Measuring Corporate Discount Rates*

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Abstract

We construct a novel dataset of corporate discount rates based on manual entry from more than 35,000 earnings calls. On these calls, managers disclose to their investors their perceived cost of capital and hurdle rates (discount rates) used in capital budgeting decisions. The dataset contains around 10,000 corporate discount rates from 2,500 firms in a sample spanning 15 years and 23 countries. Using these data, we document that the perceived cost of capital moves with interest rates and expected stock returns, both across countries and across time. The perceived cost of capital increased during the GFC but has decreased over the last decades as interest rates and the expected return on equity have decreased. Hurdle rates also increased during the GFC but stayed elevated and have not come down as quickly as the cost of capital. The trend in hurdle rates is different in Europe and the US, with hurdle rates trending down faster in the US relative to pre-GFC levels. Across countries, hurdle rates are negatively correlated with investment rates and hurdle rates are stronger predictors of investment than Tobin’s Q and the cost of capital. The results shed light on the “missing investment” in the current low-interest environment, the difference in growth rates in EU and the US, and the apparent failings of q-theory.

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