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Wealth effects of convertible-bond and warrant-bond offerings: a meta-analysis

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Abstract

The literature on wealth effects associated with the announcements of convertible-bond and warrant-bond offerings, which include

84 sub-samples, which include 84 sub-samples. We find a

mean cumulative abnormal return of -0.02% for

warrant-bond offerings, which is significantly more

negative than for convertible-bond offerings. Securities to

refund, which are more common in our

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Notes

1. In one study, Lewis, Rogalski, and Seward ([2003](#)), the significance level of the entire sample is not presented.
2. All these numbers are for firm commitment offerings. Eckbo, Masulis, and Norli ([2007](#)) also calculate the average abnormal return for standby equity rights offerings to be -1.33% .
3. La Porta et al. ([2000](#)) present an alternative classification based on investor protection. [Table 3](#) of their paper groups countries into high and low protection. In their classification, the USA and Japan are in the same category (high protection). Since the original paper of Kang and Stulz ([1996](#)) uses corporate governance differences to try to explain the difference in abnormal returns between the USA and Japan, we felt that it did not make sense to use the same classification. For this reason, we use the classification of La Porta et al. ([2000](#)).
4. Almost all countries in the sample have a high level of investor protection (as measured by the ICRS index). This high level of investor protection is a variable to which we control for in our regressions. The results show that the results are robust to changes in the level of investor protection.
5. See, for example, [Barnes and Faff, 2001](#), and [Barnes and Faff, 2001](#), and [Barnes and Faff, 2001](#).



6. Another type of non-typical companies is 'financials'. Most studies in our sample eliminate financial companies, because they have different considerations when choosing their capital structure compared to industrial companies and utilities.

7. A problem with our analysis is that we treat the choice between CBs and WBs as exogenous. If unobservable factors determining the decision to issue convertibles versus warrant bonds also influence stock price reactions to these offerings' announcements, then the dummy variable capturing CB versus WB will be biased. Ideally, we would like to use a two-step Heckman ([1979](#)) procedure to verify whether our results are robust for controlling for endogeneity of the choice between hybrid instruments. Unfortunately, this procedure is not possible for us since we do not have access to the data used in the original individual analyses.

8. The definition of equity-like, debt-like, and mixed-like is not the same in each paper. Burlacu ([2000](#)) uses the factor $N(d_1)$ (delta) from the Black-Scholes model and defines convertibles with a delta between 0 and 0.33 as debt-like, between 0.33 and 0.66 as mixed-like, and between 0.66 and 1 as equity-like. Lewis, Rogalski, and Seward ([2003](#)) use the factor $N(d_2)$ from the Black-Scholes model (probability of conversion) and define a bond as debt-like if the probability is less than 40%, as mixed-like (called hedge-like in their paper) if the probability is between 40% and 60%, and as equity-like if the probability is higher than 60%. Suchard ([2007](#)) uses the same probability of conversion as Lewis, Rogalski, and Seward ([2003](#)), but defines convertibles with a probability less than 0.5 as being debt-like and higher than 0.5 as being equity-like. Loncarski, Ter Horst, and Veld ([2008](#)) use the delta and define convertibles with a delta

lower than 0.5 as being debt-like and higher than 0.5 as being equity-like. Most studies do not distinguish between debt-like and equity-like convertibles, but classify them as 'mixed-like'.

9. The paper by Lewis, Rogalski, and Seward ([2003](#)) includes the total size of the sample in the size of the firm sample. The paper by Lewis, Rogalski, and Seward ([2003](#)) define the size of the firm sample as the sum of the total size of the sample and the size of the firm sample.

10. In either case, the firm size is defined as the sum of the total size of the sample and the size of the firm sample. In two cases, the firm size is defined as the sum of the total size of the sample and the size of the firm sample.



11. One very small ($n=4$) sub-sample with was identified as an outlier during the CAR-based regression diagnostic tests, so is excluded from the CAR regressions; however, it is included in the t-statistic-based regressions.
12. Interestingly, when we use publication in the top-3 finance journals as an alternative proxy for publication bias, we find (in models not reported in the tables) no significant effects. This lack of significance seems to stem partly from a lower mean effect size and partly from reduced power, reflecting smaller sample size for 'Top 3'.
13. Firm size effects cannot be investigated in the 2-day event window models as the three original studies, investigating the effects use longer than 2-day windows in their analysis (see Section 3.8).
14. However, this result needs careful interpretation as the comparator group (omitted dummy variable) in several comparisons includes studies that do not identify the specific characteristic under test (e.g. high credit rating). This means that the comparator group may actually include an unknown number of companies having the specific characteristic. If true, this would bias the tests against finding significant coefficients.
15. Detailed results on the estimated numbers of unique and overlapping observations are available from the authors on request.
16. The significant difference between USA and network-oriented countries is evident as the coefficient on USA in the models presented within [Table 3](#), as network-oriented countries is the comparator (omitted) variable. Recasting the models with non-US market as the comparator (omitted) variable, the difference between network-oriented countries and non-US market is significant at the 10% level but not in the t-stat-based regressions.
17. D for these announcements (0.32%) is significant at the 10% level (7%). We are more interested in the difference between the two groups (erwijmeren) ([2011](#)). s than 90% of their sam like to know the exact



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