DISSERTATION PROPOSAL

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"Essays in Corporate Finance"

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Tepper 4219

Chapter 1

By reversing the traditional going public process of raising capital after identifying a specific company, Special Purpose Acquisition Companies (SPACs) bring novel considerations to historical regulations governing capital formation and investor protection. We document three potential risks associated with the redemption right, the primary means for the shareholder to protect themselves from misaligned incentives arising from the SPAC structure. We use recent empirical data to illustrate these risks, providing evidence of adverse selection, the disincentive to vote against bad mergers, and dilutionary impacts of redemption. Linking these three issues, we provide a discussion of their significance in the context of the evolving SPAC structure and new regulatory priorities.

Chapter 2

In many industries, equity compensation ties a substantial portion of non-executive employee income to firm performance. We hypothesize shocks affecting equity-paying firms are amplified due to their simultaneous impact on firm profitability and employee turnover. To measure this effect, we study the forfeiture rates of unvested equity grants against employee returns, finding that a 10% increase in employee returns reduces forfeiture rates by 1.4%. We incorporate our hypothesis into an investment model and find that the cross-sectional average and standard deviation of firm value are weakly increasing in the equity share. We propose to develop a model that explains the risk-sharing and cash flow considerations for both employees and firms, as well as their implications for recent corporate policies, such as refreshing underwater equity grants.

Chapter 3

We explore the determinants of employee exit decisions in relation to equity compensation, with a particular focus on how individual employee characteristics and firm policies impact these choices. Our project will study the varied cross-section of employees within firms using job-level data matched to measures of equity plan activity and financial performance. In doing so, we provide a deeper understanding of how employees are differentially impacted by their employer's financial performance and how these experiences influence future career outcomes like job tenure, promotion rates, and career moves.