Chapter Capital Structure And Leverage

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Financial Management: Theory and Practice celebrates the 23rd Anniversary of its publication. Over these two decades, Indian business and finance have considerably changed owing to deregulation, liberalisation, privatisation, globalisation, and the ascendance of the services sector. The book has kept pace with these changes and captures the central themes and concerns of corporate financial management-making it both contemporary and comprehensive.The book seeks to:*Build understanding of the central ideas and theories of modern finance*Develop familiarity with the analytical techniques helpful in financial decision making *Furnish institutional material relevant for understanding the environment in which financial decisions are taken *Discuss the practice of financial management.

REA's Essentials provide quick and easy access to critical information in a variety of different fields, ranging from the most basic to the most advanced. As its name implies, these concise, comprehensive study guides summarize the essentials of the field covered. Essentials are helpful when preparing for exams, doing homework and will remain a lasting reference source for students, teachers, and professionals. Financial Management includes the finance function, business organization, financial statements, depreciation and cash flow, financial statement analysis, financial planning, operating and financial leverage, time value of money, risk and return, valuation, capital budgeting, cost of capital, capital structure, cash and marketable securities, accounts receivables and inventories, and financing smaller firms and startups.

An intuitive introduction to fundamental corporate finance concepts and methods Lessons in Corporate Finance, Second Edition offers a comprehensive introduction to the subject, using a unique interactive question and answer-based approach. Asking a series of increasingly difficult questions, this text provides both conceptual insight and specific numerical examples. Detailed case studies encourage class discussion and provide real-world context for financial concepts. The book provides a thorough coverage of corporate finance including ratio and pro forma analysis, capital structure theory, investment and financial policy decisions, and valuation and cash flows provides a solid foundational knowledge of essential topics. This revised and updated second edition includes new coverage of the U.S. Tax Cuts and Jobs Act of 2017 and its implications for

corporate finance valuation. Written by acclaimed professors from MIT and Tufts University, this innovative text integrates academic research with practical application to provide an in-depth learning experience. Chapter summaries and appendices increase student comprehension. Material is presented from the perspective of real-world chief financial officers making decisions about how firms obtain and allocate capital, including how to: Manage cash flow and make good investment and financing decisions Understand the five essential valuation methods and their sub-families Execute leveraged buyouts, private equity financing, and mergers and acquisitions Apply basic corporate finance tools, techniques, and policies Lessons in Corporate Finance, Second Edition provides an accessible and engaging introduction to the basic methods and principles of corporate finance. From determining a firm's financial health to valuation nuances, this text provides the essential groundwork for independent investigation and advanced study.
This basic book of Financial Management is for the Students of CA/CA/CMA and B.Com in English-language programmes with the basics in the fields of finance, finance management, and accounting. No prior knowledge of business economics is required. The Book Covers the Following Aspects. 1.Introduction To Financial Management 2.Time Value of Money 3.Cost Of Capital 4.Capital Structure 5.Leverage 6.EBIT & EPS Analysis 7.Capital Budgeting 8.Working Capital Management 9.Debtor Management 10.Cash Management This book is user-friendly, accessible, and yet comprehensive in its approach. It takes an in-depth, integrated look at the principles of management accounting, financial accounting, and finance. Examples encourage the practical application of the material. Study questions reinforce and test the student's understanding of the key concepts. A glossary of key terms is included at the end of each chapter. The book also contains multiple-choice questions and other assignments designed to stimulate thinking about the topics that are discussed.
Capital structure theory is one of the most dynamic areas of finance and forms the basis for modern thinking on the capital structure of firms. Much controversy has resulted from comparisons of the theory of capital structure originally developed by Franco Modigliani and Merton Miller to real-world situations. Two competing theories have emerged over the years, the optimal capital structure theory and the pecking order theory.Arvin Ghosh begins with an overview of the controversies regarding capital structure theories, and then statistically tests both the optimal capital structure and pecking order theories. Using the binomial approach he analyzes the determinants of capital structure while discussing the role of market power in determining capital structure decisions. Ghosh probes the questions of new stock offerings and stockholders' returns, and analyzes capital structure and executive compensation. He then looks into debt financing ownership structure, and the controversial relationship between capital structure and firm profitability. Finally, he discusses the latest developments in the field of capital structure.A concise overview of a major issue in business economics and

finance, this volume provides a fuller understanding of capital structure influence on the financial performance of firms, and will certainly stimulate further debate. While hundreds of scholarly articles have been written on the subject this is the first book to test competing theories against measurements of firms' performance and their underlying capital structure.

