

DATA UPDATE 8 FOR 2025: DEBT, TAXES AND DEFAULT!

Back to Basics



DEBT: A TOUCHY TOPIC!

- There is a reason that **every religion inveighs against the use of debt**, driven by a history of people and businesses, borrowing too much and then paying the price, but the vitriol is reserved for the lenders, not the borrowers, for encouraging this behavior.
- At the same time, in much of the world, **governments have encouraged the use of debt**, by providing tax benefits to businesses (and individuals) who borrow money.
- In this session, I look at the **use of debt by businesses, around the globe, chronicling both the magnitude of borrowing, as well as the details of debt** (in terms of maturity, fixed vs floating, straight vs convertible).

DEBT VERSUS EQUITY

Debt in a Financial Balance Sheet

Assets		Liabilities	
Expected Value of investments already made	<i>Assets in Place</i>	<i>Debt</i>	Borrowed money
Expected Value Added (or Destroyed) by future investments	<i>Growth Assets</i>	<i>Equity</i>	Owner's funds

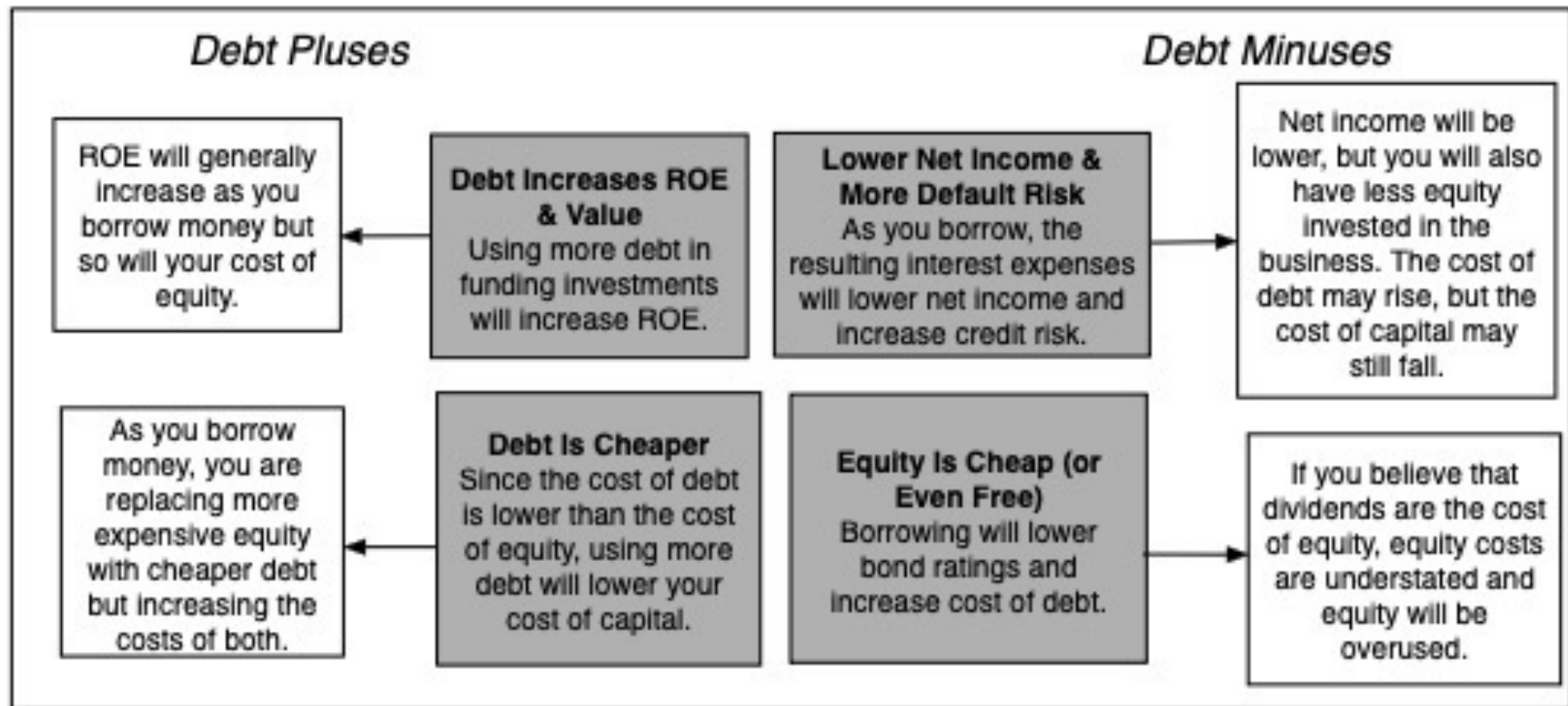
Characteristics of Debt

1. A contractual claim on cashflows.
2. A tax benefit, in much of the world.
3. First claim, in liquidation

Characteristics of Equity

1. A residual claim on cashflows.
