesis on SPAC financing, this outcome underscores a fundamental point: completing a high-profile merger and securing financing is only part of the story, the ultimate success depends on the merged company's ability to generate earnings. Finally, Trump Media's first public filing for 2024, the Form 10-Q for the quarter ended March 31, 2024⁵⁵, offers the freshest window into post-merger performance. Net sales in the quarter inched up to roughly \$0.8 million (from \$0.77 million in Q1 2024), yet the company still recorded a net loss of about \$31.7 million, yielding a quarterly net-profit margin near -3,870 % ($-\$31.7 \text{ M} / \$0.82 \text{ M} \times 100$). Operating performance remained even weaker: an operating loss of \$39.5 million against \$0.8 million in sales implies an operating margin of roughly -4,800 %. On a brighter note, those losses were almost 90 %

⁵³ Andrew Feinberg, "Trump Media lost more than \$400m in 2023," The Independent, February 15, 2024

⁵⁴ Faiz Siddiqui and Drew Harwell, "Trump Media plunges as Truth Social's \$58 million loss reported," The Washington Post, April 1, 2024

⁵⁵ Trump Media & Technology Group Corp., "SEC Filings," Trump Media & Technology Group Investor Relations

smaller than the extraordinary \$327.6 million loss reported one year earlier, largely because stock-based-compensation expense fell to \$17.9 million from \$84.6 million and the 2024 quarter had included a one-time, \$226 million derivative-liability re-measurement. Still, with only \$0.8 million in revenue against \$9.7 million of operating cash burn, the business continued to consume cash far faster than it generated it. The balance-sheet cushion, \$146 million in cash plus \$613 million in Treasuries (short-term investments) on total assets of \$919 million, translated into a quarterly ROA of roughly -3.5 %, underscoring that the company is still destroying, not creating, value. Management again warned in the filing that “substantial doubt” exists about its ability to continue as a going concern absent a rapid revenue lift. In short, the 2025 numbers show material improvement versus the prior year yet confirm that Trump Media remains a micro-revenue, loss-making platform whose path to profitability is still highly uncertain.

5.2 Stock Price Trends Post-Merger and Retail Investor Outcomes; Insider Trading Allegations and Market Credibility

The stock price behaviour of Trump Media (which traded under the ticker “DJT” after the merger, reflecting Donald J. Trump’s initials) in the post-merger period was extraordinarily volatile, mirroring the tension between speculative hype and fundamental performance. Upon the deal’s consummation and the public listing in late March 2024, the stock initially soared. As mentioned, on the first day of trading the market capitalization briefly neared \$8 billion, implying a stock price in the range of \$60–\$80 per share⁵⁶ (since roughly 130 million shares were outstanding). Many early investors saw significant paper gains: for instance, DWAC’s IPO investors who originally paid \$10 per share were sitting on a several-fold return if they held their shares into the merger. During that first week, retail traders piled in, and Trump Media’s stock at one point hit a high around \$80. This surge was driven by excitement and the scarcity of available float (with many shares locked up or held by long-term believers).

However, the euphoria was short-lived. Just days after the debut, reality started to catch up with the stock price. In late March and early April 2024, as the company’s filings revealed the modest revenues and large losses discussed above, the stock began a steep descent. By April 1, 2024, only about a week after trading began, Trump Media’s share

⁵⁶ Bruce Crumley, "Critics and Backers Alike Fuel Trump Media's Stock Gyration," Inc., April 23, 2024

price dropped over 20% in a single day following the earnings disclosure, falling to around \$26–\$27. At that price, the stock was down roughly 66% from its peak of \$80 in a matter of days. This dramatic reversal inflicted losses on those retail investors who had bought in at the highs. A shareholder who, for example, bought 100 shares at \$80 saw the value of that position drop from \$8,000 to about \$2,600 in little over a week, a stark reminder of the risks of chasing speculative spikes. By mid-April 2024, the stock stabilized in the \$20s, but the volatility remained high. Over the subsequent months, the trend remained generally downward. Periodic news events, such as developments in Trump’s political campaign or discussions of the company’s plans (e.g., hints at new features or partnerships for Truth Social), would cause short-term bumps, but the overall trajectory reflected a deflation of the initial hype. By the end of 2024, Trump Media’s stock price had fallen into the high teens, significantly below its early highs and even below the ~\$25–\$30 range seen just after the merger. In essence, the market was progressively re-valuing the company more in line with its financial reality rather than its celebrity aura.