This thesis explores the impact of capital structure and financial media on Mergers and Acquisitions. The empirical evidence on this thesis demonstrates that firm's capital structure and financial media are both significantly related to the M&A success and M&A performances. Chapter 3 empirically investigates the interaction between a bidder's capital structure and the probability of M&A success. It suggests that bidders with great leverage deficit are less likely to be successful in M&A. The potential explanation is that overleveraged bidders are unable to provide attractive takeover offers with high premiums and thus reducing the probability of success. Chapter 4 further studies the implications of capital structure theory for M&A. The empirical evidence shows that bidder's leverage deficit is negatively related to the probability of using pure cash payment. This implies that firms may actively rebalance their financial leverage to optimal level through M&A. Overleveraged bidders are less likely to use cash payment since they are willing to reduce their deficit level by acquiring targets with equity. By contrast, underleveraged bidders have more incentive to use cash payment because they tend to increase their debt level. Chapter 4 also shows that bidder's capital structure has large impact on the merging firms' stock performances in both short term and long term. Therefore bidder's capital structure is considered as an important determinant for M&A performance. In addition, Chapter 5 further examines the relation between M&A performance and financial media. It reports that bidders with positive media attitude in pre-merger period are significantly outperformance than those with negative media attitude. It concludes that the pre-merger news released by influential financial media has large impact on market reactions to M&A announcements. Furthermore, the empirical evidence suggests that financial media is able to partially predict merging firm's long term stock performance. Overall, our research in this thesis contributes to the literature with conclusive evidence that the considerations of capital structure and financial media provide further understandings with M&A performances.

Both theory and practice seem to agree that firms adjust their capital structure to stay in close proximity to a target leverage ratio. However, this target leverage ratio is not accounted for as a determinant of leverage in existing empirical work. In the first chapter, I calculate the deviation of actual leverage from target leverage and use it as a determinant of firm’s leverage along with a set of other control variables that are traditionally used in the literature. I find that the addition of deviations from target leverage more than doubles the explanatory power compared to existing empirical specifications. Using standardized regression coefficients I show that the deviation from target leverage ratios is the most important determinant of firms’ capital structure. In the second chapter, I study firms' credit ratings. Capital structure choice as measured by firms' leverage ratio is an essential parameter in rating models. The endogeneity of firms' leverage in rating estimation has recently come to consideration but has not received the attention it should have. My study shows that the corrected impact of leverage is about ten times more than the other determinants. In the final chapter, I study the endogeneity of leverage-rating relation. I estimate leverage-rating relation simultaneously using three-stage least squares. I find that change in rating is the most important factor for change in leverage (two to five times more than the control variables) and vice versa change in leverage is the most important factor for change in rating (three to nine times more than the control variables).

This dissertation studies target capital structure, transitory debt and corporate governance applications in private equity firms portfolio companies by utilizing a unique sample of reverse leveraged buyouts (reverse LBOs). In chapter 1, I investigate target capital structure and transitory debt. I show that firms follow target capital structures and they quickly reduce their debt ratios to levels near target ratios at the time of the reverse LBO. A minority of firms in the sample increase debt significantly after the reverse LBO. In accordance with the transitory debt hypothesis, these firms value the option to borrow and decrease their debt levels accordingly so that they can preserve the option to borrow for future. When the firms have valuable investment options, they once again issue transitory debt deliberately but temporarily, they move away from their target leverage ratios, use the proceeds from the issue mainly for investment purposes, and they revert back to the target leverage levels gradually. In chapter 2, I investigate the corporate governance structures employed by private equity firms in their portfolio companies. I show that, compared to the control firms, RLBO firms prefer to be incorporated in Delaware and have unitary boards, have younger board members with shorter tenures, have more financial experts on their boards, have CEOs with shorter tenures, prefer busy board members and busy boards. They also have smaller number of members on their boards, compared to previous findings from earlier decades. In addition, the majority of board members are effectively monitoring directors and the majority of board members on various committees of the boards are independent directors. In addition, firms are associated with high ownership by blockholders, high total managerial ownership, and low CEO ownership. Lastly, the evidence suggests that top executives and CEOs of RLBO firms do not receive significantly higher levels of compensation compared to control firms. Also, RLBO firms usually prefer to pay a higher fraction of total compensation in form of bonuses, and less in the form of stock option grants.

