

Report Type

Mid Term Award Report

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Faculty/Department

Cambridge Judge Business School

Project Title

Initial Public Debt Offerings

Project Abstract

We analyze a sample of firms that choose to tap the public debt markets before the public equity markets. These “debt first” firms, which have typically never been analyzed in the prior literature, are more likely to be sponsor backed, are significantly larger on average and less likely to have information asymmetry problems than traditional “equity-first” firms in the same industry and year. Their debt issues are more expensive and face more restrictive covenants than debt issues by publicly listed firms that tap the debt market for the first time. However, when the debt-first firms eventually go public, they face lower underpricing than firms without public debt that undertake an initial public offering in the same industry. Our results document the importance of ownership structure in addition to traditional capital structure theories in the initial capital structure decisions of firms.

Activities and Achievement

We analyze a sample of firms that choose to tap the public debt markets before the public equity markets. These “debt first” firms have typically never been analyzed in the prior literature. This is the first large sample longitudinal study of these firms. Our results document the importance of ownership structure in addition to traditional capital structure theories in the initial capital structure decisions of firms.

Dissemination

The paper has been presented in a number of schools and has won the best paper award at the TAPMI International Conference on Banking and Finance in Bangalore. We have submitted the paper to the Journal of Finance and the Journal of Financial Economics. It was rejected at both places. The paper is currently under review at the Review of Finance and we are waiting to hear back.

Outputs

Major Difficulties and Any Other Issues

The problem has been that the paper falls in the intersection of two areas: capital structure and the going public decision and does not do a clear job of articulating its contribution to either area. So we are collecting more data and focusing the paper squarely on the going public literature where we think it will have more impact.

Web Links

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2024375

Additional Information

Declaration

This award has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.

Signature - Main Award Holder

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