# 7 Things to Know Before Executing a Convertible Debt Offering

**Even in turbulent markets and with uncertainty as to interest rate movements, the convertible debt market continues to be attractive to both investors and issuers. The choppiness of the market makes it crucial to be prepared and capitalize onmarket windows. To execute an optimal deal, there are a few key things you should understand before pursuing a convertible note.**

### 1. Know your key objectives when selecting the convertible bank group/syndicate

Most clients have a few key deal objectives and have a finite amount of "rewards" (e.g., fee, league table credit, and bragging rights) to hand out in return. Choose the lead bank/active bookrunners based on execution quality, but select the rest of the syndicate and fee structure based on your specific objectives.

### 2. Know that what matters in a convertible bond offering is final pricing, not the initial price talk range

Convertible note offerings are often launched with a 0.5% coupon range and a 5% conversion premium range (known as the initial "price talk"), with the final pricing based on actual investor demand after one day of marketing. Beware of early price talk numbers that seem too good to be true — they probably are.

### 3. Understand why stock price goes down during a convertible debt offering and what you can do to mitigate the impact

The most overlooked negative of a convertible debt offering is the stock price impact on the day of the offering caused by hedge fund shorting. On deal day, you will have limited say on changing the order book — you can properly encourage allocation to high-quality investors only if you have thoughtfully structured the deal and syndicate structure ahead of time.

### 4. Know if you are going to use a call spread

There are three primary varieties of call spreads, and they provide different tax benefits, accounting treatment, and unwind flexibility. Choosing the right call spread structure ahead of time will streamline the documentation process and will provide significant flexibility down the road.

### 5. Have a view on the preferred convertible debt settlement method

Settlement method drives both convertible documentation and accounting treatment, so learn about various settlement methods and relevant accounting treatments ahead of time. This can give you the flexibility to execute a convertible note offering in as little as 1-2 weeks.

### 6. Socialize the idea of a convertible debt offering with key board members ahead of time

By speaking with board members individually, you can address any concerns ahead of time. As a result, the official board meeting to consider the transaction will go more smoothly.

### 7. Utilize an advisor and bring them under the tent early

Using a capital markets advisor on convertible debt deals is increasingly the norm. Pick a truly unbiased, independent advisor with years of convertible debt experience, and consult them early in the process.

Wondering if a convertible note is right for you? ICR's highly experienced advisory team can help you get the best deal possible easily and efficiently. Learn more.