Department of Business and Management

Business Administration

The impact of IFRS 16 on capital structure: a special focus on retail companies

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Abstract:

This thesis investigates the impact of the International Financial Reporting Standard (IFRS) 16 on the capital structure of retail companies. The policy requires lessees to recognize most leases on the balance sheet, fundamentally changing the way companies report obligations. This study focuses on 30 major retail companies, selected for their different market capitalizations. Using data from 2017 to 2020, we analyzed financial data using statistical methods to assess how the adoption of IFRS 16 affected key financial metrics, including debt-to-equity ratios, revenue growth, and interest coverage.

Our findings reveal that firms did not experience a uniform shift in leverage following IFRS 16 implementation, as lease liabilities did not emerge as a significant determinant of capital structure. Instead, revenue growth played the most consistent role in explaining variations in leverage, with firms experiencing lower growth relying more heavily on debt. Interest coverage briefly appeared significant when controlling for firm characteristics, suggesting that debt-servicing capacity is considered in broader financial planning rather than as a primary driver of capital structure adjustments.

This research was inspired by my internship at PwC, where I observed the real-world implications of the policy on corporate financial decisions. By bridging accounting and corporate finance perspectives, this thesis offers valuable insights for investors, creditors, and corporate managers, enhancing their understanding of how IFRS 16 shapes strategic financial outcomes in the retail sector.

Finally, I want to express my deepest gratitude to my thesis supervisor, Professor Berkovitch, for his invaluable guidance and support throughout this research.

To my family, whose exceptional support has been the foundation and reason behind everything I have accomplished. My work and any future success I may achieve are a direct result of their encouragement and sacrifices. I am eternally grateful for their unconditional love, trust, and the invaluable lessons they have imparted, things that, no matter what I do, I will never be able to fully repay, vacnfm.

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Chapter 1: Introduction

The introduction of IFRS 16 in January 2019 marked a fundamental shift in lease accounting, requiring companies to recognize most leases as liabilities on the balance sheet, alongside corresponding right-of-use (ROU) assets. This standard replaced IAS 17, which allowed lessees to classify leases as either finance or operating leases, with the latter remaining off-balance-sheet. With the reform of leasing accounting, the IASB is reacting to the broad criticisms of IAS 17 and is seeking to provide financial statements recipients with a comprehensive and understandable picture of the leasing activities of IFRS users in the future (Toferer, 2018).

This study investigates the impact of IFRS 16 on the capital structure of retail companies, specifically examining how the implementation of IFRS 16 has affected the reported capital structure of retail companies and how company size influence the changes induced by IFRS 16. Understanding these dynamics is crucial, as lease capitalization directly impacts key financial ratios, investor perceptions, and corporate financing decisions.

Under the previous standard, IAS 17, companies recorded operating leases as rental expenses in the income statement without appearing on the balance sheet. This often led to an understatement of financial obligations, distorting key financial ratios and obscuring companies' true leverage and capital structure. IFRS 16 addresses this issue by requiring lease capitalization, which has a substantial impact on financial metrics such as debt-to-equity ratios, EBITDA, and return on assets (ROA). Studies have in fact shown that capitalization of lease obligations can materially affect profitability and financial stability (Beckman & Jervis, 2009; Bennett & Bradbury, 2003; Durocher, 2008; Goodacre, 2003).

The standard also introduces new challenges in lease measurement. Companies must now determine factors such as lease terms, discount rates, and the allocation between lease and non-lease components. These complexities necessitate the use of advanced estimation techniques, which affect both financial reporting and managerial decision-making processes. Retail companies are among the industries most affected by IFRS 16 due to their heavy dependence on real estate leases for stores, warehouses, and distribution centres. In compliance with IFRS 16, capitalization takes place through the present value

of the future cash flows envisaged in the contract, thus making it possible to determine the value of the asset recorded in the Balance Sheet and the total amount of the debt to the leasing company (Giner & Pardo, 2018). This has led to significant increases in reported debt and EBITDA across the sector. For example, a PwC study (PwC, *The new lease standard,* 2016) found that the retail industry experienced a median increase of 98% in reported debt and a 41% rise in EBITDA following IFRS 16 implementation. In Italy, Assilea (2018) reported that companies signed 684,000 new leasing contracts in 2017, representing a 10% increase from the previous year and a total contract value exceeding €26.6 billion. Prior studies suggest that the standard increases reported liabilities and reduces ROA due to higher asset values, whereas profitability measures such as return on equity (ROE) remain relatively unaffected (Secinaro et al., 2020). These financial impacts are particularly pronounced in the retail sector due to its reliance on leasing, as discussed in the following section.

While existing research has examined the broader implications of IFRS 16, sector-specific analyses remain limited. However, most analyses either focus on small and medium enterprises (SMEs) or provide a general industry perspective without isolating the retail sector's unique characteristics.

This research aims to fill that gap by investigating how IFRS 16 has reshaped the financial profiles of retail companies. Although the policy was primarily designed to improve transparency, its broader implications extend to strategic decisions such as lease-versus-buy considerations and credit evaluations. Through this focus on sector-specific impacts, this thesis bridges a critical gap in existing research and explores the interplay between lease intensity and financial outcomes.

