The Arison School of Business invites you to a Finance Workshop
by
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From WU

On:
"Granularity of Corporate Debt: Theory and Tests"

Monday, January 16, 2012, 12:30, Arazi-Ofer building, meeting room, 2nd floor
IDC Herzliya Campus

Abstract
This paper studies the granularity of corporate debt - the degree to which firms spread out their bonds' maturity dates across time. In the model, a firm's access to the bond market may be closed temporarily, either because of a capital market freeze or because the firm becomes exposed to large risks. In such a setting, it can be advantageous to diversify the debt roll-over across maturity dates. Using a large sample of corporate bond issuers during the 1991-2009 period, we find evidence that supports our theory's predictions in cross-sectional tests and in time-series tests. In the cross-section, corporate debt structure is more granular and adjusts faster over time for larger and more mature firms, for firms with better investment opportunities, for firms with more tangible assets, for firms with higher leverage ratios, for firms with lower values of assets in place, and for firms with lower levels of current cash flows. In the time-series, we document that firms engage in granularity management in the sense that newly issued bond maturities are inversely related to pre-existing bond maturity profiles.