

Debtholder-Focused Investor Communication and Out-of-Court Public Debt Restructuring

Abstract

We study how debtholder-focused investor communication activities impact public debt restructuring outcomes for financially distressed firms. Public debt tender and exchange offers are often an integral part of the restructuring of financially distressed firms. However, the success of such restructurings involves garnering consensus from a group of dispersed bondholders. We argue that focused debt-related investor communication activities (hereafter, “Debt IC”) play a pivotal role in reducing coordination frictions in the restructuring process. We find that Debt IC activities are positively associated with the likelihood of undergoing public debt restructuring over inaction or pursuing a costly Chapter 11 bankruptcy process. In addition, Debt IC activities can aid distressed borrowers in promoting participation in the proposed offers and achieving favorable restructured credit terms such as reductions in coupon rates. Cross-sectional analyses suggest that Debt IC is particularly effective in the presence of coordination frictions and information asymmetry. Furthermore, survival analysis provides modest evidence that Debt IC contributes positively to sustainable restructuring. Overall, these findings highlight the influential role of Debt IC activities in enhancing the effectiveness of restructuring efforts for financially distressed firms.

Keywords: Investor Communication; Debt Markets; Public Debt; Out-of-Court Restructuring; Tender Offers; Exchange Offers