First Time Bond Issuers + SME Lifecycle and Non-Bank Finance

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First Time Bond Issuers

- 540 first time bond issues between 2002 to 2013
- $>$ 1.3 million firm:year observation of NFCs in Italy

- Characteristics of first time bond issuers?
  - Probability to issue bonds higher for
    - large firms
    - firms with high financing needs (high investments and high growth)
    - firms with maturity mismatch and low leverage
  - about 1000 Italian firms are potential issuers

Some remarks

- Some things require more attention/explanation
  - 660 firms issue bonds but do not file balance sheets.
  - half of the first time issuers are micro or small.
  - More info on control for unobserved industry or location effects. (cf investment rate or fixed assets)
- Interpretation negative ebitda?
  - financing needs (low ebitda*high invest)
  - or credit risk (low ebitda*low Z-score)
- More feedback between your findings and theory

- variable refinement/definitions/statistics
  - GROWTH corresponds to the 4th decile!
  - short term debt scaled by total assets in order to measure maturity mismatch with fixed assets to total assets
  - descriptive statistics should correspond to estimation sample (cf leverage)
  - what are investments exactly? changes in fixed assets, incl. depreciation?
- Baseline regression:
  - estimated coefficient short term debt significant and fixed assets not
  - but marginal effects fixed assets significant and short term debt not

Some ideas

- Comparison between appels and oranges?
  - only look at issuers between 2003 and 2011
  - match these issuers with non-issuers that are observationally equivalent in 2002.
  - now estimate your model.

- Could you not try to exploit the law-change in 2012?
- The law-change allows non-listed firms to enjoy beneficial tax treatments similar to listed firms.
  $\Rightarrow$ Test of Diamond's (1991) reputational model.
  - only look at issuers between 2010 and 2013
  - match non-listed firms with listed firms that are observationally equivalent in 2009.
  - Difference-in-differences estimation to isolate the treatment effect.

SME Lifecycle and Non-Bank Finance

- 20 countries, 49348 observations, SAFE survey (2009-2014)
- What types of non-bank finance do SMEs use?

SME Lifecycle and Non-Bank Finance

- 20 countries, 49348 observations, SAFE survey (2009-2014)
- What types of non-bank finance do SMEs use?
  - all firm types use equity in an equal matter
  - small young firms less (more) likely to use (in)formal non-bank finance
  - larger SMEs more likely to use mezzanine finance
  - deteriorating trading risk: lower use of formal non-bank finance
  - deteriorating financial health: lower use of all non-bank finance
  - deteriorating bank lending conditions: higher use of all non-bank finance
  - credit constraints: higher use of non-bank finance
  - higher sovereign stress: higher use of equity, less TC and leasing
  - equity use increases with GDP growth and decreases with inflation growth

Some Remarks

- What is the main takeaway of your paper?
  - discard debt issuance (mostly a size issue)
  - talk about leasing to refer to leasing/factoring/hire-purchase
- The young medium firms, did they really grow fast? Or just start big? (Q16 in SAFE)
- Differences across countries estimation: with country FE?
- No correlation between credit constraints and age/size implied non-bank finance usage?

- Careful with interpretation/wording
  - deteriorating trading risk $\neq$ high trading risk
  - deteriorating financial health $\neq$ financial distress
  - equity use is between 6 and 12 percent (medium size)
    - if about new equity issuance (a lot)
    - if about existing equity (very very few)
- What is the difference between using equity and using retained earnings? Can firms distinguish?
- Why not look at retained earnings? Important in the SME lifecycle!

Some Ideas

- Usage might differ more depending on growth intentions (even within age and size classes)
    - Use Q17 in SAFE to classify firms according to growth intentions
    - investigate impact of growth intentions on non-bank finance (unconditionally)
    - investigate impact of growth intentions on non-bank finance conditioned on age
    - investigate impact of growth intentions on non-bank finance conditioned on size

- Could you get hold of instititutional features of countries (instead of country FE), then also include corporate tax rates (trade-off theory)
- Subsample estimation on the CEEC.
- Is trade credit a substition for bank credit or are they complementary?
  - credit constraints/lending conditions suggest substitution
  - trading risk/sovereign stress suggest complements
  - depends on who's perspective you take

- Alternative interpretations
  - Sovereign stress relates negative to non-bank debt and positive to equity.
    $\Rightarrow$ Sort of Ricardian equivalence?
  - SME equity usage increases with GDP growth.
    $\Rightarrow$ Higher retained earnings? Market timing?
  - SME equity usage decreases with inflation growth.
    $\Rightarrow$ Debt deflation theory?