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A theory of mandatory convertibles: distinct features for large repeated financing

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ABSTRACT

In recent years, mandatory convertibles (MCs) have become a popular means of raising capital, ... to investiga... s can be an efficient ... s compared to other ... and capped capital a... achieve efficien...

KEY...
capped ca...
JEL CLA...

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Disclosure statement

No potential conflict of interest was reported by the author.

Notes

1 Given the distribution function of the project output , the distribution function F of output is , where is the probability of an event. If is random, all the results hold except that F is replaced by the joint distribution function of . We can also allow the randomness of to be resolved earlier or later than .

2 We follow the incomplete-contract approach proposed by Grossman and Hart (1986). Refer to their paper on the concepts of ‘a variable being ex ante nonverifiable but ex post observable’, ‘an ex post decision being ex ante uncontractible’, ‘ex post renegotiation’, and ‘an efficient bargaining outcome’.

3 Adding another random shock in the second period will add a lot of technical complication. Such a complication is unnecessary for the purpose of this paper.

4 We wil … ued function
and y is … be well
defined … e
disconti… egral (Horst
1984).

5 He… e two MCs
issue… ling). Hence,
is the to… iginal
shareho… stock, the
firm may… investors’
total inc… assume no
dividends on common stock. However, if there is a random stock in the second period,

the timing of a dividend payment is relevant and it reflects risk sharing, which would force us to specify dividends on common stock explicitly.