2. Overall control of business
3. Last claim, in liquidation

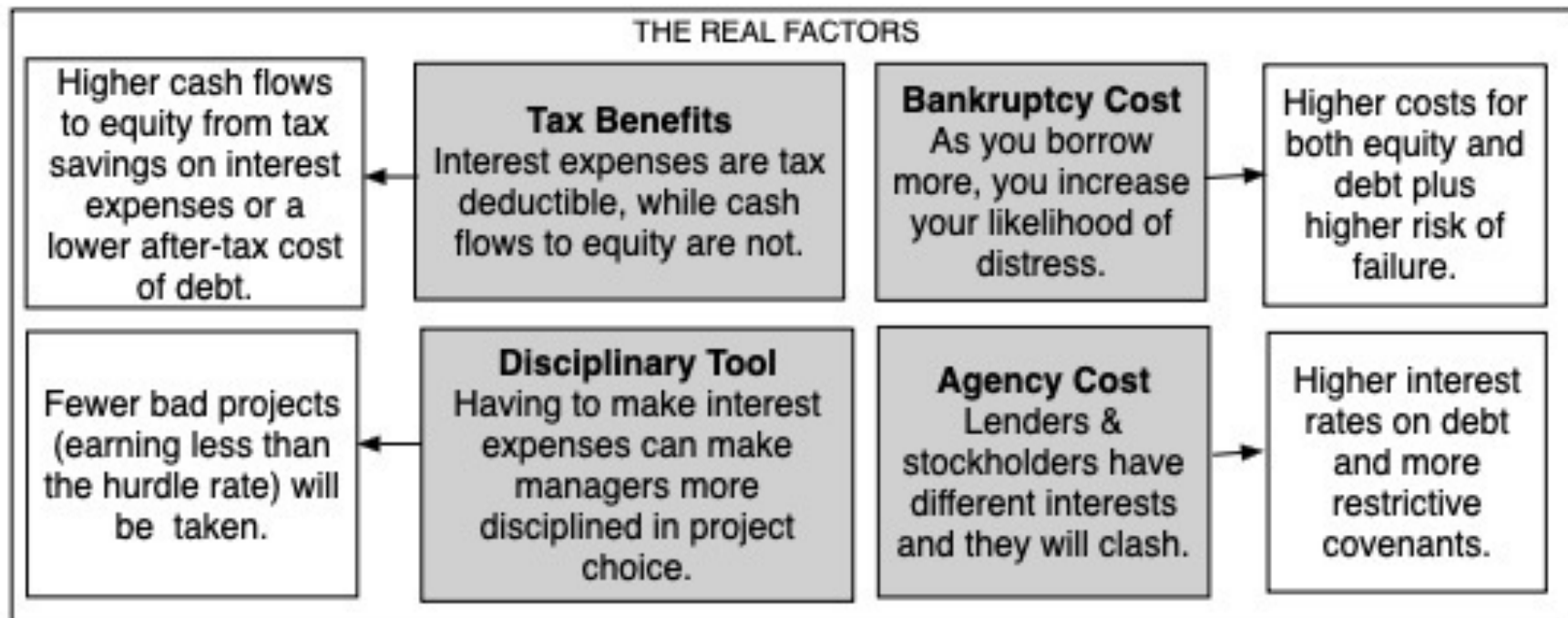
DEBT VS EQUITY: THE ILLUSORY TRADEOFF



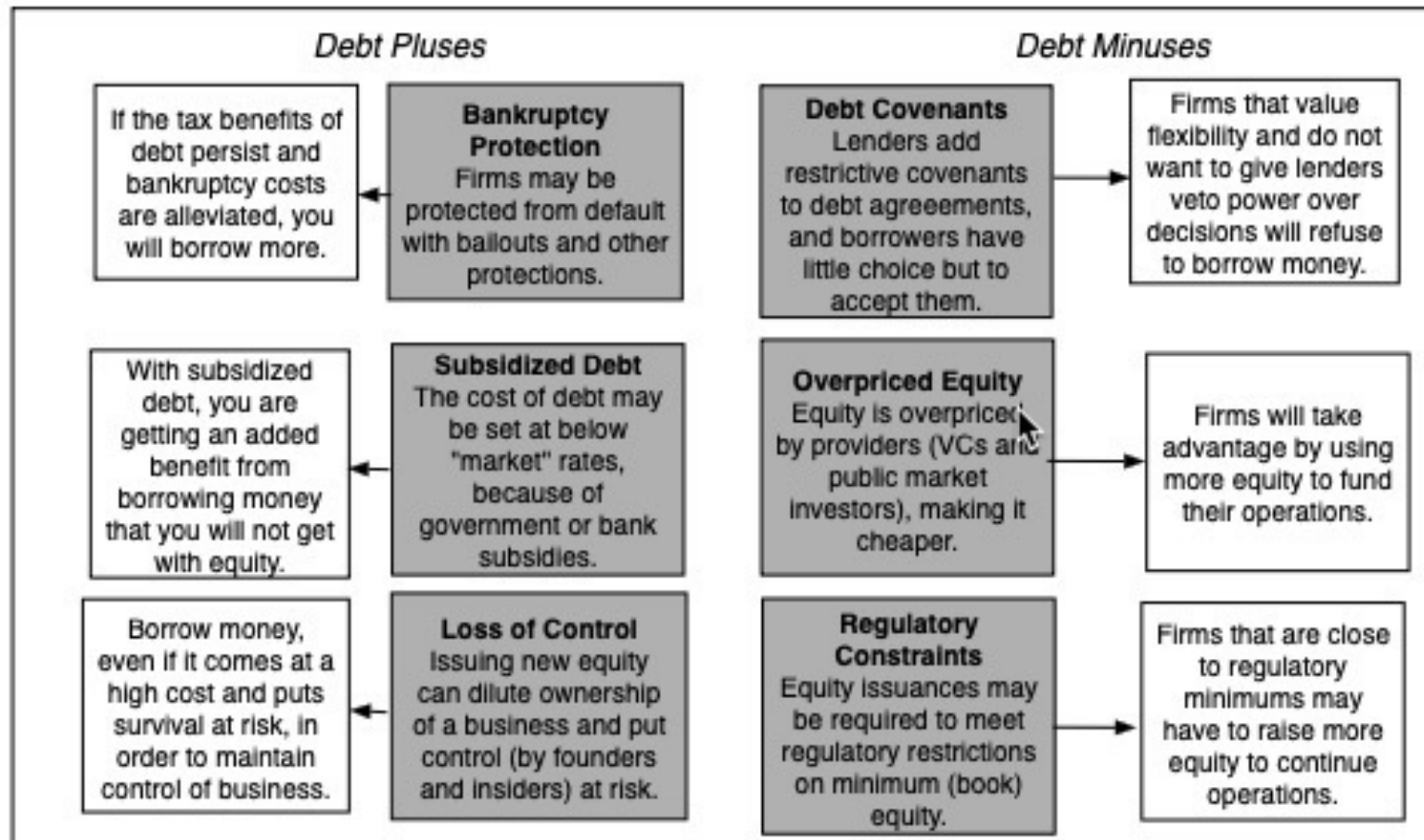
DEBT VS EQUITY: THE REAL TRADEOFF

Debt Pluses

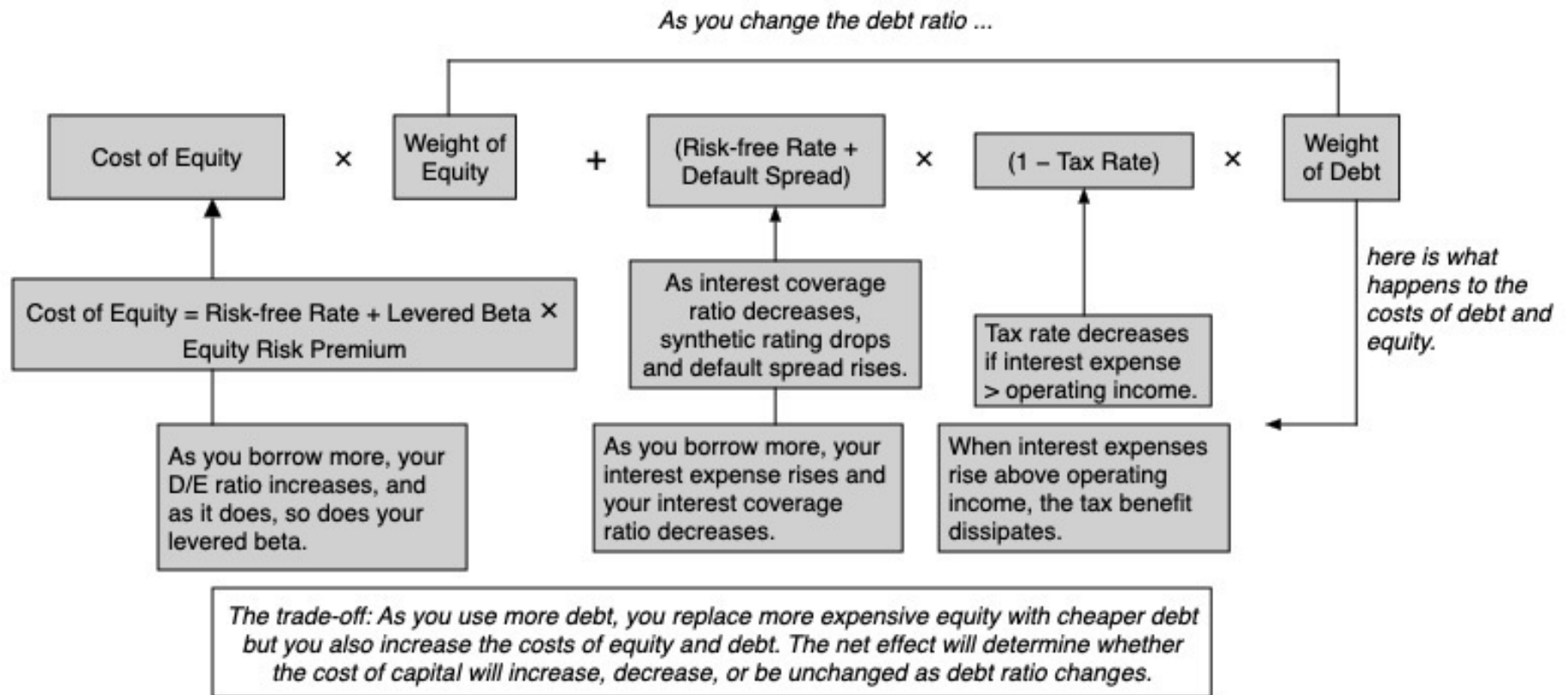
Debt Minuses



DEBT VS EQUITY: THE FRICTIONAL TRADEOFF



DEBT VS EQUITY: AN OPTIMIZING TOOL

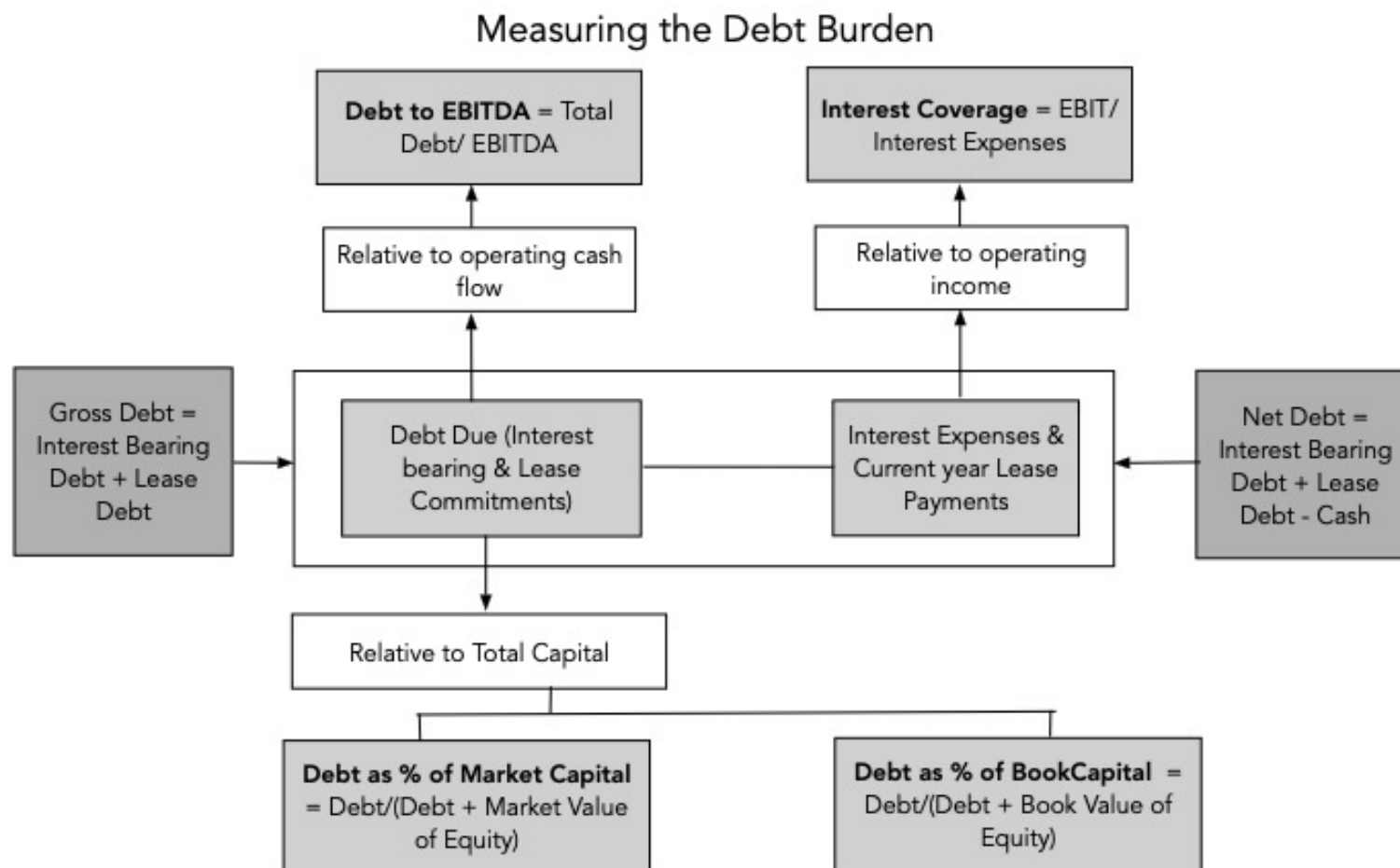


DEBT IN 2024: DOLLAR VALUES

Dollar Debt by Sector (in \$ millions)									
Primary Sector	# firms	Debt		Equity		Debt change in 2024		Equity Change in 2024	
		Gross Debt	Net Debt	Equity (Market)	Equity (Book)	Debt repaid	Debt issued	Dividends + Buybacks	Stock Issuances
Communication Services	2,226	\$2,721,025	\$2,158,723	\$9,328,282	\$3,312,798	\$520,114	\$461,684	\$338,047	\$42,877
Consumer Discretionary	6,251	\$4,064,557	\$2,729,388	\$13,663,609	\$4,515,571	\$1,333,681	\$1,424,761	\$356,912	\$42,767
Consumer Staples	3,155	\$2,101,641	\$1,576,435	\$7,904,870	\$2,574,291	\$683,938	\$659,610	\$280,607	\$23,375
Energy	1,416	\$1,970,479	\$1,339,214	\$6,747,626	\$4,157,943	\$745,687	\$778,238	\$487,335	\$24,126
Financials	5,244	\$42,853,878	\$29,033,954	\$21,143,003	\$17,577,756	\$19,779,081	\$20,592,791	\$973,304	\$176,242