For retail investors, the gains and losses from this stock depended heavily on timing. Those who were early backers, for instance, retail traders who bought DWAC in 2021 near \$10 or \$15, and who either sold during the post-merger spike or even held through 2024 (when it was around \$15–\$20) still saw a positive return on their initial investment. On the other hand, many latecomers who bought into the hype around the time of the merger vote or debut (when shares traded between \$40 and \$80) incurred heavy losses. The deal’s unusual nature, tied to a famous individual, attracted many novice investors, some of whom might not have fully appreciated the risk. The result was a transfer of wealth of sorts: early speculators and insiders could profit, while many retail buyers who bought high ended up holding the bag as the price collapsed. Notably, Donald Trump himself (as the largest shareholder) experienced a huge swing in his paper wealth. At the stock’s peak, Trump’s ~57% stake was worth on the order of \$4.5–\$5 billion; after the drop, that stake’s value shrank by about \$1 billion in a matter of days. Analysts pointed out that the stock’s lofty valuation was unlikely to be sustained absent dramatic improvements. One investment commentator warned in mid-April 2024, when the stock was in the high \$20s, that “while this might seem like a good time to get in at what might be the bottom, that bottom is likely to be significantly lower than most would

think,” arguing that even a generous view of the company suggested a fair value below \$5 per share⁵⁷. This bearish outlook turned out to be prescient in the sense that the stock continued to drift downward throughout the year. By late 2024, many retail investors had seen their gains from earlier rallies erased, and those who bought at the top were nursing losses on the order of 60–80%. The turbulent stock performance, including both the rapid rise and the precipitous fall, underscores how speculative and sentiment-driven the investment was. In a traditional fundamental analysis, the losses and minimal revenues would never justify a multi-billion valuation; it was the speculative investor sentiment (tied to Trump’s brand) that did, and when that sentiment began to vanish, the stock had a long way to fall.

Compounding these market outcomes, the Trump Media merger was also influenced by insider trading allegations that emerged during 2022–2023, which had important implications for market credibility. In June 2023, well before the merger was finalized, federal prosecutors in New York charged three investors with insider trading in DWAC’s stock⁵⁸. These individuals had allegedly obtained confidential information in the summer of 2021 that DWAC was planning to merge with Trump’s company. Armed with that secret tip, they accumulated DWAC shares while it was still a blank-check company, and later, when the merger announcement became public and the stock price skyrocketed, they sold those shares for enormous profits. Prosecutors asserted that this scheme yielded illicit gains of approximately \$22 million for the conspirators⁵⁹. One of the accused was Bruce Garelick, at the time a board member of DWAC, who was said to have leveraged his position and contacts to facilitate this trading. The insider trading allegations were a serious matter: they indicated that the run-up in DWAC’s stock in October 2021 (when it first announced the Trump deal) was not only driven by enthusiastic retail investors, but also by insiders who had quietly positioned themselves to benefit beforehand in violation of securities laws.

As the legal process unfolded, it lent credibility to these allegations. In April 2024, a federal jury convicted Bruce Garelick on multiple counts of securities fraud and conspiracy, finding him guilty of trading on non-public information about the impending

⁵⁷ Ibid.

⁵⁸ Erik Larson, "Trump SPAC Insider Trading Sends Second Brother to Prison," Bloomberg, October 17, 2024

⁵⁹ Ibid.

merger⁶⁰.