"This dissertation consists of two essays and five chapters. The first essay in chapter two addresses the zero-leverage puzzle, the observation that many firms do not issue debt and thus seem to forego sizable debt benefits. Based on the trade-off theory, a firm financed with debt saves on taxes, while it faces the debt costs associated with financial distress. Firms issue debt and net a positive gain by trading off costs and benefits. However, zero-levered firms seemingly ignore significant tax advantages associated with debt financing. I propose that this behavior is due to the value in waiting to issue debt and postponing debt costs. By considering the real option of issuing debt, small and risky firms have incentives to postpone debt issuance, even when standard trade-off theory predicts that these firms should have leverage. Thus, the value of debt-free firms should include an option component whose value is derived from future debt issuance benefits. I present a simple model for a firm's optimal issuance with optimal leverage and default, and find the factors that increase the propensity to remain zero-levered: high volatility, high debt costs, low tax levels, low payout rate, and small size. I verify the factors empirically on a sample of zero-leverage (ZL) firms by estimating a survival and a choice model and an out-of-sample test on levered firms.The second essay in chapter three provides an explanation for the underleverage puzzle by relating it to volatility risk premia. As a stylized fact, many firms have lower leverage compared to what the trade-off theory predicts, in particular based on their low asset volatility. In addition, the underleverage is the highest for Investment-Grade (IG) firms. Without volatility risk, the essay empirically documents that underleverage across firms increases with volatility risk premium at the asset level. The result is the motive to present two models with stochastic asset volatility that feature optimal capital structure. With priced asset volatility risk, the models in standard trade-off settings show that a higher premium implies lower leverage; the assets' Variance Risk Premia (VRP) reduce tax benefits and increase debt costs. Empirically, the models' calibration leaves no significant underleverage patterns in the cross-section of the firms. Thus, seemingly underleveraged firms have high asset volatility risk premia relative to their low physical asset volatility, which explains their apparent underleverage. In particular, the largest proportion of the volatility is systematic for IG firms; and, consequently, VRP are the highest. This in turn leads to a lower implied leverage, close to the IG firms' empirical leverage.Chapter four reviews the literature related to the earlier chapters. Chapter five concludes with the main findings and provides venues for the future research." --

Praise for Structured Finance & Insurance "More and more each year, the modern corporation must decide whatrisks to keep and what risks to shed to remain competitive and tomaximize its value for the capital employed. Culp explains thetheory and practice of risk transfer through either balance sheetmechanism such as structured finance, derivative transactions, orinsurance. Equity is expensive and risk transfer is expensive. Asunderstanding grows, and, as a result, costs continue to fall, ARTwill continue to replace equity as the means to cushion knowablerisks. This book enhances our understanding of ART." --Myron S. Scholes, Frank E. Buck Professor of Finance, Emeritus,Graduate School of Business, Stanford University "A must-read for everyone offering structured finance as abusiness, and arguably even more valuable to any one expected topay for such service." --Norbert Johanning, Managing Director, DaimlerChrysler FinancialServices "Culp's latest book provides a comprehensive account of the mostimportant financing and risk management innovations in bothinsurance and capital markets. And it does so by fitting theseinnovative solutions and products into a single, unified theory offinancial markets that integrates the once largely separatedisciplines of insurance and risk management with the currenttheory and practice of corporate finance." --Don Chew, Editor, Journal of Applied Corporate Finance (a MorganStanley publication) "This exciting book is a comprehensive read on alternativeinsurance solutions available to corporations. It focuses on thereal benefits, economical and practical, of alternatives such ascaptives, rent-a-captive, and mutuals. An excellent introduction tothe very complex field of alternative risk transfer (ART)." --Paul Wohrmann, PhD, Head of the Center of Excellence ART andmember of theExecutive Management of Global Corporate in Europe,Zurich Financial Services "Structured Finance and Insurance transcends Silos to reach theEnterprise Mountaintop. Culp superbly details integrated, captive,multiple triggers and capital market products, and provides thearchitectural blueprints for enterprise risk innovation." --Paul Wagner, Director, Risk Management, AGL Resources Inc.

One of the main reasons to name this book as Financial Management from an Emerging Market Perspective is to show the main differences of financial theory and practice in emerging markets other than the developed ones. Our many years of learning, teaching, and consulting experience have taught us that the theory of finance differs in developed and emerging markets. It is a well-known fact that emerging markets do not always share the same financial management problems with the developed ones. This book intends to show these differences, which could be traced to several characteristics unique to emerging markets, and these unique characteristics could generate a different view of finance theory in a different manner. As a consequence, different financial decisions, arrangements, institutions, and practices may evolve in emerging markets over time. The purpose of this book is to provide practitioners and academicians with a working knowledge of the different financial management applications and their use in an emerging market setting. Six main topics regarding the financial management applications in emerging markets are covered, and the context of these topics are "Capital Structure," "Market Efficiency and Market Models," "Merger and Acquisitions and Corporate Governance," "Working Capital Management," "Financial Economics and Digital Currency," and "Real Estate and Health Finance."

