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The AMF publishes a study on the share price performance of companies using dilutive financing in the form of OCABSAs or equity lines

The AMF has analysed the stock market behaviour of 69 companies that have used highly dilutive types of financing. Based on the findings of this study, it is reiterating its warnings to the various market participants and retail investors.

In recent years, the AMF has observed an upsurge in reports and complaints from individuals who have lost a significant part of their investments in listed companies that use financing in the form of equity lines or OCABSAs (bonds convertible into shares with warrants). There were more than 250 such complaints in 2021, representing an increase of 232% compared to 2020, and already more than 200 complaints so far this year.

In their search for equity financing, some listed companies may resort to financing consisting of reserved capital increases carried out in several instalments and spread over time for the benefit of a financial investor who is not intended to be a shareholder in the long term. These arrangements may, for example, take the form of capital increase programmes through the exercise of options (PACEO or equity lines) or issues of bonds convertible into shares with share warrants (OCABSA).

OCABSAs are made up of two financial instruments that are issued together but can be traded separately:

- the bonds convertible into shares (OCA) entitle the holder to a number of new shares calculated in relation to the stock market price on the conversion date. The conversion takes place at a lower value than the stock market price, which allows the financial intermediary (the sole subscriber of these bonds) to realise a capital gain by selling the share very quickly in the market at the stock market price;

- share subscription warrants attached to the OCAs. These warrants entitle the bearer to subscribe to one or more shares at a fixed price until a given maturity date.

The shares resulting from the conversion of the OCAs are sold on the market very quickly by the investor. They can then be bought by retail investors. This type of financing ultimately entails two risks for the market and especially for individual shareholders: significant dilution and, in many cases, strong downward pressure on the share price.

For each of the 69 companies in the sample, the AMF analysed various stock market indicators, including the change in share price from the date of the first dilutive financing transaction identified to 31 December 2021. The following findings emerge from its examination:

- 57 companies, i.e. 83% of the sample, recorded a fall in their share price, with an average decline of 72%;

- the share price of 20 companies, i.e. 29% of the sample, fell by more than 90%;

- only 12 companies, i.e. 17% of the sample, posted an increase in their share price.

For those companies whose share prices varied the most upwards or downwards (+/- 99%), the AMF studied the number of transactions carried out, the number of investors involved in these transactions and the financial instruments used. The study shows that, on average, companies whose share prices fell the most carried out more transactions, had a greater number of different counterparties, and used a wider variety of financial instruments than the companies whose share prices rose the most.

The study also shows that issuers whose share price dropped the most had increased their capital transactions, such as share consolidations and par value reductions.

In light of these findings, the AMF reiterates its warnings and:

- urges issuers and their directors and corporate officers to be particularly vigilant before resorting to this type of financing and draws their attention to their responsibility in choosing and implementing these instruments. Furthermore, it is specified that the use of capital increase procedures for the benefit of categories of persons or investors must not be intended to circumvent the provisions applicable to capital increases for one or more persons designated by name;

- reminds issuers, with regard to their market disclosure obligations, that the characteristics of such financing and its attendant risks, in particular its potentially highly dilutive nature, must be clearly set out in their financial communication and provide a balanced presentation of their operational and financial situation;

- reminds shareholders that these types of financing are generally set up pursuant to delegations of authority granted by the general meeting of shareholders to the Board of Directors. Shareholders are therefore urged to keep a close watch when the agenda is published on the resolutions that will be debated and voted on at general meetings, particularly those aimed at waiving their preferential subscription rights;

- warns investors about the specific risks associated with investing in companies that use this type of financing, especially the particularly high risk of losing the capital invested. The AMF urges individual investors and all other investors to be particularly vigilant before deciding to invest in the securities of listed companies that carry out repeated dilutive financing transactions.

About the AMF
The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected and that investors are provided with adequate information. The AMF also supervises the orderly operations of markets. Visit our website https://www.amf-france.org URL = [https://www.amf-france.org/]

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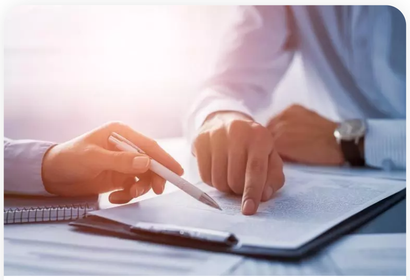

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