Additionally, two other individuals (brothers who were also part of the scheme) pleaded guilty to insider trading charges as part of plea deals, admitting that they used the Trump deal tip to profit illegally⁶¹. These developments confirmed that insider manipulation had indeed occurred around the Trump SPAC, undermining the notion that the early market for DWAC was a level playing field. For the market and especially for retail investors, the insider trading saga was disturbing, it suggested that while ordinary investors were buying in the open market with incomplete information, some well-connected players had been a step ahead, cashing in on knowledge of the deal before everyone else knew. Such behaviour inevitably damages investor trust. When retail investors learn that a stock's dramatic move was partly fuelled by insiders exploiting secret information, they may become more cynical about investing in similar ventures in the future. The effect of these insider trading revelations on market credibility was significant. SPACs were already under scrutiny by regulators for potential conflicts of interest and loose oversight, and the Trump Media SPAC became a prime example cited by critics. The fact that a DWAC board member and associates profited illegally off the deal cast a shadow on the integrity of the merger process. It also reinforced the SEC's resolve to closely police SPAC mergers, indeed, the SEC's enforcement action against DWAC (leading to the \$18 million settlement) was partly driven by the whistleblower complaint that initially revealed those undisclosed merger talks and possible trading irregularities. In the court of public opinion, the insider trading cases may have lowered some of the enthusiasm among more conservative investors who worried that the Trump Media stock was less a legitimate investment and more a speculative "casino" where insiders had an edge. This could have contributed to lower demand and liquidity in the stock over time, exacerbating its decline. Moreover, when combined with the poor financial performance, the governance red flags (like insider trading and executive turnover) painted a picture of a company that might not have the robust institutional support needed for stability. In conclusion, the post-merger phase for Trump Media's stock was characterized by high volatility and steep losses for many investors, especially those who got in during the peak

⁶⁰ Patricia Hurtado, "Trump SPAC Investor Garelick Convicted in Insider-Trading Case," Bloomberg, May 9, 2024

⁶¹ Patricia Hurtado, "Trump SPAC Investors Plead Guilty in Insider-Trading Case," Bloomberg, April 3, 2024

of the excitement. The stock price trends illustrated a classic boom-and-bust driven by hype versus fundamentals. Meanwhile, the confirmed insider trading around the deal served as a cautionary tale, highlighting issues of market fairness and credibility. From a broader perspective, these developments suggest that while a famous sponsor like Trump can generate enormous short-term investor interest (pushing up stock prices), sustaining that value requires transparency and genuine performance, otherwise the air can come out of the balloon quickly, leaving a lot of retail investors worse off and confidence in the market shaken. The insider trading scandal, in particular, emphasized the need for stringent oversight to maintain trust in SPAC mergers, ensuring that all investors are playing on a level field.

Chapter 6: Lessons from the Trump Media SPAC Merger

6.1 Key Takeaways for M&A Financing through SPACs from the Trump Media Case

The Trump Media SPAC merger provides several key takeaways for the practice of financing mergers via special-purpose acquisition companies. First, the importance of regulatory compliance and transparency in SPAC deals cannot be overstated. This case demonstrated that any hint of impropriety, such as DWAC having pre-arranged merger plans with Trump's company before going public, can lead to severe consequences. The SEC's intervention, which resulted in DWAC paying an \$18 million fine and agreeing to a cease-and-desist order, highlights that SPAC sponsors must adhere to the rules and provide full disclosures to investors. The merger was almost derailed by these issues; therefore, a critical lesson for other SPACs is to conduct merger negotiations within the regulatory framework (i.e., only after the SPAC IPO and in line with stated procedures) and to promptly disclose any potential conflicts or prior contacts. In essence, while SPACs offer a faster route to go public than traditional IPOs, they are not a way to evade securities laws, and any perceived attempt to do so can backfire dramatically. Future sponsors should ensure their financing strategies include budget for robust legal counsel and compliance, as the cost of getting it wrong (both in fines and delays) far exceeds the cost of doing it right.