Health Care	4,504	\$2,085,830	\$1,442,455	\$10,715,419	\$3,029,091	\$552,629	\$629,429	\$282,175	\$93,708
Industrials	8,780	\$6,145,629	\$4,276,464	\$15,319,423	\$7,340,524	\$2,483,771	\$2,639,747	\$505,038	\$84,560
Information Technology	6,198	\$1,937,291	\$816,982	\$25,656,118	\$4,557,885	\$901,188	\$961,642	\$507,621	\$69,453
Materials	6,462	\$2,319,040	\$1,597,519	\$6,108,403	\$4,200,870	\$1,068,894	\$1,140,665	\$236,654	\$39,657
Real Estate	2,664	\$3,237,784	\$2,788,101	\$3,287,307	\$3,496,730	\$943,298	\$947,222	\$149,502	\$58,163
Utilities	910	\$3,420,506	\$3,079,414	\$3,745,989	\$2,663,387	\$907,731	\$1,061,591	\$154,321	\$41,230
Global	47,810	\$72,857,661	\$50,838,649	\$123,620,048	\$57,426,846	\$29,920,012	\$31,297,380	\$4,271,516	\$696,158
Global (without financials)	42,566	\$30,003,782	\$21,804,695	\$102,477,045	\$39,849,090	\$10,140,931	\$10,704,589	\$3,298,212	\$519,917
Dollar Debt by Region (in \$ millions)									
Sub Group	# firms	Debt		Equity		Debt change in 2024		Equity Change in 2024	
		Gross Debt	Net Debt	Equity (Market)	Equity (Book)	Debt repaid	Debt issued	Dividends + Buybacks	Stock Issuances
Africa and Middle East	1,896	\$764,286	\$503,119	\$4,091,589	\$1,630,638	\$185,487	\$190,002	\$193,074	\$11,142
