

Accepted Manuscript

Valuation and analysis of performance sensitive debt with contingent convertibility

Lei Ming, Shenggang Yang, Dandan Song

PII: S1059-0560(17)30750-5

DOI: [10.1016/j.iref.2017.10.014](https://doi.org/10.1016/j.iref.2017.10.014)

Reference: REVECO 1517

To appear in: *International Review of Economics and Finance*

Received Date: 3 August 2016

Revised Date: 3 October 2017

Accepted Date: 10 October 2017

Please cite this article as: Ming L., Yang S. & Song D., Valuation and analysis of performance sensitive debt with contingent convertibility, *International Review of Economics and Finance* (2017), doi: 10.1016/j.iref.2017.10.014.

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



Valuation and analysis of performance sensitive debt with contingent convertibility

Lei Ming¹, Shenggang Yang², Dandan Song³

School of Finance and Statistics, Hunan University, Changsha 410079, China

Abstract

We develop a new type of performance sensitive debt (PSD), called contingent convertible PSD (CPSD), which can be converted into equity in financial distress. We address the pricing of corporate securities and optimal capital structure including CPSD. Most of the results are given explicitly and numerical analyses are provided. The results explain that CPSD is a valuable security in increasing the value of tax shields while keeping default risk in a low level. The firm value is increased due to the issuance of CPSD. **The risk-compensating feature of CPSD can alleviate the inefficiencies arising from debt overhang and asset substitution. On the contrary, if equity holders benefit from a conversion, the contingent convertibility will aggravate them. The inefficiencies decrease with the conversion ratio of CPSD.**

Keywords: performance sensitive debt, contingent convertibility, debt overhang, asset substitution

JEL: G13, G32

¹E-mail address: minglei@hnu.edu.cn

²E-mail address: sgyang@hnu.edu.cn

³Corresponding author. Tel: +86 18627311123; E-mail address: ddsong@hnu.edu.cn

Download English Version:

<https://daneshyari.com/en/article/7355494>

Download Persian Version:

<https://daneshyari.com/article/7355494>

[Daneshyari.com](https://daneshyari.com)