EXCLUSIVE REPORT

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This Is Your Brain on AI

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- Restoring Profits to Pay Off These Convertible Bonds

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Embattled Ed-Tech Company Harnesses the Power of ChatGPT Restoring Profits to Pay Off These Convertible Bonds

> *It's headcount's currently getting a slash,*
> *Rather than expanding,*
> *But its balance sheet contains more cash,*
> *Than all its debt outstanding.*
> *- Martin Fridson*

Billionaire entrepreneur Sam Altman wants to live forever.

But in order to do that, he'll have to die first. On purpose.

Stored somewhere in the archives of biotech startup Nectome is a list of 30 names. Twenty-nine of those identities remain unknown, but Altman (who invested a round of seed capital in Nectome in 2018) has confirmed that he's one of the people on the waitlist. Each volunteer has shelled out ten grand to secure their spot.

What they're waiting for is euthanasia, otherwise known as mercy killing… sort of.

The group have offered up their brains for Nectome's proprietary cryopreservation procedure – a technique that (if it actually works) will freeze all of the brain's neurons and synapses in perfect condition until scientists have the technology to upload human consciousness to the cloud. The company describes it as a way to "back up your mind."

The catch is… this high-tech "brain freeze" doesn't take place *after* you die. It happens while you're still *alive*. And it kills you.

To freeze brain tissue in the freshest possible condition, a patient – who would likely be terminally ill but still very much alive – will be injected with a preservation solution that pumps through their veins and embalms them instantly. Nectome acknowledges that the process is "100% fatal" – likely why the Massachusetts Institute of Technology (MIT) pulled funding from the controversial startup in 2018.

Surprisingly, it's legal – at least, under assisted suicide laws in a couple of states. The experience, Nectome founder Robert McIntyre says, will be "identical to physician-assisted suicide."

To be clear, none of the 30 people on the list have yet tested this claim. And once the time comes, they're not bound to it. But if they're interested in a digital afterlife, the big chill is waiting.

Trying to outsmart death, of course, is as old as the fruitless search for the Fountain of Youth (which, sadly, you will *not* find at the famous tourist-trap location in St. Augustine, Florida). But so far, few seekers of eternal life have taken Sam Altman's approach of actually *partnering* with the Grim Reaper. Altman plans to welcome death, hasten it... and then bend it to his own ends.

If you can't beat it, in other words, join it.

After all, Altman knows... better than most... that some powers are too huge to be contained. But if you embrace the inevitable, you just might have a shot at survival.

Chill or Be Chilled

Over the past two years, Altman's own company has unleashed an apocalypse-level force on the world: generative artificial intelligence ("AI"). AI is not as inescapable as death or taxes, but it spells obsolescence for a sobering number of jobs and businesses.

Altman's artificial intelligence research company OpenAI, which released the first version of generative AI model ChatGPT in 2022, is – if you believe ***Forbes*** and **Goldman Sachs** – in the early stages of decimating entire industries. Now that a computer can perform many of the tasks that once required the expertise of a mid-level white-collar cubicle dweller (or, in Google's case, an **entry-level coder**), huge swathes of jobs and entire market sectors are on shaky ground.

"AI is going to eliminate a lot of current jobs, and there will be classes of jobs that totally go away," Altman said in May. Indeed, Goldman Sachs estimates that 300 million jobs globally – including two-thirds of all jobs in the U.S. and Europe – will be affected by AI. Functions in the finance, banking, media, and legal services positions are being taken over by ChatGPT at a rapid clip; more than a third of translators have lost work; and some educational technology stocks have cratered as students pivot to AI for test prep. The grim list goes on.

Sam Altman's company is the Angel of Death ushering in this plague. It's a role that doesn't sit entirely easily with him.

Altman – who has what his mother calls "cyber-chondria" – has been an avowed apocalypse prepper for years, with a stash of guns, gold, and a piece of getaway land marked off in Big Sur, California. And, as he once admitted to *The New Yorker*, it's specifically an AI apocalypse that's on his mind. He and his friends spitball scenarios about nuclear war and about "AI that attacks us." He's acknowledged to MIT that the probability that AI will ultimately kill us all "is not zero."

That may be why he has a sneaking sympathy for some of the smaller industries that ChatGPT has disrupted – and why he's offered a helping hand to the edtech company we'll examine in this issue. (At the time, the CEO was a friend, or friendly rival, he'd known for two decades… that surely didn't hurt, either.)

After fighting a losing battle against the inroads of AI, this company has made the pragmatic decision to surrender to ChatGPT and incorporate the tool (with parameters) into its business. Remember – if you can't beat 'em, join 'em. Long term, we think this partnership is the best way for the business to survive. (It's also a far safer bet than Altman's gamble with brain freeze.)