Australia & NZ	1,578	\$284,108	\$211,624	\$1,159,658	\$493,522	\$112,349	\$111,475	\$42,231	\$14,821
Canada	2,501	\$882,761	\$787,551	\$2,092,794	\$1,018,680	\$158,561	\$167,556	\$75,462	\$19,166
China	7,292	\$5,844,515	\$3,443,733	\$12,608,104	\$9,033,712	\$3,600,102	\$3,735,868	\$474,203	\$105,336
EU & Environs	5,067	\$4,881,100	\$3,704,997	\$12,229,646	\$6,441,832	\$1,019,940	\$1,039,694	\$481,233	\$91,090
Eastern Europe & Russia	355	\$37,827	\$23,330	\$98,519	\$98,190	\$10,183	\$7,787	\$5,671	\$466
India	4,158	\$602,972	\$472,263	\$4,029,213	\$920,568	\$136,355	\$121,204	\$51,334	\$21,072
Japan	3,818	\$2,714,913	\$1,680,014	\$5,410,073	\$4,184,928	\$632,993	\$704,651	\$198,900	\$8,913
Latin America & Caribbean	799	\$777,589	\$616,455	\$1,169,884	\$959,537	\$258,157	\$261,686	\$58,721	\$9,479
Small Asia	9,320	\$2,582,713	\$1,732,299	\$5,641,247	\$4,222,178	\$1,489,775	\$1,540,038	\$160,635	\$37,606
UK	899	\$1,053,903	\$806,814	\$2,593,815	\$1,289,654	\$186,303	\$174,174	\$136,468	\$17,715
United States	4,883	\$9,577,096	\$7,822,494	\$51,352,502	\$9,555,652	\$2,350,725	\$2,650,455	\$1,420,280	\$183,111
Global	42,566	\$30,003,782	\$21,804,695	\$102,477,045	\$39,849,090	\$10,140,931	\$10,704,589	\$3,298,212	\$519,917



