DilutionScore? Explained: How TraderTools Calculates Dilution Risk

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Learn how TraderTools's DilutionScore? works: 5 components, score ranges from 0-100, example calculations, and how to use it to manage dilution risk.

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What is the DilutionScore??

The DilutionScore? is a proprietary composite risk metric calculated by TraderTools that quantifies a company's near-term dilution risk on a 0-100 scale. Rather than requiring traders to manually analyze multiple SEC filings and financial metrics, DilutionScore? aggregates five distinct risk factors into a single, actionable number that's updated in real-time as new filings are processed.

A score of 0 means negligible dilution risk based on currently available information. A score of 100 represents the highest possible dilution risk profile - a company with maximum shelf capacity, minimal cash, heavy warrant overhang, and active convertible exposure. Most actively diluting small-cap companies score between 50 and 85.

? What DilutionScore? Is NOT

DilutionScore? is not a stock buy/sell recommendation. A high score means dilution risk is elevated - it doesn't mean the stock will go down (though they're often correlated). A low score means dilution risk is low - it doesn't mean the company is a good investment. Always use DilutionScore? as one input among many.

The Five Components

DilutionScore? is calculated from five weighted components, each capturing a distinct dimension of dilution risk:

1. Shelf Capacity (25% Weight)

Shelf capacity measures the amount of stock a company can issue under existing shelf registrations (S-3 filings) as a percentage of their current market cap. This is the most direct measure of near-term dilution capacity.

* High weight rationale: Shelf capacity represents legally authorized, immediately actionable dilution. Once an S-3 is declared effective, the company can issue shares with no additional SEC approval.
* Calculation: (Remaining shelf capacity in $) ÷ (Current market cap in $) × 100 = Shelf utilization rate. Scored on a 0-25 scale where 25 = shelf capacity ? 50% of market cap.

* Data source: S-3 and 424B filings on EDGAR, with real-time utilization tracking from quarterly reports.

2. Cash Runway (25% Weight)

Cash runway measures how many months of operating expenses the company can cover with current cash and cash equivalents, based on the most recent quarterly burn rate from SEC filings.

* High weight rationale: A company running out of cash will dilute. This is the most reliable predictor of near-term dilution activity. Cash runway under 6 months almost always precedes a financing event.
* Calculation: (Cash + equivalents) ÷ (monthly operating burn rate) = months of runway. Scored on a 0-25 scale where 25 = less than 3 months runway.
* Data source: Balance sheet cash from 10-Q/10-K + operating cash flow statement for burn rate calculation.

3. Float Risk (20% Weight)

Float risk measures the ratio of authorized but unissued shares to current shares outstanding. Companies with very high authorized share counts relative to outstanding shares have created structural capacity for massive dilution.

* Calculation: (Authorized shares ? Outstanding shares) ÷ Outstanding shares × 100 = potential dilution %. Scored on 0-20 scale where 20 = potential dilution > 200% from authorized capacity alone.
* Data source: Articles of incorporation/state filings + shares outstanding from SEC filings.
* Note: Recent reverse stock splits are flagged here because they're often used to reset authorized share capacity for future dilution.

4. Warrant Overhang (15% Weight)

Warrant overhang measures the total dilutive potential of outstanding warrants as a percentage of current shares outstanding, weighted by how many are currently in the money.

* Calculation: (In-the-money warrant shares + 50% of out-of-money warrant shares) ÷ current shares outstanding × 100. Scored on 0-15 scale.
* Data source: Warrant tables from 10-K/10-Q financial statement notes + current stock price for ITM/OTM classification.
* Note: Multiple rounds of financing, each adding warrants, compounds this score component significantly.

5. Convertible Exposure (15% Weight)

Convertible exposure measures the dilutive potential of outstanding convertible notes, preferred stock, and other convertible securities, calculated at current conversion prices.