Second, the Trump Media case underlines how crucial investor sentiment management is in SPAC financing. In most SPAC mergers, sponsors face the risk that a relevant number of shareholders will redeem, leaving the target company underfunded. Trump's deal showed an extreme example on the positive side: retail investor enthusiasm (rooted in Trump's brand) meant relatively low redemptions and even a surge in the share price, which effectively financed the deal. However, counting on such enthusiasm is risky and rare. The broader takeaway is that SPAC sponsors should have a clear plan to secure financing beyond the trust account, whether through PIPE investments, backstop agreements, or other sources, especially in a market environment where investors are generally sceptical about SPACs. One cannot assume a built-in fan base like Trump's will be there for every deal. Additionally, even if one is present, as in this case, it sets up the possibility of a sharp correction later (when initial enthusiasm gives way to

fundamentals). Therefore, a more sustainable financing approach is to align the merger valuation with realistic business projections and to attract long-term investors who believe in the company's fundamentals. The Trump SPAC's experience, where the valuation ballooned on hype and then deflated, is a cautionary tale: financing built purely on speculation can unravel quickly. Deals should be structured so that the company is not left adrift if the speculative wave recedes.

Third, this case illustrates the array of costs, both financial and reputational, that come with SPAC mergers, which should be factored into financing decisions. SPAC transactions are often famous for providing speed and certainty of funds (the cash in trust) to a target company, but the Trump merger showed that delays from investigations or shareholder votes can erode those benefits. Each extension of DWAC's deal deadline required additional cash contributions and created uncertainty. For future SPAC mergers, a takeaway is that one should budget for contingencies and potential hold-ups. The financing choice to go via SPAC should include an assessment of regulatory risk and the potential need for extra capital if redemptions are higher than expected or if legal costs mount. In Trump's case, the sponsors eventually even replaced the SPAC's CEO and adjusted leadership, indicating that human capital changes can occur as a cost of course correcting a troubled SPAC. All these are part of the "friction costs" of SPAC financing that are sometimes overlooked in the excitement of announcing a big deal. Finally, a broader takeaway concerns the suitability of SPACs for certain types of companies. Trump Media, an early-stage social media platform with a strong political association, was not an obvious candidate for a traditional IPO (in part due to lack of revenue and the controversial nature of its principal). The SPAC route was chosen because it offered a way to leverage Trump's brand to raise a large sum of money relatively quickly. The lesson here is two-sided: on one hand, SPACs can enable the public financing of companies that might struggle to IPO through conventional channels; on the other hand, if those companies are highly speculative (or divisive in public perception), the SPAC path can lead to a highly volatile post-merger existence.

In the Trump Media case, while the SPAC merger did deliver funding and a public listing, it also subjected the company to intense scrutiny and market volatility that continue to challenge its prospects. M&A financing via SPAC should ideally be pursued when the company has a credible plan to deploy the funds towards growth, so that post-merger

performance can justify investors' faith. Absent that, as seen here, the initial financing "win" of the merger can turn into a post-merger struggle.

6.2 Broader Implications for SPAC Regulations and Best Practices

The high-profile nature of the Trump Media SPAC merger, and the various controversies surrounding it, have broader implications for how SPACs are regulated and the best practices that should be followed in the SPAC process. In terms of regulation, the case has seemingly reinforced regulators' resolve to tighten oversight of SPACs. Even before this deal closed, there was momentum at the SEC to implement more stringent rules, and the DWAC/Trump saga provided a vivid example of why such rules might be necessary. One likely implication is that the SEC will more aggressively enforce rules against SPACs having discussions with targets prematurely (the crux of DWAC's violation). We might see formal requirements that SPAC sponsors certify they have had no substantive merger talks prior to IPO, with harsher penalties for false certification. The SEC could also push for greater transparency in disclosures, for example, mandating clearer reporting of any potential conflicts of interest or prior relationships between SPAC insiders and target companies. The fact that DWAC's investors were not told that conversations with Trump had happened is exactly the sort of omission tougher rules would aim to prevent. Another regulatory implication concerns the safe harbour for forward-looking statements that SPACs historically enjoyed. SPAC mergers often involve too optimistic projections by the target company (something forbidden in a traditional IPO prospectus). While Trump Media's published projections were relatively modest (and ultimately unmet), the general climate has turned against allowing rosy projections without liability. We can expect regulators and perhaps legislators to curtail this safe harbour, making it easier to hold companies accountable if their SPAC-era promises to investors were grossly unrealistic.