As indicated by the title, this book focuses on fundamental problems in finance: a logical dilemma in valuation, stock valuation methods/models, risk valuation, and optimal capital structure. It presents an innovative approach to logic and quantitative reasoning (without advanced mathematics) that delivers valuable results ---- convincing solutions to these problems. Readers in finance will definitely be interested in these solutions as well as the methods. In fact, these fundamental problems are essential in the field of finance, and they have remained unsolved (or partly unsolved) for decades. The solutions offered in this book are all sound in theory and feasible in practice, and will hopefully benefit both theoretic al research and practical decision-making.

In 1958 an academic paper on corporate finance written by two professors (Merton Miller and Frances Modigliani, who were later awarded the Nobel prize for their research efforts) was published in The American Economic Review. One prime conclusion of their paper was that the exact form of a firm's capital structure did not affect the firm's value. Later papers by the same two authors and by many others modified the assumptions and changed this conclusion. We now think that capital structure decisions do affect a firm's value and corporate managers should understand better the financing alternatives that are available. One of the most important financial decisions is the decision to buy or lease assets. The leasing industry is large and getting larger. Unfortunately, it is very easy for a firm to evaluate incorrectly lease alternatives (see Chapter 12). The capital structure decision is one of the three most important financial decisions that management make (the distribution of earnings and the capital budgeting decisions are the other two contenders). Managers should increase their understanding of capital structure alternatives and remember that choosing the best capital structure is an art and not an exact simple calculation. But applying the art can be improved with understanding.

A timely guide to today’s high-yield corporate debt markets Leveraged Finance is a comprehensive guide to the instruments and markets that finance much of corporate America. Presented in five sections, this experienced author team covers topics ranging from the basics of bonds and loans to more advanced topics such as valuing CDs, default correlations among CLOs, and hedging strategies across corporate capital structures. Additional topics covered include basic corporate credit, relative value analysis, and various trading strategies used by investors, such as hedging credit risk with the equity derivatives of a different company. Stephen Antczak, Douglas Lucas, and Frank Fabozzi present readers with real-market examples of how investors can identify investment opportunities and how to express their views on the market or specific companies through trading strategies, and examine various underlying assets including loans, corporate bonds, and much more. They also offer readers an overview of synthetic and structured products such as CDS, LCDS, CDX, LCDX, and CLOs. Leveraged Finance has the information you need to succeed in this evolving financial arena.

This Study Guide to accompany Foundations of Finance: The Logic and Practice of Finance Management, 5th Edition, was written by the authors with the objective of providing a student-oriented supplement to the text. Each chapter of the Study Guide contains: *an orientation of each chapter along with a chapter outline of key topics *problems (with detailed solutions) and self tests which can be used to aid in the preparation of ouside assignments and in studying for exams *a tutorial on capital budgeting *a set of tables that not only give compound sum and present value interest

factors, but also show how to compute the interest using a financial calculator
The way in which leverage and its expected dynamics impact on firm valuation is very different from what is assumed by the traditional static capital structure framework. Recent work that allows the firm to restructure its debt over time proves to be able to explain much of the observed cross-sectional and time-series variation in leverage, while static capital structure predictions do not. The purpose of this book is to re-characterize the firm valuation process within a dynamical capital structure environment, by drawing on a vast body of recent and more traditional theoretical insights and empirical findings on firm evaluation, also including asset pricing literature, offering a new setting in which practitioners and researchers are provided with new tools to anticipate changes in capital structure and setting prices for firm debt and equity accordingly.
The book that fills the practitioner need for a distillation ofthe most important tools and concepts of corporate finance In today's competitive business environment, companies must findinnovative ways to enable rapid and sustainable growth not just tosurvive, but to thrive. Corporate Finance: A PracticalApproach is designed to help financial analysts, executives,and investors achieve this goal with a practice-orienteddistillation of the most important tools and concepts of corporatefinance. Updated for a post-financial crisis environment, the SecondEdition provides coverage of the most important issuessurrounding modern corporate finance for the new globaleconomy: Preserves the hallmark conciseness of the first edition whileoffering expanded coverage of key topics including dividend policy,share repurchases, and capital structure Current, real-world examples are integrated throughout the bookto provide the reader with a concrete understanding of criticalbusiness growth concepts Explanations and examples are rigorous and global, but makeminimal use of mathematics Each chapter presents learning objectives which highlight keymaterial, helping the reader glean the most effective businessadvice possible Written by the experts at CFA Institute, the world's largestassociation of professional investment managers Created for current and aspiring financial professionals andinvestors alike, Corporate Finance focuses on the knowledge,skills, and abilities necessary to succeed in today's globalcorporate world.
Aswath Damodaran, distinguished author, Professor of Finance, and David Margolis, Teaching Fellow at the NYU Stern School of Business, have delivered the newest edition of Applied Corporate Finance. This readable text provides the practical advice students and practitioners need rather than a sole concentration on debate theory, assumptions, or models. Like no other text of its kind, Applied Corporate Finance, 4th Edition applies corporate finance to real companies. It now contains six real-world core companies to study and follow. Business decisions are classified for students into three groups: investment, financing, and dividend decisions.
Providing a comprehensive overview packed with relevant examples, CONTEMPORARY FINANCIAL MANAGEMENT, 14e, focuses on value creation, risk management, and effectively managing cash flow. It explores the international aspects of financial management, examines the ethical behavior of managers, emphasizes the unique finance-related concerns of entrepreneurs, and studies the effects of the 2008-2009 recession. In addition, chapter-opening Financial Challenges scenarios, icons, cases, and other learning features highlight critical concepts and enable readers to apply what they learn to real-word practice. Important Notice: Media content

