

Outlasting the Pandemic: Corporate Payout and Financing Decisions During Covid-19

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Policy Makers Turning to the Big Guns

- **“Whatever it takes.”** — July 26, 2012
President of the European Central Bank Mario Draghi, expressing the ECB's commitment to the Euro.

- **“As long as it takes.”** — March 22, 2021
Federal Reserve Chairman Jay Powell, pledging continued support

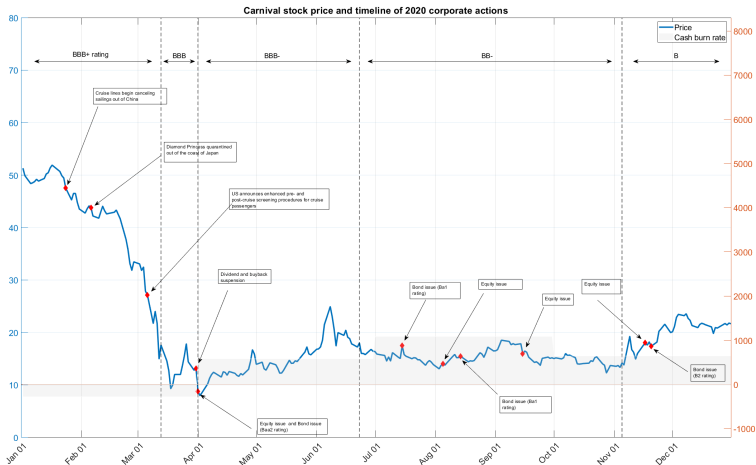
Pandemic was a Massive Cash Flow Shock for Firms

- The Covid-19 pandemic, lockdowns and social distancing measures had an unprecedented effect on economic activity and financial markets
- Massive increase in firms' cash flow risks and uncertainty about
 - virus trajectory (medical risks)
 - responses of governments and central banks (policy risks)
 - household spending, savings, and risk aversion (behavioral risks)
 - firm behavior: sectoral trend shifts (business risks)
 - access to financial markets (financial market risks)
- Pandemic duration risk made **firms' financing decisions extraordinarily difficult**

Research Questions

- How were firms' payout and financing choices affected by the Covid-19 pandemic and the associated policy responses?
- How did the pandemic affect firms' dividend and buyback decisions along with attempts to issue new bonds and equity?
 - Cutting or suspending dividends or share repurchases preserves short-term capital
 - Raising new funds through loans, bonds and equity issues provides longer-term financing
- How did policy actions affect firms' trade-offs?

Motivating example: Carnival Cruise Line



Contributions

- Study the joint dynamics of firms' capital choices during Covid-19: dividends, buybacks, bonds and equity
- Test a “high-frequency” version of the Myers and Majluf (1984) pecking order theory
 - Uniquely, many firms suspended dividends and buybacks and changed their payout policy in a short period of time
- Understand the drivers of firms' decisions to suspend dividends and buybacks, and to issue new bonds and equity
- Analyze the market reaction to these corporate actions

Preview of Results

- 215 (259) firms suspended dividends (share repurchases) during March-December 2020
- **Dividends.** Between March and December of 2020, US firms saved \$29bn through dividend suspensions and another \$56.5bn by reducing dividends.
- **Buybacks.** Savings from buyback suspensions amount to \$140bn in 2020 (conservative estimate)
- **Bonds.** Market froze in end-February, early March for low-grade bonds. \$60-\$80bn per week in mid-March-April, \leq \$40bn afterwards, only for investment-grade bonds. From May 2020, 30% of new bond issues are below investment-grade.
- **Equity.** Almost no issues until April, a few afterwards.
- **Bond market by far the most important source of new funds**

Role of Firm Characteristics

- Firms propensity to issue bonds was far less sensitive to firm and stock characteristics during the pandemic than during the Global Financial Crisis
- Still, large firms with high leverage, low profitability and negative revenue growth were significantly more likely to issue bonds during the pandemic
- Highly levered firms with negative revenue growth were relatively more likely to issue bonds over equity
- Firms with the largest cash holdings were more likely to issue equity but less likely to issue bonds compared to firms with smaller cash holdings

