Redefining Financial Constraints: 
a Text-Based Analysis

[PRELIMINARY — PLEASE DO NOT POST ON WEB]

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ABSTRACT

We use text-based analysis of firm 10-Ks to redefine financial constraints. We focus on delay of investment, and intent to issue equity or debt securities. We find that text in firm Management Discussion and Analysis sections is highly informative, and that financial constrained-ness is two dimensional. First, some firms are more likely to be in a financial situation where they are delaying or postponing investment. Second, firms that are constrained along this dimension are either equity-focused or debt-focused, or somewhere in between. We score firms on both dimensions, and define firms as being unconstrained, debt-market constrained, or equity-market constrained. The properties of firms in each group support the conclusion that our text based variables measure financial constraints. A key new finding is that many firms are equity-market constrained, and a likely friction they face is not being able to raise equity capital fast enough to fund potential growth opportunities. We also find that distress and constraints are linked, and debt-market constrained firms more closely resemble distressed firms. Our time series analysis show that many types of common shocks associate with firm migration between constrained and unconstrained states.

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