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The sixth edition of Financial Management provides students with an overview of financial management suited to the first course in finance. The focus of the text is on the big picture, providing an introduction to financial decision making grounded in current financial theory and the current state of world economic conditions. Attention is paid to both valuation and capital markets, as well as their influence on corporate financial decisions. The 10 basic principles of finance are introduced in the first chapter and woven throughout the text, to give students a solid foundation from which to build their knowledge of finance. The goal of this text is to go beyond teaching the tools of a discipline or a trade and help students gain a complete understanding of the subject. This will give them the ability to apply what they have learnt to new and as yet unforeseen problems—in short, to educate students in finance.

A comprehensive guide to making better capital structure and corporate financing decisions in today's dynamic business environment Given the dramatic changes that have recently occurred in the economy, the topic of capital structure and corporate financing decisions is critically important. The fact is that firms need to constantly revisit their portfolio of debt, equity, and hybrid securities to finance assets, operations, and future growth. Capital Structure and Corporate Financing Decisions provides an in-depth examination of critical capital structure topics, including discussions of basic capital structure components, key theories and practices, and practical application in an increasingly complex corporate world. Throughout, the book emphasizes how a sound capital structure simultaneously minimizes the firm's cost of capital and maximizes the value to shareholders. Offers a strategic focus that allows you to understand how financing decisions relates to a firm's overall corporate policy Consists of contributed chapters from both academics and experienced professionals, offering a variety of perspectives and a rich interplay of ideas Contains information from survey research describing actual financial practices of firms This valuable resource takes a practical approach to capital structure by discussing why various theories make sense and how firms use them to solve problems and create wealth. In the wake of the recent financial crisis, the insights found here are essential to excelling in today's volatile business environment.

This thesis aims to add empirical evidence to the corporate finance literature by looking at the financing decisions with a specific application to small companies in the context of the UK relatively highly regulated Main market, versus the lightly regulated Alternative Investment Market (AIM). I do this by gathering data on all quoted dead and alive companies in both markets from 1995 to 2008. I then split my sample firms in each market into different size groups and test my hypothesis within and across each group and each market. The thesis consists of six chapters. After an introductory chapter, I review the existing literature on capital structure and debt maturity controversies with an emphasis on recent empirical work. The next three chapters consist of three research papers. The first paper looks at the capital structure decisions of companies quoted in AIM and Main market across different size groups. In the second research paper, the maturity structure of debt is investigated in both markets. The third research paper tests the determinants of the delisting decision, particularly the effect of leverage using a sample of AIM companies. In the last chapter, I provide a summary of the main conclusions of the study and highlight some promising ideas for future research. The first empirical chapter analyses the drivers of leverage across firms' sizes and market of quotation. I find that companies that are listed on the Main market have higher leverage than those listed on AIM. My results show that AIM companies are subject to higher business risk and tend to have lower profitability and tangible assets. In addition, in both markets, small companies are different from large firms in their level of leverage, tangibility of assets, and profitability, suggesting that the drivers of the financing choice are size dependent. Interestingly, the impact of taxation is limited to only large companies in both markets. Similarly, the impact of the agency conflict is also limited to large companies, as for small firms I find a positive relationship between leverage and growth opportunities, in contrast to the predictions of the agency theory. These results suggest that size rather than market of quotation is more likely to explain firms' leverage. However, I find that the market of quotation affects their speed of adjustment toward target leverage ratios. Using the dynamic model of capital structure, I find that in the Main market, small companies adjust more rapidly than large firms, suggesting that they rely more on bank debt and thus result in lower costs of adjustment. In contrast, large firms on the AIM adjust more rapidly than small companies, suggesting that small AIM companies are subject to the highest costs of adjustment as they have the highest business risk and the lowest profitability. The second empirical paper investigates the determinants of the structure of debt maturity across firms' size groups in both markets. I find that firms quoted in the Main market use longer maturity of debt in contrast to their AIM counterparts. However, the structure of debt maturity is different between small and large companies, as small companies use shorter debt maturity. Moreover, I find that the determinants of debt maturity are relatively different across the two sets of markets, suggesting that the market of quotation, are likely to affect the structure of debt maturity. Particularly, the effect of leverage is mixed in those markets. In the Main market, companies with higher leverage use more long-term debt in contrast to those quoted in the AIM. In line with my results in the previous chapter, I find that the speed of adjustment depends on the market of quotation. Using a dynamic framework, I find that companies have a target debt maturity, but, while in the AIM large companies adjust more rapidly than small companies, I find the opposite in the Main market. I also contribute to the literature by assessing the impact of firm's life cycle on its choice of debt maturity. I use a sample of newly listed firms and assess the evolution of the maturity structure of their debt four years after their IPO. I find strong differences across the two markets. In the Main market, my empirical evidence shows that in contrast with small companies, large companies change the structure of their debt maturity significantly as they are more likely to use longer maturity of debt in the post-IPO period. While in the AIM, the structure of debt maturity is not affected by size as neither large companies nor small companies change their debt maturity significantly. In the last empirical chapter, I study the impact of leverage on the delisting decision. I address the following questions: Do firms delist from the stock market because they are unable to raise equity capital and redress their balance sheet? Previous studies state that raising equity capital is one of the main benefits of stock market quotation. I expect firms that are not likely to take advantage of this benefit to have higher listing costs and more likely to delist. I use leverage as a proxy variable and a sample of voluntary delisting from AIM. I find that

