

SPAC & Forth: Rights vs Warrants: The Sponsor and Target Perspective

Last week we looked at **rights vs warrants from the perspective of investors**. The focus was on relative value and how that value shifts depending on **expected stock price and volatility**.

This week we look at the question from the **other side of the table: the Sponsors and the Target companies**.

For them, the tradeoffs are very different.

Rights convert into common shares immediately at the closing of the merger. That means **immediate dilution**. There is no waiting period and no exercise price. The shares simply appear in the cap table.

However, rights also produce something many companies value highly: **a very clean capital structure**.

Once the merger closes and the rights convert, they are gone. There are no lingering derivatives. No long-dated instruments hanging over the stock. No additional complexity for investors to evaluate.

That simplicity matters more than many people realize.

A number of **large institutional investors prefer companies without warrants or similar derivative securities**. These instruments can create a perceived **overhang** and introduce additional trading dynamics. In particular, arbitrage strategies often involve **shorting the stock against the warrant**, which can amplify volatility and sometimes create persistent technical pressure on the share price.

Warrants, on the other hand, offer something that rights do not: **embedded capital raising potential**.

If the company performs well and the stock trades above the typical **US\$11.50 exercise price**, warrant exercises can bring in additional capital. For growing companies this can be meaningful.

But there is an important nuance. Warrants are usually exercised **only when they are deep in the money**, meaning the stock price is well above the strike. At that point, issuing new shares at **US\$11.50** may actually prove **dilutive relative to where the stock is trading**.

So while warrants provide optional capital, they also create **long-term dilution uncertainty** and a more complicated capital structure that some investors and lenders prefer to avoid.

Rights have their own challenges.

Because rights convert immediately at closing, many SPAC investors who originally purchased the units **rush to monetize them right after the de-SPAC**. That can create **short-term selling**

pressure in the days following the merger. In some case this could make it harder to raise PIPE capital, if the share price is pushed down, post-close, through the rights' exercise.

At the same time, rights can play an important structural role. In transactions with **high redemption levels**, they help create **additional public float**, which can be critical for **meeting exchange listing requirements and supporting trading liquidity**.

In short, each instrument solves a different problem.

The **biggest knock on rights** is **immediate dilution and near-term selling pressure**.

The **biggest knock on warrants** is the **long-term overhang, increased volatility from arbitrage activity, and a more complex capital structure**.

Neither structure is perfect.

In the end, choosing between rights and warrants is less about which instrument is objectively better and more about **which tradeoffs the Sponsor and the Target are willing to accept**.

Sometimes the priority is **capital structure simplicity**.

Other times it is **future capital flexibility**.

As with many things in SPACs, **it comes down to preference and context**.

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