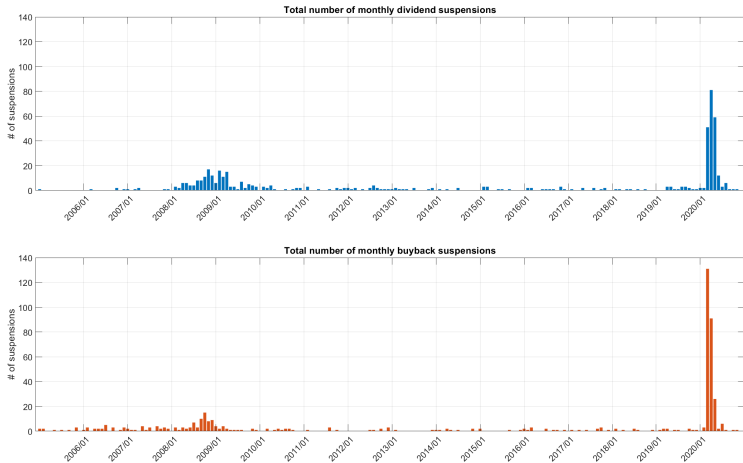
Data Sources

- **Dividends and Buybacks.** CRSP data on daily stock prices and dividend (positive) announcements. No information on dividend suspensions or buybacks announcements/suspensions
- Combine information from Capital IQ and textual data sources using an automated text scraper:
 - 8-K SEC forms (EDGAR)
 - Company press releases from NASDAQ news platform
 - Manual reviews of each case
- 498 (497) dividend (buyback) suspensions from 2005 to 2020 which we merge with price and accounting data from Compustat
- **Bonds and Equity.** SDC Platinum: convertible and non-convertible bonds, MTN programs. Bond ratings from Moody's. Equity includes new issues of common/preferred shares, and equity rights

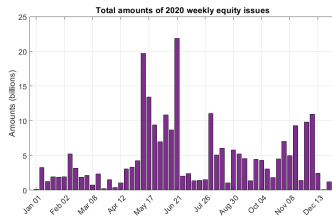
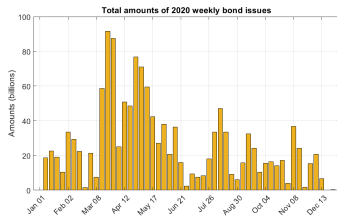
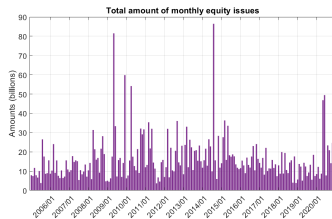
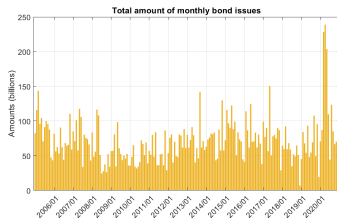
Policy Time Line

- March 13: US declares national emergency
- March 17: Fed announces establishment of commercial paper funding facility (CPFF) and primary dealer credit facility (PDCF) to ensure flows of credit to households and businesses
- March 18: Fed announces establishment of a Money Market mutual fund Liquidity Facility (MMLF)
- March 20: Fed announces enhancement of liquidity flowing to state and municipal markets
- March 23: Other extensive support measures announced by Fed
- March 27: CARES Act signed into law
- April 9: Fed announces the provision of up to \$2.3 trillion in loans aimed at supporting the economy.