To achieve these objectives, this thesis first presents a literature review examining existing research to establish the theoretical and empirical foundation for IFRS 16. The methodology section explains data collection, sample selection, and the regression models used to investigate the research questions. The empirical analysis then assesses financial metrics before and after IFRS 16 implementation, focusing on capital structure changes. The discussion of findings interprets the results and compares them with prior studies. This leads to the conclusion, which summarizes the results, outlines the study's

limitations, and offers recommendations for future research. By systematically addressing these areas, this thesis provides a comprehensive evaluation of IFRS 16's impact on the capital structure of retail companies.

Before providing detailed definitions and measurements of these variables later in the thesis, we outline here our theoretical expectations, and why each outcome might not unfold as anticipated. In line with standard finance theory, we anticipate Lease Liabilities / Total Assets to exhibit a positive association with leverage because capitalizing leases under IFRS 16 inherently raises reported liabilities and thus inflates the debt-to-equity ratio. Yet this effect could be tempered if companies proactively alter other borrowing arrangements or if market participants discount lease debt differently from traditional loans. Similarly, Interest Coverage Ratio is expected to have a negative relationship to leverage, as firms with higher debt-servicing capacity typically rely less on external financing. Nonetheless, some companies with robust interest coverage could still pursue additional debt to finance expansions, especially if they secure favorable rates, potentially obscuring this negative link. Turning to Revenue Growth, we anticipate a negative coefficient, since high-growth firms often reinvest profits and attract equity investors, reducing their need for debt. However, rapid expansion can also require large capital outlays that surpass available internal funds, compelling growth-oriented businesses to temporarily increase leverage and thus challenging the expected negative impact. For the control variables, we predict a positive coefficient for EPS, because more profitable entities may appear lower risk and can sustain higher leverage. At the same time, profitable firms might prefer to minimize debt by drawing on retained earnings to avoid the costs and risks of external financing. We also expect a negative association between Firm Size and leverage, since larger companies benefit from scale and reputational advantages that reduce their reliance on debt. Still, some large firms may leverage their strong market position to negotiate large debt packages at attractive rates, pushing in the opposite direction. Finally, a significantly positive interaction term ($Xi \times IFRSi$) would suggest that IFRS 16 amplifies these relationships post-adoption, consistent with a regulatory effect that reinforces firms' use of lease liabilities. Yet if companies swiftly adapt, by renegotiating lease terms or communicating changes transparently, this

interaction might prove weaker than predicted, introducing further uncertainty about how IFRS 16 really shapes capital structure decisions.

Chapter 2: Literature review

2.1 Overview of IFRS 16 and its general impacts

IFRS 16 took effect on January 1, 2019, replacing IAS 17 to address inconsistencies in lease accounting. Under IAS 17, companies classified leases as either operating or finance leases, with operating leases remaining off-balance-sheet. This approach often led to financial misrepresentation, as economically similar transactions could be accounted for differently, masking companies' true financial commitments. To resolve these issues, the IASB introduced IFRS 16, enhancing comparability and ensuring that financial statements reflect the economic substance of leasing transactions rather than their legal form (Săcărin, 2017). Furthermore, research suggests that IFRS 16 reduces information asymmetry between management and external stakeholders, improving market perception and investor confidence (Henrikhaugen & Åbelvold, 2023).

While IFRS 16 has brought significant changes to lease accounting, its real-world effectiveness remains underexplored in the context of its intended objectives. From the perspective of investors, the additional visibility into lease obligations has improved their ability to assess companies' financial health. Yet, the increase in disclosures has also led to concerns about "disclosure overload," which may obscure other critical financial information. Similarly, while IFRS 16 has improved comparability across entities, the inherent subjectivity in judgments related to discount rates and lease terms introduces variability that undermines consistency. On the operational side, many organizations may have faced challenges in adopting the standard, including costly IT system upgrades and extensive staff training, particularly for smaller entities where compliance costs can outweigh the benefits.

IFRS 16 has significantly reshaped financial metrics and capital structures, particularly in lease-intensive industries such as retail and airlines. The most prominent impact is on leverage ratios, as lease liabilities, are now recognized as financial debt, increasing debt-to-equity and total debt-to-assets ratios (Lopes & Penela, 2025; Magli et al., 2018). This shift alters creditworthiness perceptions, subjecting firms to greater investor scrutiny and potentially increasing borrowing costs (Stancheva-Todorova & Velinova-Sokolova,

2019). Profitability metrics have also undergone significant changes. EBITDA shows artificial improvements due to the reclassification of lease expenses as depreciation and interest, rather than operating costs. However, ROA declines because total assets inflate with the inclusion of right-of-use (ROU) assets, distorting traditional profitability comparisons. IFRS 16 also affects cash flow reporting, shifting lease payments from operating to financing activities. While operating cash flows increase, financing cash flows decrease, requiring adjustments in financial modelling. The cumulative impact of these changes compels businesses to reassess financing strategies, balancing lease obligations against long-term capital structure considerations.