DEBT SCALARS



DEBT TO CAPITAL RATIOS IN 2024

Debt to Capital Ratios by Sector							
		Debt to Capital (Book)		Debt to Capital (Market)		Divergence	
Primary Sector	# firms	Gross Debt	Net Debt	Gross Debt	Net Debt	Gross Debt	Net Debt
Communication Services	2,226	45.10%	39.45%	22.58%	18.79%	22.51%	20.66%
Consumer Discretionary	6,251	47.37%	37.67%	22.93%	16.65%	24.44%	21.02%
Consumer Staples	3,155	44.95%	37.98%	21.00%	16.63%	23.94%	21.35%
Energy	1,416	32.15%	24.36%	22.60%	16.56%	9.55%	7.80%
Financials	5,244	70.91%	62.29%	66.96%	57.86%	3.95%	4.43%
Health Care	4,504	40.78%	32.26%	16.29%	11.86%	24.49%	20.39%
Industrials	8,780	45.57%	36.81%	28.63%	21.82%	16.94%	14.99%
Information Technology	6,198	29.83%	15.20%	7.02%	3.09%	22.81%	12.11%
Materials	6,462	35.57%	27.55%	27.52%	20.73%	8.05%	6.82%
Real Estate	2,664	48.08%	44.36%	49.62%	45.89%	-1.54%	-1.53%
Utilities	910	56.22%	53.62%	47.73%	45.12%	8.49%	8.51%
Global	47,810	55.92%	46.96%	37.08%	29.14%	18.84%	17.82%
Global (without financials)	42,566	42.95%	35.37%	22.65%	17.54%	20.31%	17.82%
Debt to Capital Ratios by Region							
		Debt to Capital (Book)		Debt to Capital (Market)		Divergence	
Sub Group	# firms	Gross Debt	Net Debt	Gross Debt	Net Debt	Gross Debt	Net Debt
Africa and Middle East	1,896	31.91%	23.58%	15.74%	10.95%	16.17%	12.63%
Australia & NZ	1,578	36.54%	30.01%	19.68%	15.43%	16.86%	14.58%
Canada	2,501	46.43%	43.60%	29.67%	27.34%	16.76%	16.26%
China	7,292	39.28%	27.60%	31.67%	21.45%	7.61%	6.15%
EU & Environs	5,067	43.11%	36.51%	28.53%	23.25%	14.58%	13.26%
Eastern Europe & Russia	355	27.81%	19.20%	27.74%	19.15%	0.07%	0.05%
India	4,158	39.58%	33.91%	13.02%	10.49%	26.56%	23.42%
Japan	3,818	39.35%	28.65%	33.41%	23.70%	5.93%	4.95%
Latin America & Caribbean	799	44.76%	39.12%	39.93%	34.51%	4.83%	4.61%
Small Asia	9,320	37.95%	29.09%	31.40%	23.49%	6.55%	5.60%
UK	899	44.97%	38.48%	28.89%	23.73%	16.08%	14.76%
United States	4,883	50.06%	45.01%	15.72%	13.22%	34.34%	31.79%
Global (without financials)	42,566	42.95%	35.37%	22.65%	17.54%	20.31%	17.82%

DEBT TO EARNINGS/CF IN 2024

Debt to EBITDA & Interest Coverage by Sector					
Primary Sector	# firms	Debt to EBITDA		Interest Coverage	
		Gross Debt	Net Debt	Gross interest	Net Interest
Communication Services	2,226	2.47	1.96	4.67	6.52
Consumer Discretionary	6,251	3.33	2.24	5.85	12.78
Consumer Staples	3,155	2.74	2.05	6.29	10.34
Energy	1,416	1.50	1.02	9.43	17.31
Financials	5,244	43.57	29.52	6.50	8.05
Health Care	4,504	2.96	2.05	5.58	9.88
Industrials	8,780	4.01	2.79	4.00	8.30
Information Technology	6,198	1.70	0.72	11.27	71.91
Materials	6,462	2.95	2.04	4.48	7.65
Real Estate	2,664	10.69	9.21	2.04	2.85
Utilities	910	5.11	4.60	3.01	3.95
Global	47,810	6.93	4.83	5.28	8.94
Global (without financials)	42,566	3.15	2.29	5.15	9.09
Debt to EBITDA & Interest Coverage by Region (non-financials)					
Sub Group	# firms	Debt to EBITDA		Interest Coverage	
		Gross Debt	Net Debt	Gross interest	Net Interest
Africa and Middle East	1,896	1.73	1.14	8.80	18.04
Australia & NZ	1,578	2.32	1.73	6.03	8.22
Canada	2,501	3.52	3.14	3.55	4.11
China	7,292	4.58	2.70	3.71	11.97
EU & Environs	5,067	3.13	2.38	4.94	10.08
Eastern Europe & Russia	355	1.90	1.17	5.57	13.39
India	4,158	2.51	1.96	4.19	6.71
Japan	3,818	3.42	2.12	11.17	244.28
Latin America & Caribbean	799	3.05	2.42	2.59	3.55
Small Asia	9,320	3.48	2.34	3.95	7.44
UK	899	2.84	2.17	5.28	7.60
United States	4,883	2.76	2.26	6.05	8.17
Global (without financials)	42,566	3.15	2.29	5.15	9.09