The bond we are recommending was issued by a company whose revenue grew very quickly, from less than $10 million at its 2007 founding to $766 million in 2021. Then annual revenue fell 4% in 2022, and 12% in 2023 – mostly from the competitive effects of AI. Revenue and profit are likely to fall 20% this year compared to 2023.

In this report we discuss the steps that the company is taking to cut costs and increase revenue, using its own AI tools, to get profits to rise again. We will tell you why we think its bonds represent unusually good value at current prices.

Why we like these bonds:

- The company is a leader in its field, and it has a well-known brand
- Even with its recent downturn, it is profitable and has positive free cash flow that will enable it to service its minor debt
- The company has $612.4 million in cash and investments, slightly more than its $600.4 million in total debt, as of March 31
- Total debt is only 2.9x the company's operating profit for the 12 months that ended March 31 – a safe level that is below the 4.5x of other companies that share its B credit rating
- Management recently emphasized that the company will be in a good position to pay these bonds off at maturity with cash or with the proceeds of a new bond issue
- At the current price of $804 these bonds feature an annual yield of 10.46%

We are recommending **Chegg's (NYSE: CHGG)** 0% convertible bond maturing September 1, 2026. Chegg is a well-known and well-regarded company that provides educational support to students, mostly via homework help and tutoring, as well as textbook sales and rentals.

Silicon Valley tech entrepreneurs Aayush Phumbhra and Osman Rashid launched the company in December 2007, focused on disrupting the market for college textbooks, which had consistently risen in price. The name Chegg is a mash-up of "chicken" and "egg" – to describe the catch-22 predicament of being unable to obtain a job without experience, while being unable to get experience without having the opportunity to work.

The company's early business model, influenced at the time by the growing success of Netflix mail-in-DVD movie rentals, was to undercut high-priced campus bookstores across the U.S. by renting and selling textbooks online.

Sales for the company took off from the beginning. Revenue reached $10 million in 2008, its first full year – which enabled Chegg to raise $25 million from top Silicon Valley investors like Kleiner Perkins. Chegg's business soared even more from there. Revenue reached $10 million in January 2009, *for the month*. The company plowed its profits back into the business and promoted its educational offerings to its growing base of student customers.

In December 2010, the company acquired Cramster, the largest platform for high-school and college homework help. Cramster was an online community of college and high-school students, professors, teachers, parents, and subject matter experts. For a monthly fee, it provided students with online study tools, practice tests, and study groups. This online subscription test-help service became – and remains – Chegg's main business.

In November 2013 Chegg went public. At the time of its initial public offering, which raised $187.5 million, the market valued Chegg at $1.1 billion. Revenue for the year was $256 million. Since then, the company has grown, mainly by making acquisitions. Its market cap reached a high of more than $11 billion, in 2022, when revenue also peaked at $766 million. Here's a partial list of Chegg's acquisitions.

Eleven Acquisitions in 11 Years

Year	Company Acquired	Purchase Price	Company Description
2010	Course Rank	Price not disclosed	Course scheduling and academic review
2011	Zinch	Price not disclosed	Connects students with colleges and scholarships
2012	Student of Fortune	Price not disclosed	Marketplace for student homework help
2014	InstaEDU	$30 million	Online tutoring platforms
2016	Imagine Easy	$42 million	Writing tools – citations, bibliography, anti-plagiarism
2017	Cogeon	$18 million	Math-related technology, popular "Math 42" app
2018	Study Blue	$21 million	Library of frequently asked questions and study tools like flash cards
2019	Write Lab	$15 million	AI-driven writing tools and feedback
2019	Thinkful	$80 million	Online bootcamp classes for coding (and other tech-based skills)
2020	Mathway	$100 million	Math problem solver with subscribers in 100 countries and 13 languages
2021	Busuu	$436 million	Language-learning platform with 500,000 subscribers in more than 160 countries

Chegg's Business Today

As a result of these acquisitions, Chegg's main business is no longer textbooks, but providing educational support. The original textbook business now accounts for a very small slice of the company's revenue and profit.

Today, using its services, the company helps students graduate college. In 2023 the college graduation rate among all students who matriculated in the U.S. was 62%. This means 38% do not graduate.

Chegg is looking to sign up students who are struggling or are on the verge of dropping out. Ideal customers fall into certain categories of students who have high dropout rates: first-generation college students, those from low-income families, minorities, those over the age of 25, and those who hold down a full-time job.

Most of its 4.6 million subscribers are U.S. college students in their junior or senior year who pay a monthly subscription fee. In 2023, subscriptions accounted for 89% of the revenue.