* Calculation: Potential shares from all convertible securities ÷ current shares outstanding × 100. Variable-rate convertibles receive maximum weighting due to death-spiral risk. Scored on 0-15 scale.
* Data source: Convertible debt disclosures in 10-Q/10-K notes + 8-K filings disclosing new convertible issuances.
* Red flag multiplier: Variable-rate or ratchet-priced convertibles receive a 1.5× multiplier in scoring due to their compounding dilution risk.

Score Ranges and What They Mean

DilutionScore? values are divided into four risk tiers:

? DilutionScore? Risk Tiers

0-25 - LOW RISK Minimal near-term dilution risk. Company has adequate cash, limited shelf capacity, and low warrant/convertible exposure. Dilution may still occur from regular equity compensation but large-scale dilutive financing is unlikely in the near term.

26-50 - MEDIUM RISK Moderate dilution risk. Company may have active shelf registration and/or 6-12 months cash runway. Monitor closely. Dilutive financing is possible within 6-12 months, especially if operating results deteriorate.

51-75 - HIGH RISK Elevated dilution risk. Multiple risk factors are present: active shelf + limited cash runway or significant warrant/convertible overhang. Dilutive financing is probable within the next 1-6 months. Exercise caution with long positions.

76-100 - CRITICAL RISK Severe dilution risk. Company almost certainly needs to raise capital soon. Active ATM usage, <3 months cash, heavy convertible load, or death-spiral financing indicators. Dilution is likely actively occurring or imminent.

Example Score Calculations

Let's walk through how DilutionScore? is calculated for two hypothetical companies:

Example A: Medium-Risk Biotech

* Shelf capacity: $15M remaining vs. $45M market cap = 33% -> Score: 12/25
* Cash runway: 8 months of runway -> Score: 10/25
* Float risk: 150M authorized, 60M outstanding = 150% headroom -> Score: 11/20
* Warrant overhang: 8M warrants (2M ITM) vs. 60M outstanding = 13% -> Score: 5/15
* Convertible exposure: None -> Score: 0/15
* Total DilutionScore?: 38/100 - MEDIUM RISK

Example B: Critical-Risk Micro-Cap

* Shelf capacity: $8M remaining vs. $10M market cap = 80% -> Score: 25/25
* Cash runway: 2.5 months of runway -> Score: 25/25
* Float risk: 500M authorized, 80M outstanding = 525% headroom -> Score: 20/20
* Warrant overhang: 25M warrants (20M ITM) vs. 80M = 31% -> Score: 12/15
* Convertible exposure: $2M variable-rate note -> Score: 13/15
* Total DilutionScore?: 95/100 - CRITICAL RISK

How Scores Are Updated

DilutionScore? is a dynamic metric that updates continuously as new data becomes available:

* Real-time SEC filing triggers: When a new S-3, 424B, or 8-K is filed, the relevant component is recalculated immediately
* Daily price updates: Stock price changes affect the in-the-money/out-of-money classification of warrants and the shelf-capacity-to-market-cap ratio
* Quarterly financial updates: When 10-Q and 10-K filings are processed, cash runway and

convertible exposure are recalculated from fresh financial data

* Manual review triggers: Certain events (reverse stock splits, SPAC mergers, bankruptcy filings) trigger manual review and score adjustment

How to Use DilutionScore? in Your Trading

DilutionScore? is most effective as a screening and alerting tool rather than a binary buy/sell signal. Here's how to integrate it into your process:

* Screening: Filter your universe by DilutionScore? before entering long positions. Avoid companies scoring 75+ unless you have a specific reason to hold despite high dilution risk.

* Score change alerts: Set alerts for when a company crosses into a higher risk tier. A stock moving from 45 to 65 is a warning that conditions are deteriorating.

* Position sizing: Use DilutionScore? to adjust position size. Higher scores warrant smaller positions due to dilution-driven downside risk.

* Component analysis: When a score is high, examine which component is driving it. A high score driven purely by shelf capacity (but with 18 months cash) is less urgent than one driven by 2-month cash runway.

See DilutionScore? for Your Tickers

Add your watchlist to TraderTools and get real-time DilutionScore? for every holding, with alerts when risk levels change.

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