

CFO JOURNAL

Stock-Market Frenzy Offers Some CFOs a Chance to Cash In

However, tapping the equity market can take time and present risks



An AMC theater in New York. AMC Entertainment this week raised more than \$300 million in an equity sale.

PHOTO: CARLO ALLEGRI/REUTERS

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The recent surge in some company stocks are providing finance executives with a sudden window of opportunity to tap new sources of funding. But not all of them are likely to cash in, as it takes time to prepare an equity sale, and businesses risk raising the ire of regulators if the share price crashes after a fundraising round.

Corporate advisers say more companies have asked about how to prepare for a potential equity sale or another fundraising event in recent weeks as stock prices went up.

“Management teams are looking at where the stock is trading and seeing this as a way to infuse capital into their company,” said Hala Elsherbini, senior managing director at

Three Part Advisors LLC, an investor relations firm.

Audit Committee Brief: Current Challenges and Priorities

Audit committees have an important role to play in helping management navigate the current business environment. To understand the challenges faced by many organizations, including the depth of forecasting processes and internal control over financial reporting, audit committees can ask targeted questions.

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Some already have tapped the opportunity. Power Plug Inc., a hydrogen fuel-cell company that saw a roughly eightfold rise in its stock price over the past six months, on Tuesday said it was planning to raise about \$1.8 billion by selling stock, about \$300 million more than initially planned. AMC Entertainment Holdings Inc. this week raised more than \$300 million in an equity sale. On Wednesday, its share price more than tripled.

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PREVIEW



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Individual investors are piling into companies that many once saw as a poor bet. Shares of GameStop Corp. , the videogame company, rose more than 130% Wednesday. Other stocks, including those of BlackBerry Ltd. , Bed Bath & Beyond Inc. and Eastman Kodak Co. also saw big gains Wednesday.

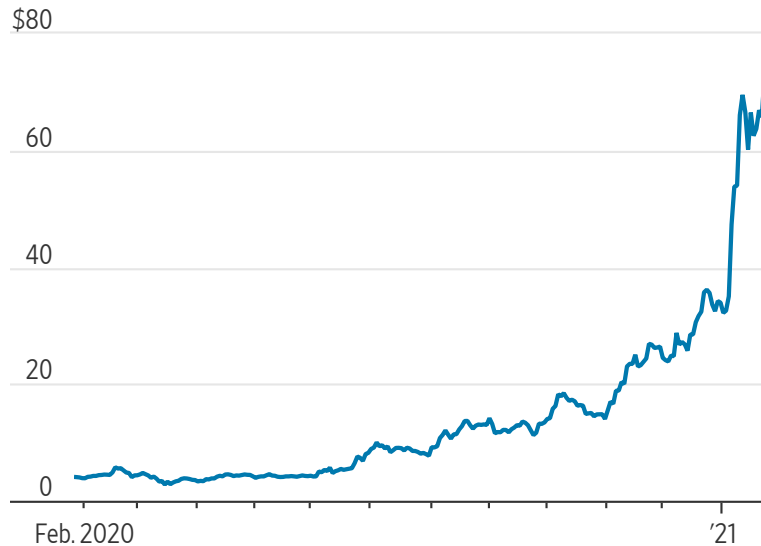
But beyond this week's surge in certain stocks, markets have been elevated in recent months after the Federal Reserve took aggressive action last spring by lowering interest rates to near zero and restarting bond-buying and other programs to counter the economic slowdown caused by the coronavirus pandemic and related lockdowns.

Still, it takes time for finance chiefs to prepare the paperwork for a fundraising event, even though there are ways to speed up the process. Companies can file a so-called shelf registration for securities they intend to issue later and don't have to do an additional filing when they actually want to raise cash.

Fueled Up

Shares of the hydrogen fuel-cell maker have surged from nearly \$4 a year ago.

Plug Power Inc.'s Stock



Source: FactSet

Those securities sales can be executed in the space of days or less, allowing companies to take advantage of a positive market sentiment. “Companies with shelf registrations have been updating these,” Ms. Elsherbini said, referring to some of her company’s clients.

But, there are reputational and liability risks for executives, especially in cases when the stock price crumbles after a financing event, potentially hurting individual investors, said Jonathan Neitzell, founder at Anduril Partners, an investment advisory firm.

Securities regulators usually take a close look at a company’s external communications and go after stock promoters, company insiders and others if there is a suspected “pump-and-dump” scheme in which a share price is first inflated and schemers then quickly sell their stakes.

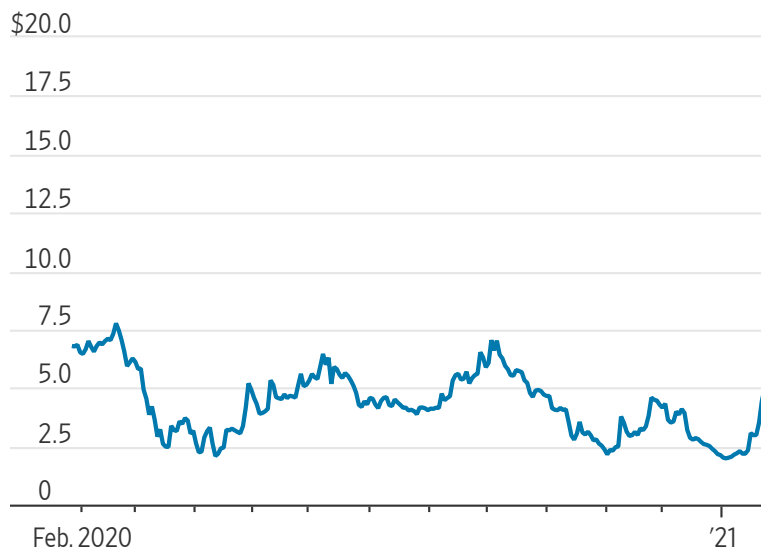
“Senior management needs to be extra prudent in considering whether and how to respond [to a stock-price surge] because regulators will take an acute interest if companies jump into the communications fray in a manner that is inconsistent with the disclosure obligations,” said Jacob Frenkel, chair of government investigations and securities enforcement at law firm Dickinson Wright PLLC.

The SEC said Wednesday it was monitoring the continuing market volatility in the options and equities markets. “Consistent with our mission to protect investors..., we are working with our fellow regulators to assess the situation and review the activities of regulated entities, financial intermediaries and other market participants,” the agency said.

Box-Office Hit

Shares of theater chain AMC soared after it secured financing to avoid bankruptcy.

AMC Entertainment Holdings Inc. Cl. A



Source: FactSet

Companies often decline to comment on stock-market moves, as did Kodak and Plug Power on Wednesday. AMC, Bed Bath & Beyond, BlackBerry and GameStop didn't immediately respond to a request for comment.

A high stock price can help executives insofar as it expands their companies' market capitalization, which often affects which indexes the businesses are listed in and subsequently the type of investor who would buy the shares. Macy's Inc., for example, in

April 2020 dropped out of the S&P 500 because of a decline in market capitalization, making the stock less attractive for certain shareholders.

Some CFOs said they tend not to focus too much on share price, even though for many of them, part of their compensation is paid in stock awards, making it a personal interest.

“We actually try and tell our employees to not spend all their time looking at stock performance,” said Anan Kashyap, the CFO of Poshmark Inc. The company, which earlier this month listed on the public markets, is focusing on longer-term growth, Mr. Kashyap said. Poshmark’s stock closed at \$73.25 on Wednesday, down 28% since its IPO.

—*Brooke Henderson contributed to this article.*

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