Chegg offers the following subscriptions:

Chegg Study provides help with homework. For $15.99 per month, a student has access to an AI-based personalized learning plan plus...

- Access to 150,000 what Chegg calls "subject matter experts" – essentially tutors – who the company screens and trains. Subject matter experts are available 24 hours a day, seven days a week to answer students' questions for a wide range of topics. STEM classes – science, technology, engineering, and mathematics – are the most popular subjects covered.
- Access to Chegg's archive of over 100 million academic-related questions from students and their solutions.

Chegg Study Pack, which costs $19.99 per month, includes Chegg Study plus:

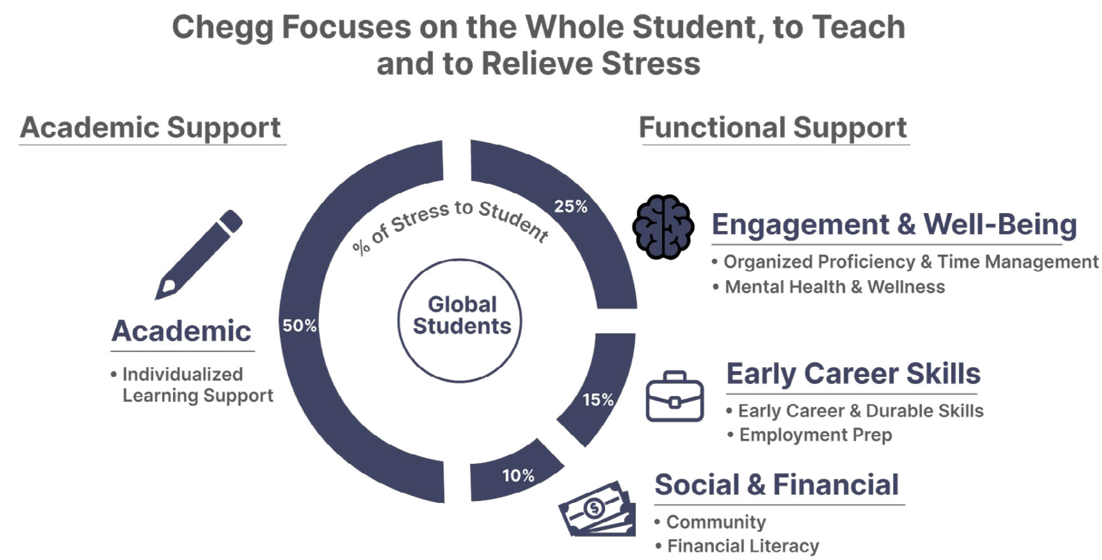
- **Chegg Writing**, which provides online writing tools that screen for errors in grammar, spelling, and sentence structure – and also helps to create bibliographies
- **Chegg Math**, which provides step-by-step help in solving problems and access to the Mathway, Chegg's proprietary program for solving math questions.

Chegg is constantly looking to enrich the Chegg Study Pack with additional features. Most notably, it has added a variety of modules that have elements of what it calls "life coaching":

- Early career development geared to soon-to-be and recent graduates
- Financial literacy – such as budgeting, tips on saving money, managing credit cards, and understanding credit ratings

- Emotional support in dealing with stresses like heavy course loads, exams, and balancing time commitments

Chegg refers to its Chegg Study Pack with these added modules as "360 degrees of individualized support."



Source: Chegg

Students using Chegg Study Pack give it high grades, as revealed in a April 2024 company survey:

- 89% say that Chegg helps them understand concepts and learn their coursework
- 91% say they get better grades
- 90% say they work more efficiently
- 91% say Chegg helps out when they get stuck
- 83% say Chegg helps build confidence before exams

Busuu is the newest addition to Chegg's subscription service. An online platform for learning languages, it offers subscribers self-paced lessons as well as live classes. The cost for this service, which is used by students and businesses, is $14 per month, or $84 for a yearly subscription, discounting the price to $7 per month.