More broadly, the case adds fuel to the argument that SPAC sponsors' incentives (the lucrative promote they receive for closing a deal) can sometimes conflict with investor interests and thus warrants regulatory checks. For instance, some have suggested requiring sponsors to defer or vest their promote shares based on the post-merger stock performance or business milestones. In a deal like Trump's, such a rule might have aligned interests better by not rewarding the sponsors unless the company truly succeeded in the years after merger.

From an industry best practices perspective, the Trump SPAC highlights several things that participants can do to improve outcomes. One best practice is to engage in thorough due diligence and address red flags early. In hindsight, DWAC and Trump Media could have proactively disclosed more information (for example, acknowledging any prior contacts and placing them in context) to investors and regulators, potentially shortening the investigation. Best practices would also include carefully vetting management teams, DWAC's original CEO's ouster mid-process was a sign that perhaps the team was not fully aligned or up to the task of navigating the complexities of this deal. SPACs considering merging with companies that have political, or celebrity ties should also plan for how to handle the intense public scrutiny and news cycles that come with it. For example, establishing an independent board and audit committee early on, and adhering to strict corporate governance norms, can instill confidence. Trump Media did implement a standard lock-up preventing major shareholders (including Trump himself) from immediately selling shares for at least six months⁶², which is a good practice to signal commitment to the company's long-term value. Ensuring such lock-up agreements and perhaps extending them can be beneficial, so that the market isn't flooded with insider shares at the first opportunity.

Another best practice drawn from this case is communication with investors. Given the speculative nature of Trump Media's stock, the company could have done more to temper expectations, for instance, by clearly communicating its user growth, monetization plans, and the realistic timeline to profitability. Many investors seemed to treat the stock as an extension of a political campaign, which is dangerous for those investors and for the company. Clear, sober messaging about the company's performance could help ground the valuation closer to fundamentals and reduce volatility. This is something any SPAC target, especially one with hype, should consider: use the merger process to educate the market about the business, not to exaggerate its prospects. In practice, maintaining credibility with investors is a long-term asset. Trump Media's credibility suffered when the financials came out and were so far below the hype, a gap that might have been narrowed by more modest communication up front.

⁶² Edward Helmore, "Trump could net \$3bn after investors approve Truth Social to go public," The Guardian, March 22, 2024

Finally, the Trump SPAC deal suggests that alignment of incentives is a crucial best practice area. Ensuring that sponsors, company founders, and public investors have aligned incentives can lead to better outcomes. Mechanisms like earn-outs (where Trump, for example, would only gain additional shares if the stock hits certain price targets in the future), longer lock-ups, or having sponsors invest additional capital in the PIPE at the same price as public investors are all ways to build trust. They show that those initiating the deal have “skin in the game” beyond just the promote. Some of these mechanisms were indeed in the Trump Media deal (there were earn-out share provisions for Trump tied to stock price milestones), and their presence is a positive takeaway that others can emulate. Best practices would see those kinds of provisions become standard in SPAC mergers to ensure that everyone is focused on the post-merger success, not just on getting the deal done.

6.3 The Role of Market Speculation and Political Influence in the Process

One of the most intriguing aspects of the Trump Media SPAC merger has been the outsized role of market speculation and political influence. This deal sits at the intersection of finance and politics and thus provides insight into how non-financial factors can dramatically affect a financial transaction. Market speculation, in this context, refers to the hype-driven trading that was largely detached from the company’s fundamental value. Political influence refers to the way Donald Trump’s status as a former (and possibly future) U.S. President and a polarizing political figure influenced investor behaviour and public perceptions of the deal. Both forces were deeply intertwined throughout the merger process.

During the merger process, especially as the vote approached and immediately after the listing, many investors openly acknowledged that buying shares of Trump’s company was as much a bet on Trump’s political future as it was on the enterprise itself. The fortunes of Truth Social were seen to rise if Trump’s political star rose (for instance, if he won the Republican nomination or the presidency) because that could drive user engagement or enshrine the platform as his primary communication channel. Conversely, negative political developments for Trump could harm the platform’s outlook. This speculative mentality, effectively treating the stock as a derivative of Trump’s political prospects, led to trading patterns that might otherwise seem irrational. For example, news events unrelated to any social media business fundamentals, such as developments in Trump’s

legal cases or poll numbers, at times triggered moves in the stock. This is not typical for a media company's stock price, and underscores how speculation based on external factors dominated the process.