delisted companies have higher leverage as they did not raise equity capital over their public life. My results suggest that companies with higher leverage are more likely to delist voluntarily. These results hold even after controlling for agency conflicts, liquidity, and asymmetric information. I also investigate how the market reacts to the delisting announcement. I find that on the announcement date, stock prices decrease significantly. However, this reaction is not consistent with previous studies that report positive excess returns for companies that go private through different forms of buyouts. The voluntary delisting does not deliver good news to the market and hence voluntary delisting leads to a decrease in stock prices. I also find that firms that increased their leverage in the year prior to the delisting decision generate significantly lower excess returns than other firms. I compare my results to firms that delisted from the AIM but moved to the Main market. I find that that these firms generate statistically higher and positive returns than the remaining firms that delisted voluntarily. My results highlight the negative impact of leverage and a lack of equity financing on firms' market valuation. My results contribute to the literature and to policy making in several ways. First, I test various controversial and new hypotheses by focussing on differences in institutional settings between the AIM and the Main market. The former is less regulated and it is more likely to attract younger, high growth, and riskier companies. These differences allow me to test various hypotheses developed in previous literature relating to the financing choices of firms. In addition, I provide a deeper analysis of the impact of size on the firms' financing choices. I focus on the differences in leverages across the two, markets, changes in maturity from the IPQ dates, and the drivers of the decision and timing from the IPQ date of companies in the UK. Unlike previous studies, I show that the theoretical determinants of leverage, such as taxation and agency costs, across firms' size groups are not homogeneous, independently of the market quotation. However, I find significant differences across the two markets in terms of dynamic changes in leverage. In addition, my results highlight the impact of leverage on the decision to delist, and imply that policy makers need to facilitate the financing of companies when they list on the market, so that the benefits of listings outweigh the costs, and firms will not rush to voluntary delisting.
Let a professor who used to be a financial executive and CFO introduce you to today’s most important financial management topics within the pages of PRACTICAL FINANCIAL MANAGEMENT, Eighth Edition. Author William R. Lasher uses his experience as a CFO to give you an insider’s look into the issues and challenges facing financial managers every day. From hidden agendas to decision maker biases and their effect on the analyses of financial proposals, you will see principles in action in this dynamic text. You will examine the latest developments, like activist investors who put pressure on companies to change their ways and behavioral finance which uses psychological ideas to explain financial markets. Dr. Lasher keeps the presentation as relevant and practical as it is engaging with a thorough approach that’s ideal for today’s business students. He has made the necessary mathematics simple and easy to follow and included lots of worked out examples to show you how to do homework problems. Develop the first-hand understanding of financial management you’ll need for your future success with PRACTICAL FINANCIAL MANAGEMENT, Eighth Edition. Important Notice: Media content referenced within the product description or the product text may not be available in the ebook version.