The remaining 11% of Chegg's revenue comes from other services:

- Online skills-based courses offered by employers to employees cover topics such as artificial intelligence, data analytics, digital marketing, financial analysis, and cybersecurity

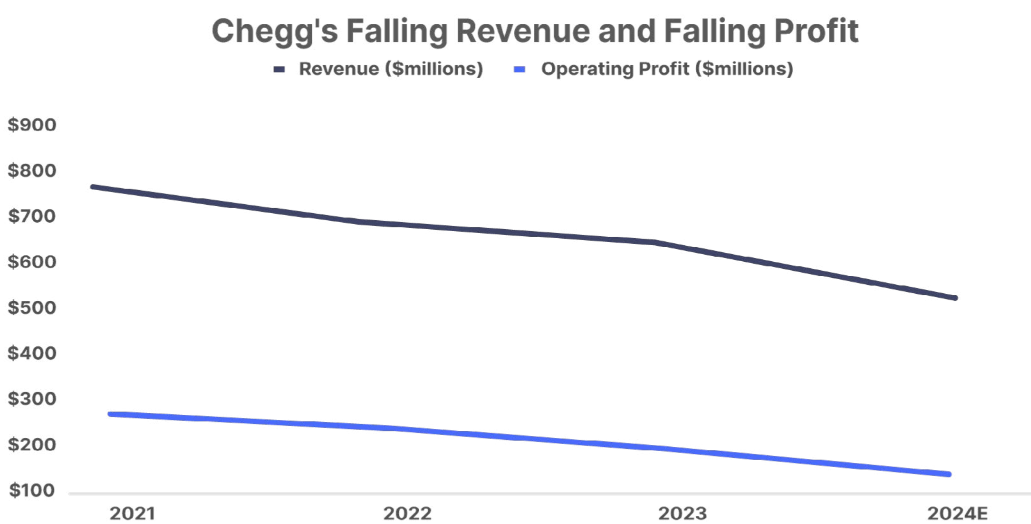
- Corporate advertising on Chegg's various websites
- Commissions on the sale of textbooks

ChatGPT: A Major Disruptor for Chegg

As mentioned earlier, Chegg's revenue and profit rose steadily through 2021 – nearly 20% per year. Then, in November 2022, ChatGPT was introduced. ChatGPT, which has since become widely used, is an online service that draws on AI to answer questions and perform a variety of tasks.

The challenge for Chegg is that ChatGPT can pose questions, and provide answers, in the same way that Chegg's services do. While ChatGPT does not provide the same specificity in its response that Chegg does (or offer in-real-life support), for many students ChatGPT may prove to be an acceptable free alternative to Chegg's paid subscription service.

The company does not offer (and would have no way to know) detailed numbers about how many subscribers it has lost to free AI platforms. And while Chegg management does not specifically attribute the recent decline in revenue and profit to the emergence of ChatGPT, the timing and the company's reaction to it suggests the two are related. ChatGPT came on the scene in late 2022, and Chegg's operating profit declined slightly that year. By 2023, it had fallen 12%, and based on current trends it will fall at least 20% this year...

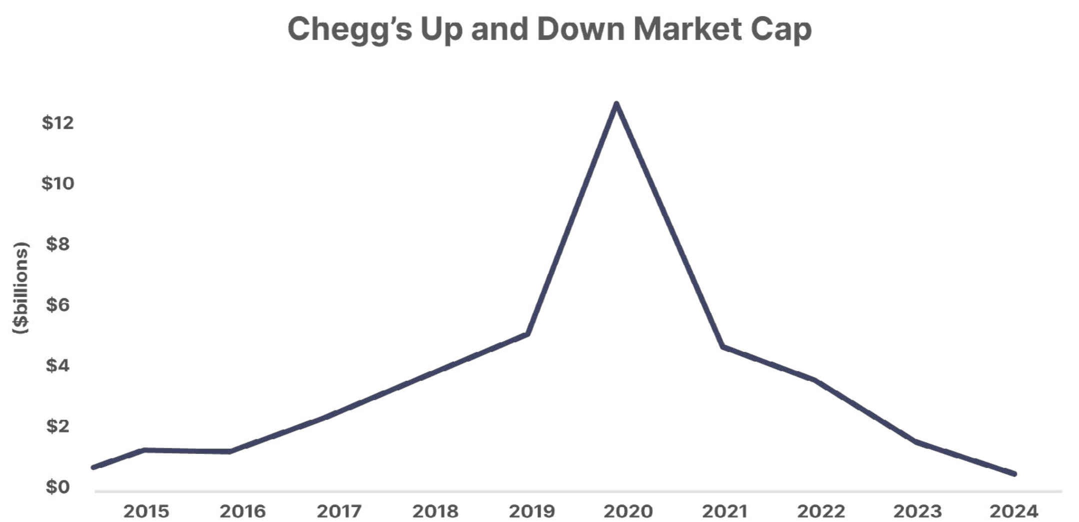


Source: Bloomberg

Results for the quarter that ended March 31 show that revenue declined 7.5%, from $188 million to $174 million, and operating profit fell 19%, from $58 million to $47 million.

