



What are the differences in an IPO, a SPAC, and a direct listing?

Many mature companies who have raised capital using [exempt offerings](#) in the private markets elect to “go public,” such as through a [registered offering](#), either to raise additional capital, in response to investor calls for [liquidity](#), or both. Companies have multiple pathways to becoming a public company under current securities laws, three of which are outlined below. While alternative pathways to IPOs, including SPACs and direct listings, have become popular in recent years, many factors play into which pathway a company chooses.

Traditional Initial Public Offering (IPO)



What is it?

A private company raises capital by selling newly-issued shares to investment banks (underwriters), which the banks then sell primarily to [institutional investors](#).

Why choose this path?

An IPO is the traditional way for companies to go public. Companies may choose this path to have more control over their initial investor base and obtain an underwriter’s assistance in marketing and managing initial trading volume.

What to consider?

The transaction costs, including underwriter fees, are high, and the process typically takes a long time.

Special Purpose Acquisition Company (SPAC)



What is it?

A SPAC goes public as a shell company using an IPO for the purpose of merging with or acquiring a yet-to-be-identified private operating company. Generally within two years, the SPAC combines with the private company via a de-SPAC merger, with the resulting company becoming public and receiving a combination of the SPAC’s IPO proceeds and additional capital from a private financing.

Why choose this path?

By going public via a SPAC, companies can have more certainty as to the amount raised, potentially a shorter timeframe than the traditional IPO process, access to [liquidity](#) that might not otherwise be available to them, and a strategic partnership with an experienced management team that the SPAC’s sponsors put together.

What to consider?

The overall transaction costs for target companies can be high, and they must also consider equity [dilution](#) from sponsors and other private financing investors, which is why SPACs tend to draw bigger companies looking to go public.

Direct Listing



What is it?

A private company becomes public, typically without raising new funds in the process, by allowing existing shareholders to sell shares directly to the public.

Why choose this path?

Historically, a few very large, consumer-facing companies have chosen this path due to potentially lower transaction costs and other business-specific reasons.

What to consider?

With no underwriters involved, companies will have no control over their initial investor base and may face trading volume challenges, which is why companies that choose this path are often ones that have strong brand recognition that can generate sufficient market interest.

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