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HIGHLY LEVERAGED FIRMS AND
CORPORATE PERFORMANCE IN DISTRESSED INDUSTRIES

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Abstract

This paper tests the hypothesis that highly leveraged firms operating in distressed industries manage to maintain profitability and sales growth. It is found that this is the case, in the context of a sample of 103 listed firms on the ASE (Athens Stock Exchange). Panel data is used to analyze the relationship between firm performance and leverage. Furthermore it is shown that there is a negative relationship between leverage and firms' stock returns. This can be attributed to investors' expectations, that an increase in leverage is bound to impair future firm profitability.

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