For the quarter that ended June 30, management projected operating profit of $38 million to $40 million – well below the $59.8 million in Q2 of last year. The sharp quarterly decline in profit is attributable to lower revenue from reduced subscriptions, and raises concern about the long-term damage from AI systems like ChatGPT. And most relevantly to us here, whether the company will be able to cover the bonds we are recommending that mature in September 2026.

The company's market cap has greatly suffered as a result, as shown in the chart below.



Source: Bloomberg

On June 17, management announced a package of cost cuts that it projects will boost profits by $40 million to $50 million (roughly 20% to 30%) in 2025. Most of these savings will come from a 23% reduction in staffing worldwide – mainly in India. The company will also outsource a variety of technical functions like subscription fulfillment, freeing up management time to focus on marketing and growth. The company will incur $10 million to $14 million in charges associated with the cutbacks.

Chegg expects significant benefits from these cost cuts next year, as it mentioned in its June 17 announcement:

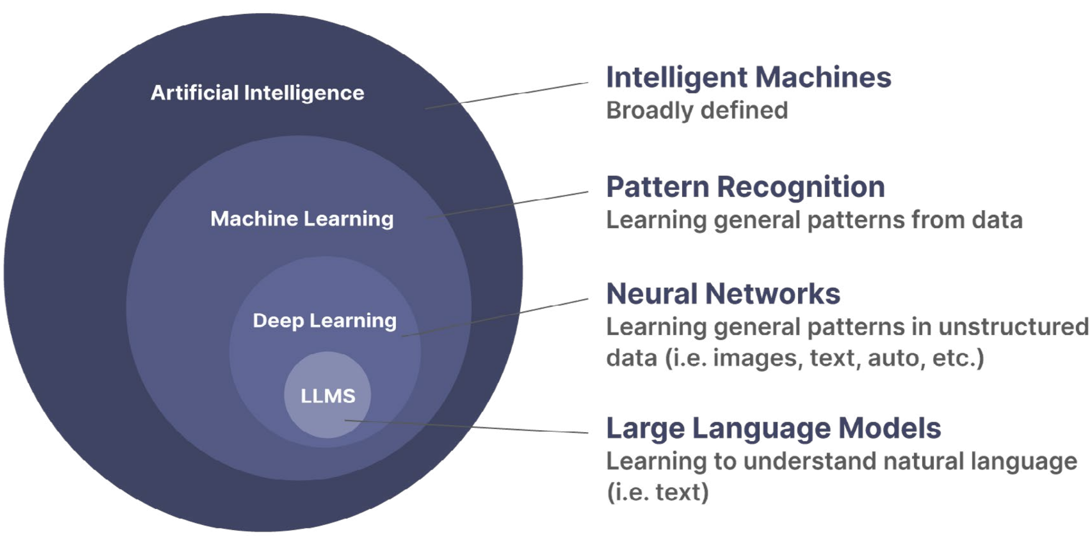
> *"For 2025 we remain committed to 30%-plus adjusted EBITDA [operating profit] margins and we anticipate that we will generate at least $100 million in free cash flow."*

Chegg has recently made two important changes in management. In February, the company's chief accounting office, David Longo, took over as CFO from Andrew Brown, who retired after 12 years in the position. And on April 29, it announced that 16-year Chegg veteran Nathan Schultz would replace Dan Rosensweig as CEO.

These changes represent a sensible balance between looking for fresh perspectives and holding on to the top employees who were largely responsible for building Chegg.

Before we look at Chegg's strategy to compete against ChatGPT and AI in general, this summary helps explain the technology that is changing the competitive landscape.

Chegg Studied Hard to Learn About AI



How Large Language Models Work, Andrea Stoffelbauer, October 24, 2023, medium.com

ChatGPT is an example of a large language model ("LLM"), an AI program that can recognize text that exists within the universe of information it's *trained* on. Once the LLM is trained, it can respond to questions based on the knowledge it has access to.

The abbreviation GPT stands for "generative pre-trained transformers," a term that now applies broadly to LLMs.

Generative means It can *create* new, conversational responses by searching through all the information on which it was trained. Some LLMs are designed to use very generalized information – they can respond with something about almost anything. Others are trained on specialized data sets. These LLMs can provide more detailed answers on a smaller universe of topics. In all cases, the responses are fed back into the LLM.

Pre-Training refers to machine learning, which is how the AI system learns about language and structuring sentences. This pre-training enables the GPT system to present its responses in a "human" way.