Political influence also meant that the merger was scrutinized not just by investors, but by commentators and actors with partisan interests. Supporters of Trump championed the deal as a way to "build our own platform" and even viewed investment in it as a sort of political statement. On the flip side, critics labelled the venture as a probable failure or even a scam, which created a cloud of scepticism. This dynamic fuelled high volatility: optimistic speculation could swing to pessimistic selling very quickly. The company's fundamentals, user numbers, ad revenues, etc. often took a back seat to the narrative around Trump. In essence, the usual M&A process (which would involve roadshows focusing on business metrics) was replaced by something more similar to a political campaign rallying enthusiasm. While this helped get the deal across the finish line (approval by shareholders was achieved, which was an open question for a long time), it made for an unstable base for a public company. The management of Trump Media must operate knowing that sentiment can change with the headlines unrelated to the business itself.

Another key insight here is how market speculation fed by social media can amplify political influence in finance. Trump's own use of Truth Social to comment on the company or to communicate with his followers created a feedback loop. A single post by Trump could send his followers rushing to buy the stock (or at least hold onto it), giving the company a temporary valuation boost. This type of speculative surge is similar to what we saw in other meme stocks, except turbocharged by Trump's political clout. It highlights how modern markets, with armies of retail traders on platforms like Reddit or following influential figures on social media, can move capital quickly in response to narratives. In the Trump SPAC's case, this meant that hundreds of millions of dollars changed hands on essentially belief *or* sentiment rather than concrete results. Such speculation is a double-edged sword: it can provide financing and liquidity (as it did initially), but it can also result in a sharp correction that hurts the very investors who bought into the hype.

The political element also had more direct influences on the merger process. It is worth noting that the deal took longer to close in part because of the extra scrutiny, some

observers speculated that regulators were being particularly careful given the politically sensitive nature of anything involving Trump. Additionally, after the merger, Trump's continuing control and public role meant decisions at the company could never be taken in a vacuum. For example, analysts pointed out that if Trump were to cash out his shares early, it would send a bad signal and likely tank the stock, undermining confidence in his commitment to the platform. This is a unique situation; typically, whether a former president sells stock in a social media company would not be a consideration, but here Trump's personal choices are directly tied to shareholder value. Political influence therefore extends to corporate governance: Trump Media has to manage not just market expectations but also the expectations of Trump's political base. If, say, the platform was to moderate content in a way that displeased Trump's core followers, it could reduce the political goodwill that underpins the stock. Thus, the company's strategic decisions are influenced by a need to maintain a certain political stance or brand image. In summary, the Trump Media SPAC merger showcased how market speculation and political influence can significantly affect a merger from inception to aftermath. Traditional M&A analysis might not fully capture these elements, as they are external to balance sheets and cash flow models. Yet, in this case, they were arguably the dominant factors: they got the deal funded and closed (when by pure fundamentals it might not have), and they also led to a volatile ride for the stock and ongoing challenges. The key insight for the broader context is that when a company's fate becomes entangled with a political narrative or mass speculation, the merger process becomes as much about managing public perception and sentiment as about executing a business plan. Future SPACs or IPOs that involve celebrity or political figures will likely take lessons from this, understanding that the usual rules of investor behaviour can be upended. For researchers and practitioners, Trump Media's merger is a vivid case of speculative finance at work, and it invites a careful consideration of how to mitigate the risks of such speculation.