This dissertation, "Monetary Policy, R&D Investment, and Test of Corporate Capital Structure Theory" by Huili, Chang, {273c54}{273f2f}?, was obtained from The University of Hong Kong (Pokfulam, Hong Kong) and is being sold pursuant to Creative Commons: Attribution 3.0 Hong Kong License. The content of this dissertation has not been altered in any way. We have altered the formatting in order to facilitate the ease of printing and reading of the dissertation. All rights not granted by the above license are retained by the author. Abstract: This dissertation consists of three chapters on monetary policy, R&D investment, and test of corporate capital structure theory. In the first chapter, I examine the impact of large-scale asset purchases (LSAPs) on corporate financing and investment. I find that LSAPs increased corporate financing and shifted the corporate financing pattern towards greater equity financing. Specifically, LSAPs enabled noninvestment-grade firms to issue more public equity and allowed investment-grade firms to issue more bonds. I find that LSAPs also affected the stock market through the portfolio balance channel. With the reversal of flight to quality, noninvestment-grade firms enjoyed significantly higher stock returns than investment-grade firms. After raising capital, public equity issuers used these proceeds to avoid bankruptcy, whereas debt issuers used the funds to expand their businesses. Therefore, unlike traditional monetary policy tools that affect bank lending, LSAPs stimulate the real economy by spurring the stock and bond markets and thereby providing firms with alternative sources of financing. In the second chapter, I attempt to differentiate demand-side reasons from supply-side reasons for firms with higher R&D investment to have a lower leverage. I use two identification events to test their different predictions, the introduction of state-level R&D tax credits and the grant of patents. Because state R&D tax credits increase R&D investment by firms headquartered in the state, I use their introduction to examine whether supply-side frictions affect corporate financing choices to finance R&D investment. I find that constrained firms issue more equity and have a lower leverage after their introduction, whereas unconstrained firms do not, which suggests that supply-side frictions force firms to issue equity to fund innovation. Because patents can partially relieve credit constraints, I use the grant of patents to analyze whether firms change their leverage after credit constraints are lessened. I find that firms increase their leverage after the grant of patents, which again indicates that supply-side frictions are dominant in shaping corporate leverage. Therefore, the negative relationship between R&D investment and corporate leverage is primarily due to supply-side frictions. In the third chapter, I point out that prior tests of the pecking order theory fail to consider whether firms have access to the debt market or not, and argue that small and high-growth firms' tendency to issue equity reflects no access to the debt market rather than rejects the pecking order. I adopt financial constraints as proxy for firms' access to the debt market, and empirically demonstrate that once financial constraints are controlled for, the pecking order provides a better description of firms' financing behaviors. To address the endogeneity problem, I use an exogenous event, firms' addition into the S&P 500 index. Consistent with my prediction, firms are more likely to issue debt after the addition. Finally, I show that financial constraints are different from the alternative explanation of debt capacity constraints. Subjects: Corporations - Finance

The research reported in this volume represents the second stage of a wide-ranging National Bureau of Economic Research effort to investigate "The Changing Role of

Debt and Equity in Financing U.S. Capital Formation." The first group of studies sponsored under this project, which have been published individually and summarized in a 1982 volume bearing the same title (Friedman 1982), addressed several key issues relevant to corporate sector behavior along with such other aspects of the evolving financial underpinnings of U.S. capital formation as household saving incentives, international capital flows, and government debt management. In the project's second series of studies, presented at the National Bureau of Economic Research conference in January 1983 and published here for the first time along with commentaries from that conference, the central focus is the financial side of capital formation undertaken by the U.S. corporate business sector. At the same time, because corporations' securities must be held, a parallel focus is on the behavior of the markets that price these claims.
Capital Structure and Corporate Financing DecisionsTheory, Evidence, and PracticeJohn Wiley & Sons
Chapter 1 of this thesis uses a more robust market timing measure to test the relation between market timing and capital structure. A persistent impact of market timing on leverage is found. Moreover, the market timing measure is not a proxy for other firm characteristics, such as growth opportunities. This chapter also shows that equity issues at the IPO affect capital structure persistently, but equity issues in hot markets do not significantly reduce leverage more than those in cold markets. Though these results seem inconsistent with the static trade-off theory, we have to be cautious in rejecting the theory because the underlying capital structure will change after a firm goes public. Therefore, the firm may not need to rebalance away the effect of market timing IPO issues. To circumvent the bias against the trade-off theory when examining the IPO firms, chapter 2 studies capital structure adjustment mechanisms of firms that experience substantial changes in leverage. Adjustments appear to be asymmetric among firms with large increases and those with large decreases in debt ratios. The different adjustments are not due to differences in leverage targets or industry distributions between the samples. Speeds of adjustment are found to be affected by market timing opportunities. The persistence of equity market timing opportunities slows some firms' rebalancing process. Chapter 3 examines the relation between dividend smoothing and information asymmetry. Both the amount of the dividend payment and the extent of dividend smoothing are found to be negatively related to standard measures of information asymmetry. Firms with higher levels of asymmetric information are associated with lower dividend payments and also have a higher propensity to smooth their dividends. These results imply that a firm's information environment affects its dividend policy as indicated by Miller and Modigliani (1961).
An entertaining summary of the broad reshaping of U.S. corporate finance in the last decade and a half. The late 1980s saw a huge wave of corporate leveraging. The U.S. financial landscape was dominated by a series of high-stakes leveraged buyouts as firms replaced their equity with new fixed debt obligations. Cash-financed acquisitions and defensive share repurchases also decapitalized corporations. This trend culminated in the sensational debt-financed bidding for RJR-Nabisco, the largest leveraged buyout of all time, before dramatically reversing itself in the early 1990s with a rapid return to equity.This entertaining summary of the broad reshaping of U.S. corporate finance in the last decade and a half looks at three major issues: why corporations leveraged up in the first place, why and how the leverage wave came to