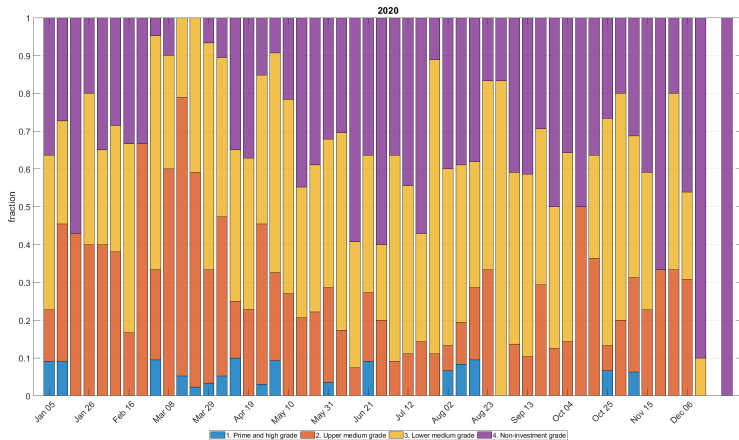
Dividend and Buyback Suspensions



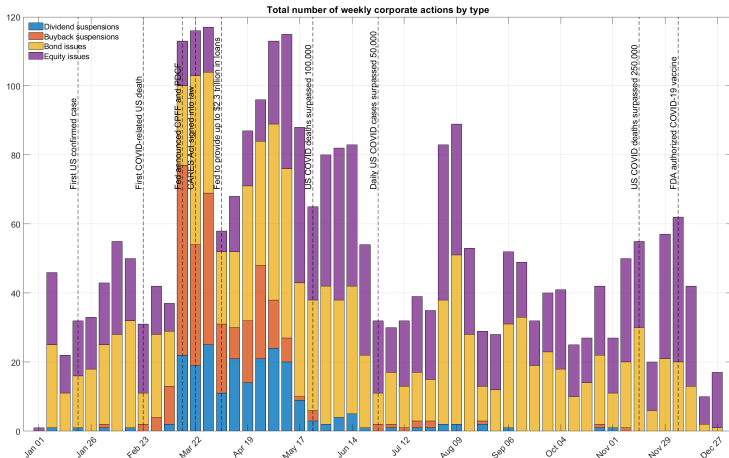
Bonds and Equity Issues



Bond Issues by Ratings (2020)



Corporate Actions (2020)



Testing the Pecking Order Theory

Pecking Order Theory

- 1 Use internal funds
 - 2 Issue debt
 - 3 Issue equity
- We should not expect to see firms issuing equity prior to suspending dividend payments or buybacks (internal funds)
 - Pandemic is well suited to test this: large number of firms took corporate actions
 - However, lots of confounders...

Pecking Order Theory: Consistent Firms

Panel A: 2020

Company	Industry	Buyback stop date	Dividend stop date	Bond issue date	Equity issue date
Gap Inc	Retail Stores	12-Mar-2020	25-Mar-2020	23-Apr-2020	
Expedia Inc	Other	13-Mar-2020	23-Apr-2020	23-Apr-2020	07-Jul-2020
Alaska Air Group Inc	Transportation	16-Mar-2020	25-Mar-2020	23-Jun-2020	
Texas Roadhouse Inc	Retail Stores	17-Mar-2020	24-Mar-2020		
Hawaiian Holdings Inc	Transportation	18-Mar-2020	20-Apr-2020	07-Aug-2020	01-Dec-2020
Ford Motor Co	Automobiles	19-Mar-2020	19-Mar-2020	17-Apr-2020	
Emerald Expositions Events Inc	Other	20-Mar-2020	20-Mar-2020		
SYNEX Corp	Other	24-Mar-2020	24-Mar-2020		
Marriott Vacations Worldwide	Banks, Insurance Companies, and Other Financials	24-Mar-2020	06-May-2020		
Cracker Barrel Old Country Store	Retail Stores	25-Mar-2020	25-Mar-2020		
Dick's Sporting Goods	Retail Stores	25-Mar-2020	14-Apr-2020		
Teres Corp	Other	25-Mar-2020	23-Apr-2020		
Carter's Inc	Retail Stores	26-Mar-2020	05-May-2020		
Abercrombie & Fitch Co	Retail Stores	26-Mar-2020	21-May-2020	18-Jun-2020	
La-Z-Boy Incorporated	Consumer Durables	29-Mar-2020	29-Mar-2020		
Herman Miller Inc	Other	30-Mar-2020	03-Apr-2020		
Kohl's Corp	Retail Stores	30-Mar-2020	17-Apr-2020	27-Apr-2020	
Polo Ralph Lauren Corp	Textiles, Apparel & Footware	31-Mar-2020	27-May-2020	01-Jun-2020	
Phillips-Van Heusen Corp	Textiles, Apparel & Footware	01-Apr-2020	01-Apr-2020	21-Apr-2020	06-Jul-2020
Bed Bath & Beyond Inc	Retail Stores	02-Apr-2020	02-Apr-2020		
Group 1 Automotive Inc	Automobiles	07-Apr-2020	07-Apr-2020	03-Aug-2020	
National Oilwell Varco Inc	Machinery and Business Equipment	09-Apr-2020	20-May-2020		
Jack In The Box	Retail Stores	15-Apr-2020	13-May-2020		
DineEquity Inc	Retail Stores	16-Apr-2020	29-Apr-2020		
HCA Inc	Other	21-Apr-2020	21-Apr-2020		
Yum China Holdings	Retail Stores	28-Apr-2020	28-Apr-2020		
Standard Motor Products Inc	Automobiles	29-Apr-2020	29-Apr-2020		
Dunkin Brands Group Inc	Other	30-Apr-2020	30-Apr-2020		
Foot Locker	Retail Stores	03-May-2020	22-May-2020		
Marathon Oil Corp	Oil and Petroleum Products	06-May-2020	06-May-2020		
Domtar Corporation	Other	08-May-2020	08-May-2020		
Twin River Worldwide Holdings	Other	11-May-2020	13-May-2020	06-Oct-2020	
Viad Corp	Other	14-May-2020	14-May-2020		
Maxim Integrated Products Inc	Machinery and Business Equipment	13-Jul-2020	28-Jul-2020		
Park Hotels & Resorts Inc	Other	16-Mar-2020	16-Mar-2020	15-Sep-2020	
Triumph Group Inc	Transportation	19-Mar-2020	05-Aug-2020		
Macy's Inc	Retail Stores	20-Mar-2020	27-May-2020		
Boyd Gaming Corp	Other	25-Mar-2020	13-May-2020		
Vail Resorts Inc	Other	01-Apr-2020	29-Apr-2020		
Arcelor Corporation	Steel Works Etc	06-Apr-2020	29-Apr-2020		
Continental Resources Inc	Oil and Petroleum Products	07-Apr-2020	10-Nov-2020		
Meredith Corp	Other	20-Apr-2020	25-Jun-2020		
Designer Brands	Retail Stores	01-May-2020	08-May-2020	04-Sep-2020	
KAR Auction Services Inc	Automobiles	07-May-2020	26-May-2020		
Penske Automotive Group Inc	Automobiles	13-May-2020	04-Aug-2020		
Townsquare Media Inc	Other	15-Jun-2020	16-Dec-2020		