THE DRIVERS OF DEBT: TAX RATES

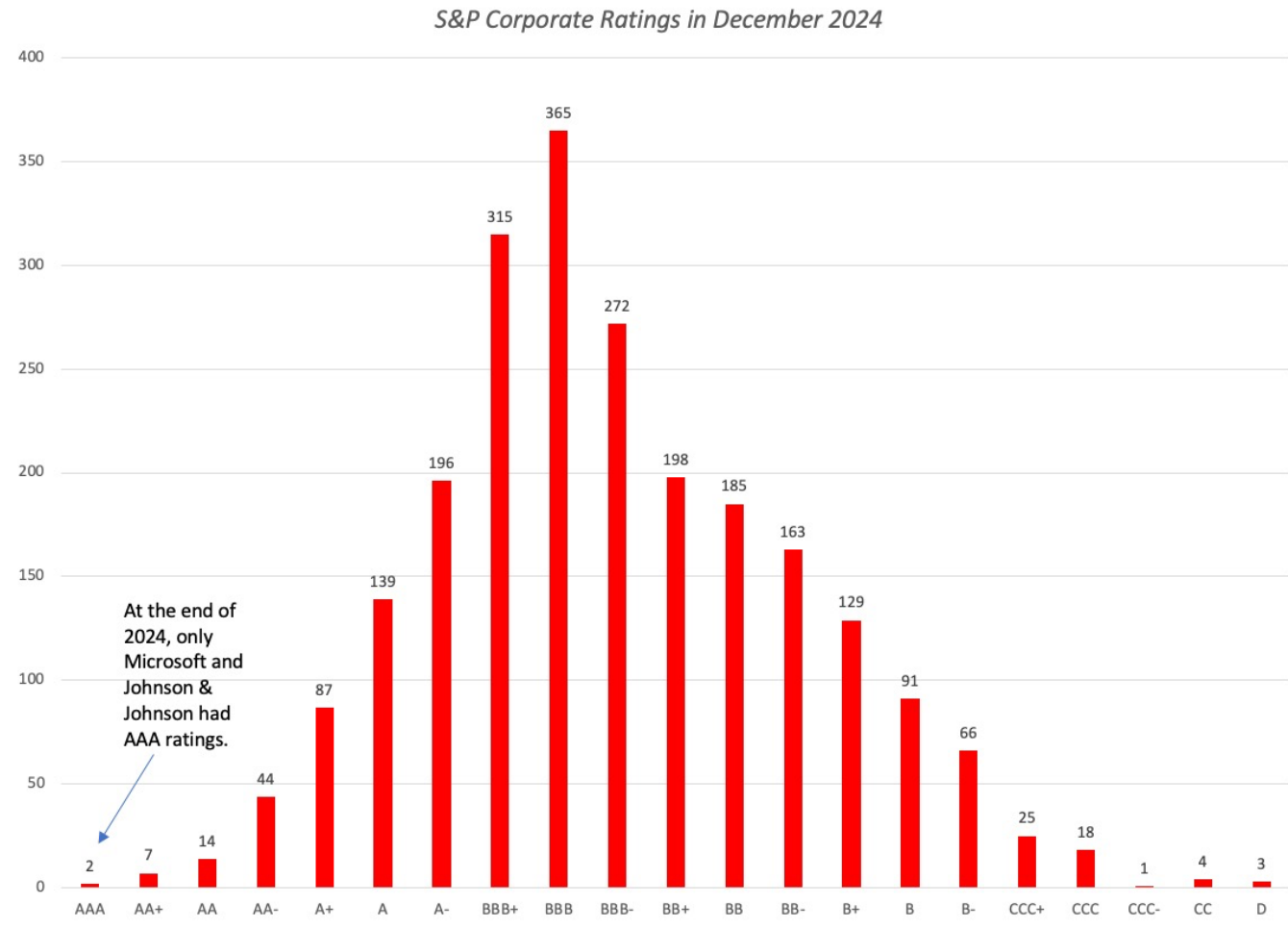


CORPORATE RESPONSE TO TAX RATE CHANGES – US TAX REFORM OF 2017

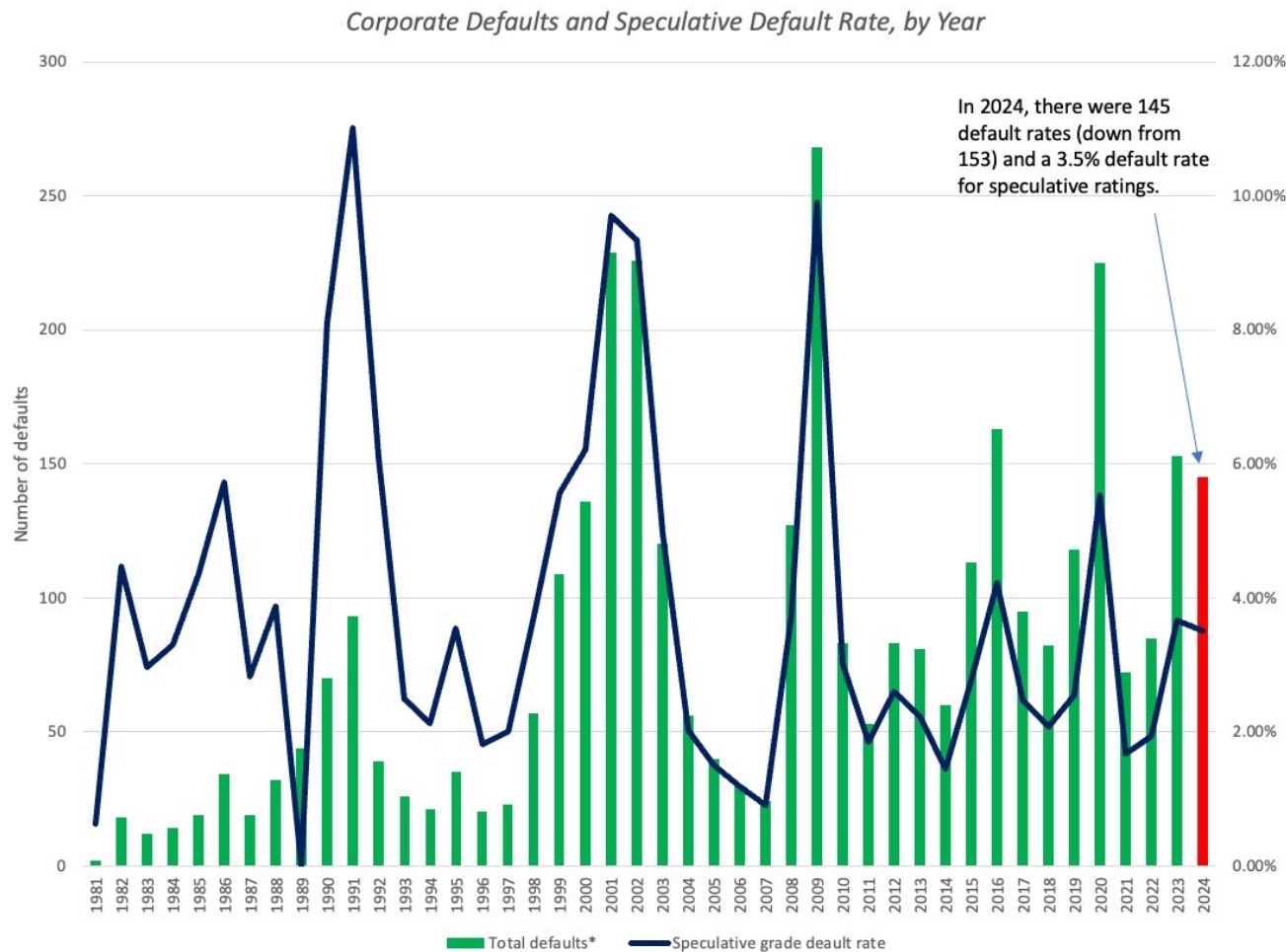
<i>End of year</i>	<i>Total Debt</i>	<i>EBITDA</i>	<i>Debt to Capital</i>	<i>Debt to EBITDA</i>
2015	\$7,469,331	\$2,357,576	26.10%	3.17
2016	\$7,863,512	\$2,274,186	24.17%	3.46
2017	\$7,822,333	\$2,335,746	23.51%	3.35
2018	\$8,187,157	\$2,595,760	25.66%	3.15
2019	\$9,448,916	\$2,605,807	24.01%	3.63
2020	\$9,567,227	\$2,502,975	20.07%	3.82
2021	\$9,427,724	\$3,054,609	16.66%	3.09
2022	\$9,488,645	\$3,346,622	20.89%	2.84
2023	\$9,754,929	\$3,370,109	18.43%	2.89
2024	\$10,108,977	\$3,616,772	16.17%	2.80
Pre tax reform			24.59%	3.32
Post tax reform			20.27%	3.17



