Title: About that AMC dividend thing
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Created 2022-08-07 16:24:24 UTC
Permalink: /r/Autisticats/comments/wijmmg/about_that_amc_dividend_thing/
Url: /r/FWFBThinkTank/comments/wiemmg/about_that_amc_dividend_thing/

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First off: If you are holding shares of AMC and this post in any way is FUD inducing to you, maybe Adam Aaron's TV interview can calm your mind. In that interview he said that he doesn't plan on diluting you with all of the possible 5 billion shares (duh!). I'm sure that's soothing, even when I tell you that (like AMC holders are telling themselves) he didn't mean to imply that there are 5B shares sold short. Right?

Today we're going to talk about that other stock that often gets exposure along with GME but otherwise has nothing going for it, AMC. On 2022-08-04, AMC Entertainment Holdings filed a few forms with the SEC, registering a new kind of Preferred Shares, and publicly traded Depositary Shares (ticker: APE) representing a stake in these Preferred Shares. This has gotten a lot of attention in financial and social media, but coverage often was misleading or incomplete, often full of speculation, and since I had some questions about market mechanical implications, I decided to read the filings myself.

Tl;dr: I am sure that some AMC holders will be trying to spin this as bullish, but if Adam Aaron gets his way, he will be able to dilute with quite more than the 5 billion shares that these filings on first glance imply. There is basically no reason for AMC apes to like anything about this, except for maybe the company not eventually going bankrupt. I therefore took a position in WBD on Friday as my diversification into entertainment.

^(Before we continue, here's the usual) **^(Disclaimer)**^(: I have no education in neither finance nor the law, and English is not my first language. I therefore am not to be trusted in my understanding of things, and you shouldn't take anything here as financial or legal advice. Not that I think that you would.)

History lesson

It's no secret that AMC is in dire financial condition, and, because of that, did dilute the fuck out of its shareholders, roughly quadrupling its shares outstanding over the course of a few months. Because this was not sufficient, and AMC was prohibited from selling more shares because they came too close to the maximum amount authorized by shareholders (over 516 million shares outstanding vs. 524,173,073 authorized), management tried to get that number increased. However, the proposal was rejected by shareholders disgruntled with management enriching themselves at the expense of both company and shareholders, leaving management in a rather difficult position.

But luckily (for management, not fools hoping for a SqUeEzE), there was a loophole from 2013 in an authorization to issue 50 million Preferred Shares, with no specification how these would look like.

AMC now filed to issue a stake in these Preferred Shares as a stock dividend to shareholders. The implication, mostly by the CEO himself, is that this is uber bullish, and generally good for shareholders.

New Equity Structure

In addition to the existing Class A Common Stock, the company is going to create a new class of shares, the Preferred Stock, which will not trade publicly. This is not to be confused with with the "AMC Preferred Equity Unit" that will trade on the NYSE under the symbol "APE". APEs will be depositary shares "worth" 1/100th Preferred Share, while Preferred Shares backing APE shares will be held in book form by the depositary Computershare. One Preferred Share is convertible to 100 shares of AMC, but only after a certain date (chosen by the BoD "it its sole discrection") and only if a shareholder vote passes. If that vote passes, all Preferred Shares will automatically convert to Class A (AMC) shares, and every APE holder will receive what they are entitled to.

So confusing, so good. In reality this means that one APE is almost exactly the same as one AMC, because they are considered convertible even if the Common Stock Amendment (a shareholder vote raising the amount of Class A shares AMC can issue) doesn't pass. APE shares have the same voting power and the same dividend entitlements as Common Stock. The only practical differences are:

1. Essentially, the company already filed to dilute voting power. This is not going to happen via the dividend which just doubles the voting power for everyone. While only needing roughly 5.17M shares of Preferred Stock to cover the dividend, they filed to issue 10M (out of max. 50M), with the usual legal mumbo jumbo to distribute (including selling on the market, obviously), in any way they please.
2. Preferred Stock (and by proxy, APE) comes with a built-in adjustment to the conversion rate. If the company, in any way, managed to issue more Class A shares before the conversion date, the conversion rate on Preferred Shares would increase. The practical implication of the formula means that the value of Preferred Stock in relation to the market cap will remain constant (double the amount of Common Stock, double the conversion rate).
3. Taxes. Most likely, APE shares are going to have a cost basis of zero, while AMC shares will keep theirs, while trading at a lower price. This might help with some tax stuff that I'm also not competent enough to talk about.