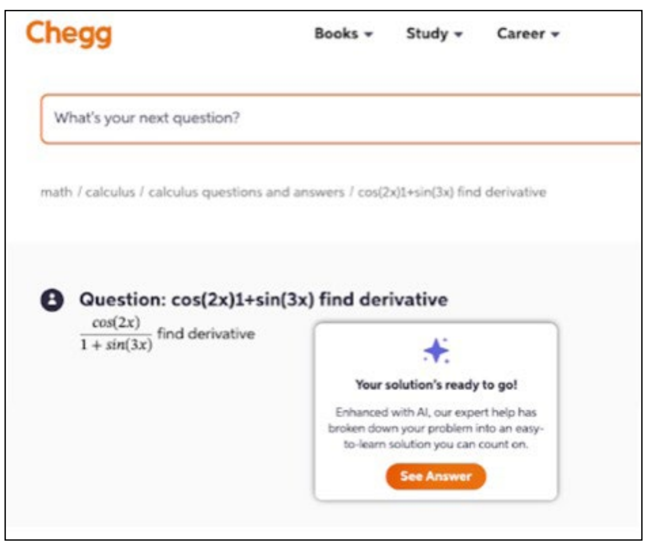
Transformer describes how the AI model is designed and how its different parts are connected.

LLMs are programmed to recognize prompts, search for relevant information, and present their findings in a conversational way. They do not actually *understand* anything.

The Steps Chegg Is Taking to Take On ChatGPT

The most significant part of Chegg's response to the growth of AI and ChatGPT is to create its own LLMs based on the company's proprietary information.

Chegg's most valuable asset may well be its archive of 100 million history questions, science quizzes, and math problems and their solutions. This vast database includes the work of its current 150,000 subject matter experts as well as experts from previous years. Chegg owns this intellectual property, so no other LLM can use it. The company provides access to this archive to subscribers, along with access to subject matter experts.



Chegg has been able to customize its AI offerings to tap into the vast universe of information provided by generalized artificial-intelligence services, while providing more specific answers than ChatGPT can.

In fact, the idea of infusing AI into Chegg came from a most unlikely source. In early 2023, then-CEO Dan Rosensweig turned to his friend Sam Altman after Chegg executives began raising concerns that AI posed a threat to the business. Altman, of course, is CEO of OpenAI, the company that created ChatGPT, which was likely drawing subscribers away from Chegg. In April 2023, just months after the two talked, Chegg and ChatGPT announced a partnership to create CheggMate – essentially ChatGPT with an injection of Chegg's 100 million study questions.

This partnership enabled Chegg to exploit a huge disadvantage of generalized LLMs, which is that they do not perform well where specialized knowledge and terms are crucial. In subject areas required by high-school and college students, general LLMs may generate responses that are less accurate or relevant.

By customizing its AI service, Chegg can provide superior performance in terms of accuracy, relevance, and specificity. Plus it can more easily add information to its database than generalized models can.

CheggMate was a temporary fix. To make a longer-term change to its technology, in August 2023, Chegg signed an agreement with Scale AI to create its own LLMs. Scale is known for controlling the quality of the AI models it creates using Reinforced Learning Through Human Feedback. In RLHF, as it is known, Scale hires an army of approved readers to fine tune a model's responses. Scale will use Chegg's proprietary data to create 27 subject-specific LLMs.

In the past, when a student asked a question, if there was no archived answer, the question was sent to an expert. Now it will be possible for the question to go to Chegg's in-house AI resources. Cutting back on the number of human experts will reduce Chegg's costs. The company estimates that AI-based models reduce the cost of answering a question by 75%. "This means we will be able to serve more students at a lower cost per student, faster, and in more subjects and languages," CEO Schultz said in the company's June 17 letter to shareholders.

Finding New Categories of Customers

In addition to developing specialized large language models, Chegg management aims to increase revenue by expanding the company's marketing reach, targeting new groups that the company is looking to convert into subscribers. Currently, 85% of Chegg's new subscribers come from referrals from students or from internet searches. The marketing cost for these subscribers is close to zero.

The company will augment this approach by using paid advertising to bring in new subscribers.

Chegg is also aiming to increase its marketing to specific groups and geographies. For instance, Chegg now sells directly to students. Going forward, to help build its subscription base, it will also seek to engage universities looking to improve their graduation rates. This looks like a good opportunity for both Chegg and the colleges.

Most of Chegg's subscribers are in their junior and senior years of college. The company is working to gain a greater foothold in the high-school and early college markets, where subscription levels are lower. The company will modify the way it presents its brand to this younger student base – for example, via TikTok and other social media platforms.

Chegg has only recently begun to market outside the U.S. and is focusing on six countries. Although the company does not name them, based on descriptions in conference calls, the six are most likely Canada, the UK, Australia, Turkey, India, and Israel.