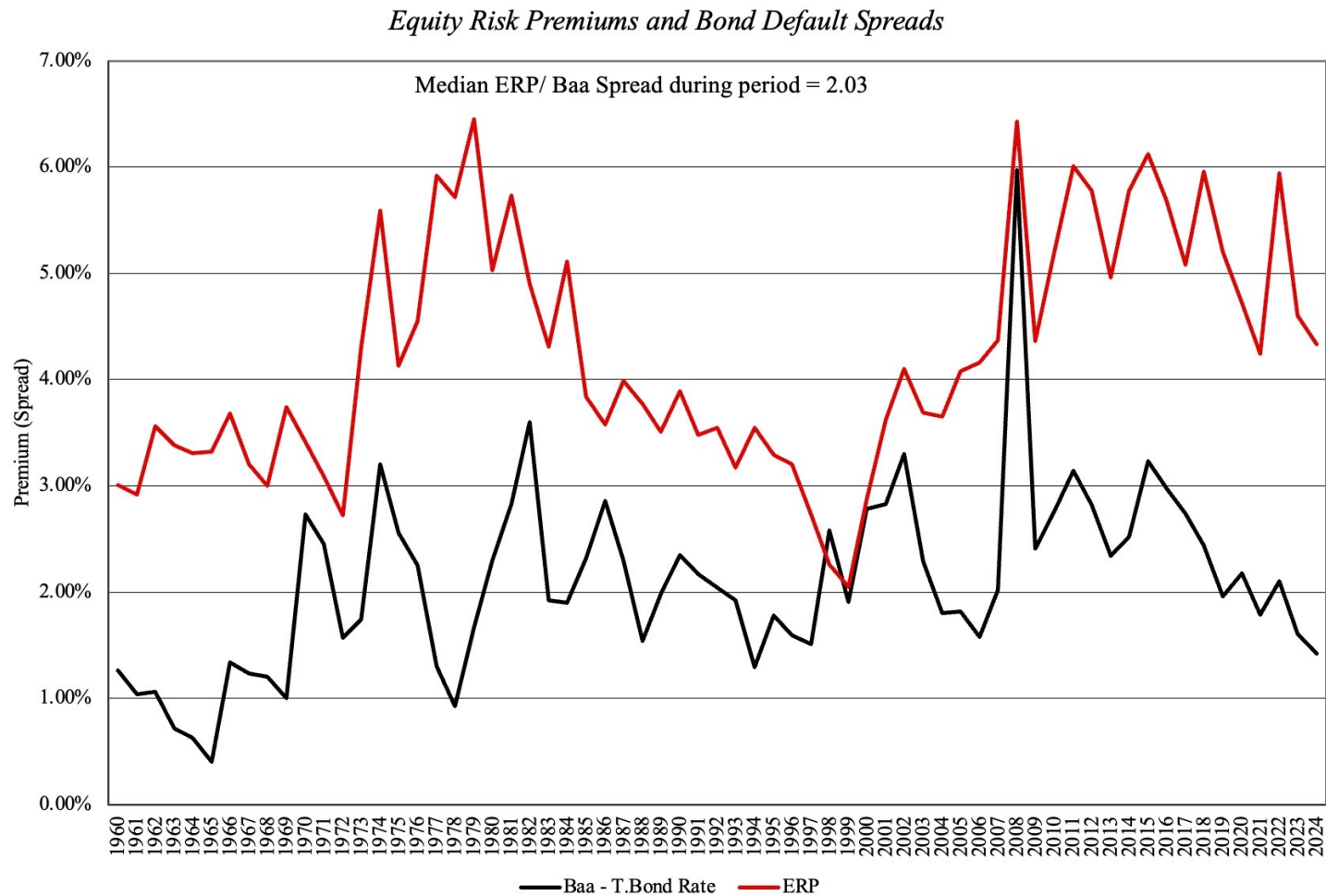
THE DRIVERS OF DEBT: DEFAULT RISK



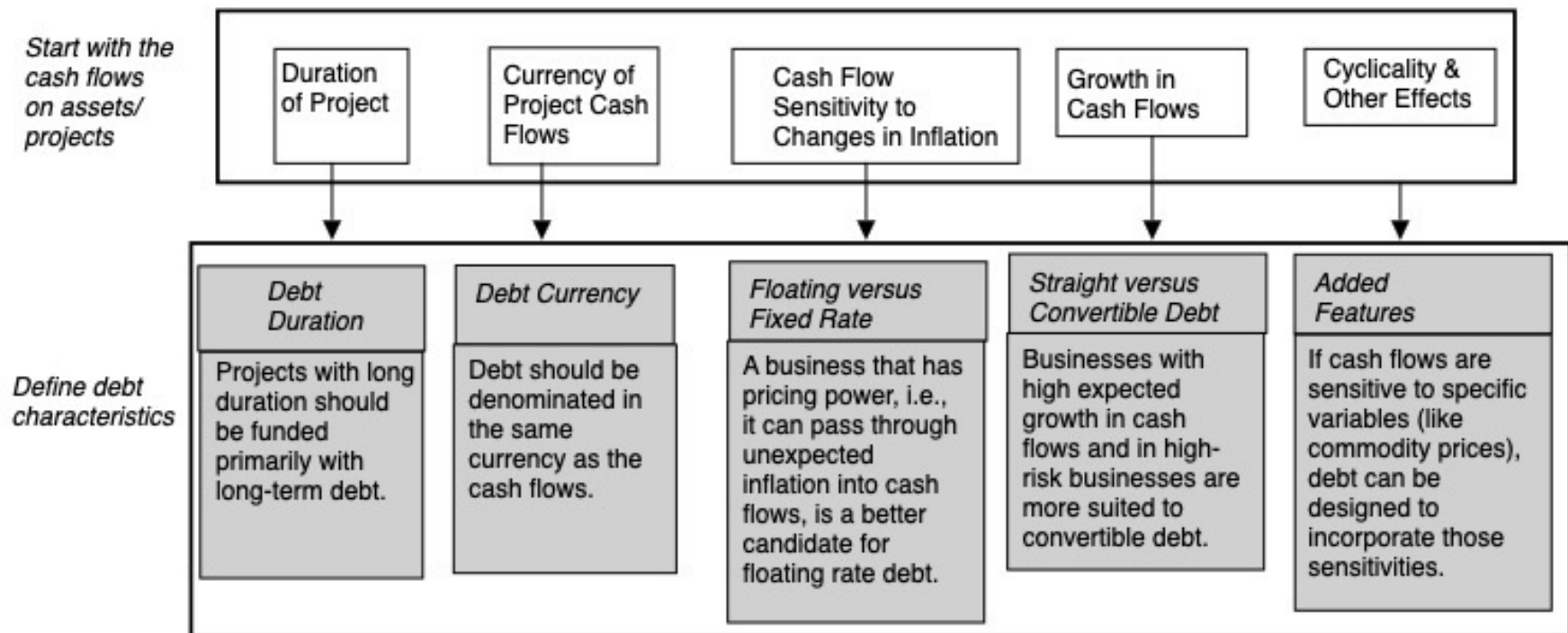
AND DEFAULT RATES OVER TIME...



THE PRICE OF RISK FOR DEBT



DEBT DESIGN 101



DEBT DETAILS IN 2024

Debt Details by Sector							
		Lease Debt		Corporate Bonds		Floating Rate Debt	
Primary Sector	# firms	\$ value (millions)	% of total debt	\$ value (millions)	% of total debt	\$ value (millions)	% of total debt
Communication Services	2,226	\$165,463	6.08%	\$1,329,762	52.03%	\$254,684	21.78%
Consumer Discretionary	6,251	\$377,834	9.30%	\$1,476,785	40.06%	\$377,921	27.91%
Consumer Staples	3,155	\$120,708	5.74%	\$1,098,570	55.46%	\$148,713	13.86%
Energy	1,416	\$42,211	2.14%	\$1,014,720	52.62%	\$197,839	18.72%
Health Care	4,504	\$142,190	6.82%	\$1,283,272	66.02%	\$210,015	14.01%
Industrials	8,780	\$153,780	2.50%	\$2,096,071	34.98%	\$617,465	26.06%
Information Technology	6,198	\$91,757	4.74%	\$886,258	48.02%	\$191,735	17.90%
Materials	6,462	\$27,946	1.21%	\$809,110	35.32%	\$247,700	26.25%
Real Estate	2,664	\$84,294	2.60%	\$1,155,952	36.66%	\$409,820	27.50%
Utilities	910	\$17,183	0.50%	\$1,738,797	51.09%	\$291,246	18.21%
Global	42,566	\$1,223,365	4.08%	\$12,889,297	44.78%	\$2,947,137	21.63%
Debt Details by Region							
		Lease Debt		Corporate Bonds		Floating Rate Debt	
Sub Group	# firms	\$ value (millions)	% of total debt	\$ value (millions)	% of total debt	\$ value (millions)	% of total debt
Africa and Middle East	1,896	\$5,444	0.71%	\$197,924	26.08%	\$171,078	55.39%
Australia & NZ	1,578	\$537	0.19%	\$98,513	34.74%	\$50,875	32.56%
Canada	2,501	\$12,282	1.39%	\$533,740	61.32%	\$162,717	25.76%