Conclusion

The merger of Trump Media & Technology Group with the SPAC Digital World Acquisition Corp. stands as a remarkable case study at the crossroads of high finance, regulation, and politics. In reviewing its trajectory, we found that market conditions and sentiment (Chapter 4) set the stage: the deal unfolded in a cooled-off SPAC market in 2023–2024 where investor scepticism was prevalent, yet Trump’s unique appeal provided an anomalous source of support. We then examined the company’s post-merger realities (Chapter 5), uncovering a stark divergence between the initial market hype and the company’s financial performance, modest revenues and sizable losses led to poor stock performance and raised concerns about long-term viability. Moving to lessons and implications (Chapter 6), we identified key insights for SPAC financing, notably the crucial importance of compliance and transparency, the perils and possibilities of sentiment-driven financing, and the need for stronger regulatory and best practice frameworks to handle such situations. Finally, we discussed how speculation and political influence uniquely shaped this merger, yielding both enabling momentum and subsequent volatility.

By synthesizing these findings, this thesis contributes to the broader literature on SPAC financing and M&A in several ways. First, it documents how a SPAC merger can be propelled by factors largely exogenous to the firm’s commercial fundamentals, in this case, a political figure, thereby expanding our understanding of shareholder behaviour in corporate finance. This underscores a point sometimes noted in financial research: narratives and non-financial goodwill can create real market value (and risk), an area ripe for further academic inquiry. Second, the detailed examination of regulatory interactions (SEC investigations, settlements, insider trading enforcement) provides an empirical grounding for discussions about SPAC governance. The Trump Media case illustrates the efficacy of regulatory oversight in correcting course (as with the \$18 million fine and enforcement of disclosure rules) and can inform future policy debates on how to structure SPAC regulations to protect investors. Third, this case offers a cautionary example of post-merger performance for SPACs. Many studies have noted that on average de-SPAC companies underperform, this thesis adds a qualitative and quantitative narrative to that line of literature, showing how even an exceptionally high-profile company was not immune to the typical struggles (low revenue, high redemptions, shareholder lawsuits,

etc., all appeared here). The integration of financial analysis formulas (like profit margins and ROA) in evaluating Trump Media's outcomes also demonstrates how traditional metrics can be applied to SPAC cases reinforcing that, at the end of the day, these companies must be assessed like any other public firm in terms of profitability and solvency.

Looking ahead, the Trump Media SPAC merger opens several avenues for future research. One direction would be a comparative study: analysing other celebrity-backed or politically linked SPAC mergers to see if similar patterns emerge (e.g. compare this with other ventures that went public via SPAC with well-known figures at the helm). Such research could help distinguish which outcomes were unique to Trump's situation and which are generalizable. Another avenue is to track the long-term performance and survival of Trump Media and similar de-SPAC companies. As of the end of 2024, Trump Media is still in a precarious state; studying its trajectory in subsequent years (does it manage to increase revenue? does it eventually fail or succeed?) would provide valuable lessons on the viability of companies that rely on hype versus those that had stronger fundamentals from the start. Additionally, future research could examine the behavioural finance aspect: surveying or analysing sentiment data (for example, social media sentiment on platforms like Reddit or Truth Social itself) to quantitatively correlate how political events or Trump's own statements impacted trading volumes and prices of DWAC/Trump Media stock. This would enrich the understanding of how modern digital communities and political identities intersect with investment decisions.

From a policy perspective, ongoing research might evaluate the effectiveness of the new SPAC regulations that have been proposed or implemented in the wake of cases like this. If the SEC implements rule changes (say, around disclosure or liability for projections), scholars can study deals before and after to measure if outcomes for investors improve (e.g., fewer extreme losses, less volatility, more alignment with projections). The Trump SPAC case, given its prominence, will likely be referenced in regulatory discussions as a justification for reforms, tracking those reforms and their impact will be an important part of the evolving literature on financial regulation.

In closing, the Trump Media SPAC merger underscores that while SPACs can democratize and accelerate access to capital markets, they also bring to light fundamental questions about how markets value companies and the adequacy of investor protections.

This thesis has illuminated how a confluence of economic conditions, regulatory actions, and intangible forces of personality and sentiment shaped one of the most notable SPAC deals in recent memory. The findings here contribute to a deeper understanding of SPAC financing strategies and outcomes, and they invite continued exploration into how to achieve the promise of SPACs while mitigating the pitfalls that were so evident in the Trump Media saga. The lessons learned will be relevant not only for financiers and regulators, but also for any future environment where business, fame, and finance intersect on the public markets.

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