Pecking Order Theory: Violations (equity issues prior to dividend or buyback suspensions)

Violations			
Industry	2008-2009	2020	List in 2020
Food	1	0	
MiningandMinerals	5	1	Gold Resource Corp: 15-Jun
OilandPetroleumProducts	8	2	Brigham Minerals: 09-Jun; Panhandle Oil & Gas: 28-Aug
ConsumerDurables	1	0	
Chemicals	5	0	
Drugs,Soap,Perfumes,Tobacco	2	3	Owens & Minor: 01-Oct; Turning Point Brands: 08-Jul Vector Group: 13-May
ConstructionandConstructionMaterials	6	0	
SteelWorksEtc	1	0	
MachineryandBusinessEquipment	5	2	GraftTech International: 14-Dec; Vertiv Holdings: 12-Aug
Automobiles	1	0	
Transportation	2	2	Heartland Express: 21-Jul; Werner Enterprises: 03-Jun
Utilities	12	7	Avista: 15-May; Chesapeake Utilities: 30-Jun; MGE Energy: 12-May Dominion Resources: 17-Mar; Consolidated Edison: 01-Dec Ormat Technologies: 18-Nov; South Jersey Industries: 06-Apr
RetailStores	5	0	
Banks,InsuranceCompanies,andOtherFinancials	58	4	Bain Capital Specialty Finance: 30-Mar; Flagstar Bancorp: 10-Aug Houlihan Lokey: 18-May; Stewart Information Services: 12-Aug
Other	24	10	The ADT Corp: 15-Sep; Bentley Systems Inc: 12-Nov; Cable One: 19-May; Hamilton Lane: 02-Jun; Kinsale Capital Group: 04-Aug Mesa Laboratories: 09-Jun; Simulations Plus: 05-Aug; Shutterstock: 11-Aug-2020 Strategic Education: 05-Aug; Towers Watson: 22-Apr
Total	136	31	