Chegg is currently offering promotional pricing to gain a foothold outside the U.S. Management sees international markets as a long-term growth opportunity, especially as new LLMs will make it possible for subscribers to pose questions and get responses in other languages.

Management has emphasized that returning steady growth to the business, and increasing its profitability, will take time. CEO Schultz explained in his June 17 letter:

> *"Growth will not come in a straight line, but we are moving in the right direction and understand the urgency with which we must innovate and execute."*

Raising Cash Without Taking on Much Debt

Ordinarily, when companies make multiple acquisitions, as Chegg did, they take on a lot of debt. Chegg borrowed money very cheaply. Since the company's business began to generate substantial cash each year, it has bought back almost 70% of its bonds.

The market drove up Chegg's share price, which enabled it to issue convertible bonds and new shares of stock, at high valuations, to raise capital. When the stock price hit its $108-per-share peak in 2020, the market valued the company an eye-popping 45x the operating profit for that year. This compares with a current valuation of roughly 2x the estimated operating profit for 2024.

The bonds we are recommending in this issue were issued almost exactly at that peak valuation, and are convertible at $107.55 per share. (The stock now trades at $2.90 per share.) So it has been able to raise capital wisely without taking on much debt.

And even with a slight financial slump, Chegg is generating cash to pay off what debt it has. In 2013, when Chegg went public, it posted revenue of $255.6 million and an operating loss of $4 million. In 2023, the company had revenue of $716.3 million (a 180% increase over 10 years) and operating profit of $222.4 million. Although this 2023 profit figure is down from the record level of $265.6 million in 2021, and $254.5 million in 2022, Chegg's operations still managed to generate $173 million in cash in 2023, an increase of 12% over 2022.

Here is a look at the company's financial performance over the last six years, with projections for 2024 and 2025.

Chegg by the Numbers
($millions)

	Revenue	Operating Profit	Capital Expenditures	Free Cash Flow
2018	$321.1	$83.3	$31.2	$43.9
2019	$410.9	$125.1	$42.3	$71.1
2020	$644.3	$207.1	$81.3	$104.1
2021	$776.3	$265.6	$94.2	$176.8
2022*	**$766.9**	**$254.5**	**$103.9**	**$154.8**
2023	$716.3	$222.4	$83.1	$173.0
2024E	$654.6	$174.9	$86.9	$101.2
2025E	$648.3	$181.6	$83.0	$111.9

**ChatGPT released November 30, 2022*

Between stock and convertible bond offerings, Chegg raised roughly $3.65 billion between November 2013 and August 2020. The company used much of its cash over the last three years buying back roughly $1.4 billion of its convertible debt, at a cost of $1.2 billion, and $950 million in stock. Today, despite a sluggish last two years, the company has a solid balance sheet, with slightly more cash than debt.

Chegg's Current Debt and Cash Situation

0.125% convertible bonds maturing 3/15/25	$359 million
0% convertible bonds maturing 9/1/26	$245 million
Total	**$604 million**
Cash and investments	$612 million

Even without the cash, assuming operating profit of roughly $175 million this year, estimated total debt for 2024 amounts to 3.5x operating profit. That level of borrowing is not concerning to us. It represents a lower level of debt than the 4.5x median ratio for companies that share Chegg's B credit rating.

No Conversion But a Double-Digit Yield

We're recommending these bonds because we expect they'll be paid off when they mature in 26 months and because their annual yield is 10.46%. We like them without counting any potential (but very unlikely) upside from converting the bonds into stock.

When these bonds were issued in August 2020, Chegg's stock was trading at $78 per share, and the bonds were convertible into stock at $107.55 per share – conversion seemed possible. With Chegg's stock currently trading around $2.90 we accord no value at all to the bond's conversion feature.

The value of this investment comes solely in the gain from the current price of around $800 to the face value $1,000 paid at maturity in just over two years.

Below is a chart that tracks the price of the 0% convertible bonds we are recommending – showing a steady decline from 30% above face value in late 2020 to just $804 today.

Porter & Co.

Risks

We see these as the main risks Chegg faces:

- Free, generalized AI programs like ChatGPT will continue to reduce demand for Chegg's monthly tutoring service
- If management's plan to increase revenue doesn't succeed – or are only modestly successful – operating profits might continue to decline, potentially at a quickening pace
- Chegg could lose key members of the senior management team and disrupt what progress it has made in its turnaround
- Though all of its acquisitions have worked out well, the company might buy a company that is overpriced or doesn't mesh well with its current business

Terms of the Bond

Chegg's 0% convertible bond maturing on September 1, 2026, has a face amount of $244.5 million. The issue size was originally $1 billion, but Chegg has repurchased $755.5 million of it. These bonds are unsecured, meaning that in the event of a bankruptcy filing (which we think is highly unlikely) any secured debt that Chegg might conceivably issue would get paid first. Holders of unsecured bonds like these get paid second. (Notably, though, Chegg currently has no secured debt.) Bondholders receive the full $1,000 face amount of their bonds before stockholders are entitled to receive anything.