China	7,292	\$5,375	0.09%	\$916,335	15.69%	\$388,141	32.66%
EU & Environs	5,067	\$27,403	0.56%	\$2,493,661	51.38%	\$338,579	17.11%
Eastern Europe & Russia	355	\$924	2.44%	\$13,586	36.82%	\$10,491	38.63%
India	4,158	\$129	0.02%	\$131,015	21.73%	\$11,979	37.16%
Japan	3,818	\$123,902	4.56%	\$706,685	27.27%	\$28,001	8.59%
Latin America & Caribbean	799	\$7,891	1.01%	\$425,497	55.28%	\$249,964	45.05%
Small Asia	9,320	\$2,613	0.10%	\$809,565	31.38%	\$387,597	33.84%
UK	899	\$5,720	0.54%	\$607,975	58.00%	\$89,311	16.89%
United States	4,883	\$1,031,143	10.77%	\$5,954,801	69.68%	\$1,058,404	15.68%
Global	42,566	\$1,223,365	4.08%	\$12,889,297	44.78%	\$2,947,137	21.63%



CONCLUSION

- When interest rates in the United States and Europe rose strongly in 2022, from decade-long lows, there were two big questions about debt that loomed.
 - The first was **whether companies would pull back from borrowing**, with the higher rates, leading to a drop in aggregate debt.
 - The other was **whether there would be a surge in default rates**, as companies struggled to generate enough income to cover their debt obligations.
- While it is still early, **the data in 2023 and 2024 provide tentative answers to these questions**, with the findings that there has not been a noticeable decrease in debt levels, at least in the aggregate, and that while the number of defaults has increased, default rates remain below the highs that you see during recessions and crises.
- The **key test for companies will remain the economy**, and the question of whether firms have over borrowed will be a global economic slowdown or recession.