Transitions Between Corporate Actions

Panel A: July 2009 – December 2019

From/To	Bond issue		Buyback stop		Dividend stop		Equity issue		Total		Single actions N
	N	%	N	%	N	%	N	%	N	%	
Bond issue	5,483	0.347	15	0.001	11	0.001	2,163	0.137	7,672	0.486	1,372
Buyback stop	18	0.001	1	0.000	2	0.000	12	0.001	33	0.002	450
Dividend stop	12	0.001	1	0.000	0	0.000	13	0.001	26	0.002	25
Equity issue	1,975	0.125	2	0.000	3	0.000	6,078	0.385	8,058	0.510	54
Total	7,488	0.474	19	0.001	16	0.001	8,266	0.524	15,789	1	1,901

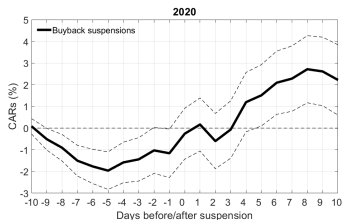
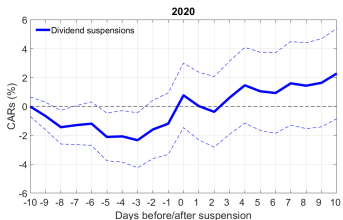
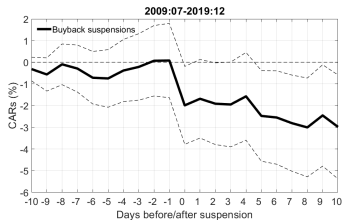
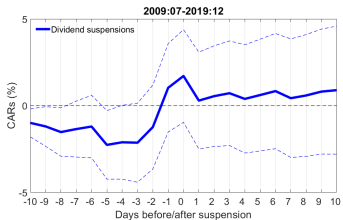
Panel B: 2020

From/To	Bond issue		Buyback stop		Dividend stop		Equity issue		Total		Single actions N
	N	%	N	%	N	%	N	%	N	%	
Bond issue	370	0.346	33	0.031	9	0.008	120	0.112	532	0.498	441
Buyback stop	68	0.064	0	0.000	20	0.019	5	0.005	93	0.087	349
Dividend stop	45	0.042	9	0.008	0	0.000	8	0.008	62	0.058	118
Equity issue	91	0.085	1	0.001	1	0.001	289	0.270	382	0.357	115
Total	574	0.537	43	0.040	30	0.028	422	0.395	1,069	1	1,023

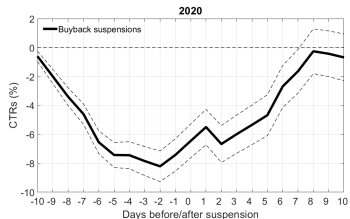
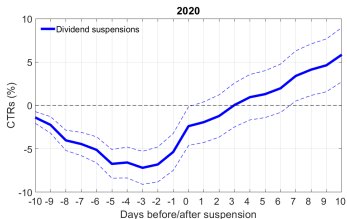
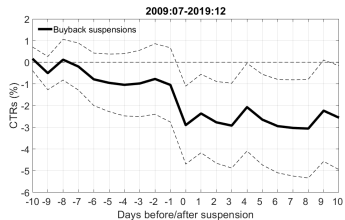
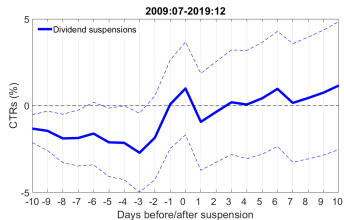
Stock market reaction

- **Dividend suspensions** associated with CARs of -2% up to day -3, followed by modest trend upwards on and after announcement date
- **Buyback suspensions** were both preceded and followed by a sequence of positive abnormal returns: Markets anticipated announcements and viewed them as **prudent actions**
- Very large movements in cumulative *total* returns prior to dividend and buyback suspension dates
- Firms announced suspensions on the back of a string of large drops in their stock prices
- Suspension announcements were followed by an 8-10% gain in stock prices during the 10-day post-announcement window

CARs - Dividend and Buyback Suspensions



CTRs - Dividend and Buyback Suspensions



Conclusion

- Firms' financing decisions changed sharply in the days and weeks after the pandemic outbreak
 - Unprecedented suspensions in dividends and buybacks
 - Stock and bond markets (low investment grade) essentially froze
- Massive policy interventions re-opened capital markets
- Possible for most firms (regardless of credit rating) to tap bond market
- Record fund raising in bond markets

- Looking ahead: How will growth be affected by all the newly issued debt?