Recommendation

We recommend **Chegg (NYSE: CHGG)** 0% convertible bonds (CUSIP: 163092AF6) at or below $820, which equates to an expected return of 9.55% At today's price the expected return is $10.46%. Taxation of "deep discount" bonds, as these are, can be complicated. This bond has a 0% coupon, meaning there are no interest payments, just a $1,000 payment at maturity. The government taxes a piece of the increase to $1,000 each year – even before you get the cash at the maturity date. We therefore strongly recommend putting this bond in an IRA or other tax-deferred account.

Action to Take: Buy **Chegg (NYSE: CHGG)** 0% convertible bonds maturing September 1, 2026 (CUSIP: 163092AF6), at or below $820

How to Buy This Bond With a Live Broker

If you are putting in a phone call to your broker, here's a quick breakdown of the steps you'll go through.

1. **Tell your broker the number of bonds you'd like to acquire.**
2. **Provide the name of the borrower, the coupon, and date of maturity.**
3. **Provide the CUSIP number.**

CUSIP stands for "Committee on Uniform Securities Identification Procedures" and is a unique series of numbers and letters assigned to every traded security. Providing the CUSIP will ensure that you're buying the right security. The CUSIP of the bond we recommend in this issue is 163092AF6.

Specific Instructions for Buying Chegg 0% 9/1/2026 Convertible Bond

Now, the bond we are recommending today is not always tradeable online, so instead you will need to place your trade by phone. We've confirmed that the Chegg 0% 9/1/2026 convertible bond is available through Schwab, Fidelity (only for qualifying orders i.e., over $50,000), and at full-service brokerage firms.

Recall that the bond market is much less popular (and there's much less trading volume) compared to the stock market, so don't be surprised if you are dealing with a broker who knows little about the bond market. This is part of the reason why, in the bond market, there are fewer market participants and less overall interest, so it's easier to scoop up bargains when opportunities arise.

The instructions for placing an order are usually standard across the brokerage platforms mentioned above.

Here's an example of how the conversation with your broker might go:

Investor: "Hello. I am interested in buying Chegg Inc. 0% 9/1/2026 convertible bond. Can you get me the bond quote so I can decide whether or not I want to buy?"

Broker: "Yes, can you confirm with me the CUSIP?"

Investor: "The CUSIP is 163092AF6."

Broker: "We don't have these bonds in our inventory. However, we can place open market orders which allows for this bond to be traded and sold through an alternative trading system (ATS). We can get you a quote. How many of these Chegg Inc. 0% 9/1/2026 convertible bonds are you looking to purchase?"

Investor: "I'd like to purchase 25 of the Chegg 9/1/2026 convertible bonds."

Broker: "Okay, I will get you a quote and call you back. Bye."

This is where the first conversation with the broker will come to an end... but within the next 24 to 48 hours of the next trading day, the broker should return your call and will give you the quote (the price) of the bond. This call is when you will place and confirm your order.

After your initial call to receive the quote, the broker will call you back in most cases and after he confirms he's speaking to the correct person, he can go ahead and place your order.

Here's how the second call might go:

Broker: "Hello, this is John Doe, the fixed-income specialist you spoke to earlier. I am calling to give you a quote for the 25 Chegg Inc. 0% 9/1/2026 convertible bonds you inquired about earlier today. The price for the size of your request to buy 25 bonds is $80.38. Would you like to go ahead and place the trade?"

Note: The $80.38 price he quoted is really $803.80 for the cost of each bond. When quoting bonds, brokers will most likely drop the last zero, so $80.38 becomes $803.80. Now, if the investor decides to purchase 25 bonds, his total will be $20,095 ($803.80 × 25 =$20,095) and any commission or service fee.

Investor: "Yes. The total comes out to $20,095 plus the service fee. Is that correct?"

Broker: "Yes, it is correct. I will go ahead and make the transaction. You will get an email confirmation over the next 24 hours. Have a great day!"

As always, if you have questions, please call Lance, Porter & Co.'s Director of Customer Care, at 888-610-8895, or internationally at +1 443-815-4447. We do not endorse any specific brokerage and are offering this guide for informational purposes only.

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Have a comment for Marty or about *Distressed Investing*?, send it to **mailbag@porterandcompanyresearch.com**.