Room for Shenanigans

In this section we're going to explore how this could be good, or bad for shareholders, and if the very many statements by Adam Aaron are true.

AMC is going to dilute harder than Hevert / The dividend is not dilutive

The dividend in itself is not dilutive. It's a stock split with extra steps, and the extra steps are the problem.

Claims that AMC is going to dilute by 5 billion shares are currently unfounded, as the filings only allow for a maximum of 1B, which results in an effective dilution of approximately 483M in Common Stock (so almost double). However, now that the box has been opened, it's never going to close again. There will always be some risk of further dilution via the remaining 40M Preferred Shares.

AMC and APE will both be trading at 50% AMC's previous close after dividend distribution

This is true, approximately speaking. If we assume for the moment that the conversion is guaranteed, then there is an arbitrage opportunity if APE is trading below AMC (minus minor stuff like time premium/borrow fees), then an arbitrageur can buy APE and sell (short) AMC. After conversion, the short position would be closed out automatically.

However, the conversion is not guaranteed, and the conversion date is at an unknown time. This will be priced in by the market, but a significant deviation from the 1:1 ratio should not be expected---unless the company dilutes with the remaining 483M shares. It's also possible that the latter is going to be priced in from the start, but I'm not competent enough to know.

It's good for shareholders

Well. There is nothing to back the belief of AMC apes that it's going to SqUeEzE, and dilution is better than bankrupcty. So that one is true.

It's good for the stock price, because something something 2021

We'll see about that.

It allows the company to count the number of apes holding the stock, or something like that

Technically no, but yes, in a way. No from a settlement or similar "behind the curtain" perspective, but because of the dilution in voting power, AMC apes would have to hold at least 75% of the shares outstanding, because institutions will absolutely vote for conversion. Arbitrageurs need it in order for their trades to pay off, and other large shareholders understand that the company diluting is good for shareholders.

So if the vote passes, AMC apes hold less than 75% of the stock.

It's going to fuck naked shorts

1. No, because there are none. That 5B notion that AMC apes are throwing around comes from the fact that they are too regarded to understand that 50M hypothetical Preferred Shares times 100 is 5B.
2. No, neither the dividend nor the conversion are going to do that. Shorts would just owe one APE per one AMC they were short and nothing would change. For the record, I also don't believe that for GME's stock split, purely speaking from a settlement/obligation perspective. But I'm also comparatively smooth with that, so I may be wrong.

The conversion rate is suspicious because it equals one round lot/one options lot

I can't come up with anything why that would matter. Taking a hypothetical conversion rate of 10 Common Stock per Preferred Shares, the maximum amount of Preferred Shares couldn't cover the shares outstanding in Common Stock. Basically it allows for more powerful dilution.

People are gonna get fucked if they don't hold any number of APE that is not divisible by 100

Not true, the wording is pretty clear on that. On the conversion date (the day after the Common Stock Amendment is passed), Computershare will automatically convert all Preferred Shares (because they are holding them for APE holders), and everybody will receive what they are owed, all at the same time.

Are there incentives for apes to vote in favor of the Common Stock Amendment, and does the company need it to pass?

That's a no to both. The company don't need it to pass, because they can simply come up with more Preferred Shares that have the properties they desire. They also don't really care, because at that point they already got the cash from the APE sales.

I said something about conversion rate adjustment

If AMC would find a way to dilute its Common Stock before the Common Stock Amendment, then the conversion rate in Preferred Shares would go up. This would mean stable prices for APE shares, while AMC would drop in accordance with the dilution. I do not believe that this is realistic.

Conclusion

Let's begin with a **PSA:** At some point in the future, official numbers may show insane SI in AMC. Do not fall for this trap. These SI numbers would come from arbitrageurs who hold APE at the same time, and therefore will not be squozen out of their positions.

This is pretty genius, imo. With this equity structure the value of Preferred Shares is pegged to the inflated AMC stock price. Aaron is saying a lot of stuff trying to calm apes, like that the dividend is not dilutive. All of these words are carefully chosen, because while the dividend isn't, the filings very much imply a dilution of roughly a third of the current shares outstanding, with way more hypothetical dilution to come.

The company is finally going to be able to raise capital at the expense of bagholders hoping for 100k a share.

Sources

* [Form 8-A12B](https://www.sec.gov/Archives/edgar/data/1411579/000110465922086192/tm2222422d4_8a12b.htm) is all that you are going to need.