an end, and what policy lessons are to be drawn.Using the Minsky-Kindleberger model as a framework, the authors interpret the rise and fall of leveraging as a financial market mania. In the course of chronicling the return to equity in the 1990s, they address a number of important corporate finance questions: How important was the return to equity in relieving corporations' debt burdens? How did the return to equity affect the ability of young high-tech firms to finance themselves without selling out to foreign firms?

Seminar paper from the year 2009 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 1,3, University of Hohenheim (Lehrstuhl für Bankwirtschaft und Finanzdienstleistungen), language: English, abstract: The question about capital structure is one of the most important issues which the management of a company faces in implementing their daily business. Therefore, the question of which factors affect capital structure decisions attracts high attention in the past and recent literature on capital structure. There are many papers providing valuable insights into capital structure choices, starting with the paper of Modigliani and Miller (1958). The MM-Theorem is generally considered a purely theoretical result since it ignores important factors in the capital structure decision like bank-ruptcy costs, taxes, agency costs and information asymmetry. Based on this paper many other theories which consider factors neglected by Modigliani and Miller have been evolved. Two major theories are the Tradeoff- and the Pecking-Order-Theory. The former loosens assumptions stated in the MM-Theorem by including bankruptcy costs and taxes while the latter introduces information asymmetry into the capital structure discussion. Chapter 2.1 will give a brief overview of these theories. For complexity reasons these models cannot capture all relevant factors affecting the capital structure policy of a company. However, all these theories disregard one cru-cial factor which plays an important role on capital markets all over the world. The significance of Credit Ratings is gradually increasing, and it is doing so in many re-spects. This paper focuses on the Credit Rating-Capital Structure-Hypotheses (CRCS) developed by Darren J. Kisgen as a modern approach to the capital structure discussion. The hypothesis argues that credit ratings have an impact on capital struc-ture decisions due to discrete costs (benefits) associated with a rating change. Firstly, reasons why credit ratings are material for capital structure decisions will be out-lined. Then, situations in which credit rating effects play a role will be examined. For this issue it is very important to show how it can be measured whether a firm is con-cerned about a rating change or not. Afterwards the CR-CS will be empirically tested. The traditional theories don’t explain the results obtained in these tests. Therefore credit rating effects will be combined with factors discussed in the Tradeoff- and Pecking-Order-Theory. In subsequent empirical tests credit rating factors will be integrated into previous capital structure test to show that the results of the CR-CS tests remain statistically significant...

Judging by the sheer number of papers reviewed in this Handbook, the empirical analysis of firms’ financing and investment decisions—empirical corporate finance—has become a dominant field in financial economics. The growing interest in everything “corporate is fueled by a healthy combination of fundamental theoretical developments and recent widespread access to large transactional data bases. A less scientific—but nevertheless important—source of inspiration is a growing awareness of the important social implications of corporate behavior and governance. This Handbook takes stock

of the main empirical findings to date across an unprecedented spectrum of corporate finance issues, ranging from econometric methodology, to raising capital and capital structure choice, and to managerial incentives and corporate investment behavior. The surveys are written by leading empirical researchers that remain active in their respective areas of interest. With few exceptions, the writing style makes the chapters accessible to industry practitioners. For doctoral students and seasoned academics, the surveys offer dense roadmaps into the empirical research landscape and provide suggestions for future work. *The Handbooks in Finance series offers a broad group of outstanding volumes in various areas of finance *Each individual volume in the series should present an accurate self-contained survey of a sub-field of finance *The series is international in scope with contributions from field leaders the world over
Provide a description about the book that does not include any references to package elements. This description will provide a description where the core, text-only product or an eBook is sold. Please remember to fill out the variations section on the PMI with the book only information. Important Notice: Media content referenced within the product description or the product text may not be available in the ebook version.