The retail sector, along with hospitality, transportation, and tourism, stands out as one of the most heavily impacted industries by IFRS 16 due to its substantial reliance on leased real estate (Chatfield et al., 2017). Retailers often use leases as a strategic financial tool, offering flexibility and enabling the rapid scaling of operations without the heavy capital outlay associated with property ownership. However IFRS 16 redefined the financial advantages of leasing, and this transformation has significant implications for financial health perceptions and creditworthiness. The challenges of implementing the policy in the retail industry are compounded by the unique characteristics of retail leases. Many of them include complex provisions, such as variable payments tied to sales performance or indices like the consumer price index (CPI). These elements introduce additional complexity when estimating lease liabilities, as they require frequent reassessment to account for fluctuations in payment terms. The increased transparency brought about by IFRS 16 has also influenced the strategic decisions of retail companies. Retail firms face unique risks, including increased borrowing costs and potential credit rating downgrades, due to their high lease intensity. These shifts are particularly critical for retail companies with thin profit margins, as higher debt levels may constrain their ability to secure favorable financing terms for future expansions or investments. Despite these challenges, IFRS 16 has been lauded for providing a more accurate representation of a retailer's financial obligations, enabling stakeholders to make more informed assessments.

2.2 Adapting to IFRS 16, transition and strategic decisions

The transition to IFRS 16 has required significant adjustments for companies that previously reported leases under IAS 17, facing the challenge of managing not only their balance sheets but also their operational strategies. Empirical findings indicate that IFRS 16 improves value relevance in countries with lower investor protection, where stakeholders gain more informative insights from the increased visibility of lease liabilities and right-of-use assets (Henrikhaugen & Åbelvold, 2023).

One approach some companies have taken is renegotiating lease contracts. With the new standard, companies may seek to shorten lease terms, reduce the scale of leased assets, or negotiate better terms that are more aligned with the capitalizing requirements of IFRS 16, minimizing the impact on their balance sheet and, thus, on their debt ratios and financial covenants. Another strategy involves selling off leased properties or shifting to ownership of assets. This allows companies to remove leased assets from their books, replacing them with owned assets that are subject to depreciation rather than lease liabilities. This shift could reduce the immediate impact of IFRS 16 on a company's reported liabilities and increase its tangible asset base. However, this strategy requires careful financial analysis to ensure that the long-term benefits outweigh the costs.

Additionally, some companies are utilizing technology-driven solutions to manage their lease portfolios more efficiently. These are tools that track lease details, automate compliance reporting, and simulate the financial impacts of various leasing scenarios, and are becoming increasingly important.

Ultimately, how companies manage the transition depends on their specific circumstances, including the size and complexity of their lease portfolios and their financial position. Those with large, complex leasing arrangements may face more significant challenges than companies with fewer leases. One of the most significant corporate finance implications of IFRS 16 is its influence on strategic decisions related to leasing. The new standard compels companies to reevaluate their lease-versus-buy strategies, as leasing now results in the recognition of liabilities comparable to traditional financing. This shift could incentivize companies to favor ownership over leasing to maintain a more suitable debt profile. Two main theories guide leasing decisions: pecking order theory and trade-off theory. According to Myers and Majluf (1984), pecking order

theory suggests that firms prioritize internal financing, followed by debt, and finally equity, with leasing providing flexibility; however, IFRS 16 reduces this by capitalizing leases. In contrast, trade-off theory weighs the tax benefits of debt against financial distress costs, prompting firms to reassess leasing strategies due to increased reported liabilities under IFRS 16 (Chen, 2011; Quan, 2002; Mazur, 2007). However, such decisions also depend on other operational factors, such as flexibility, cost efficiency, and scalability, which leasing traditionally offers.

2.3 Illusion of improvement and perception on debt

As one study conducted by EY in 2019 suggests, one of the most significant challenges introduced by IFRS 16 is the illusion of improvement in certain financial metrics. Companies with significant leasing activities could report lower debt levels and higher operating income, which often gave investors a misleading view of their financial health. This change in reporting has proved misleading for some market participants who rely heavily on traditional ratios. Empirical findings suggest that analysts often interpret the inflated EBITDA as an improvement in core operations, even when it reflects mere accounting reclassification (Henrikhaugen & Åbelvold, 2023). Likewise, the now-visible lease liabilities can trigger higher perceived debt burdens among investors, despite the underlying economics of the leases remaining largely unchanged. Valuation models must be adjusted to account for these changes, recognizing that the restructured metrics may not always provide an accurate picture of a company's operational performance or financial risk.

2.4 The future of IFRS 16: long term implications

Although early academic and industry analyses of IFRS 16 primarily emphasized its immediate financial and reporting effects, particularly on key ratios and balance sheet composition (Morales-Díaz & Zamora-Ramírez, 2018; KPMG, 2016), there is now a growing focus on its long-term implications for leasing strategies, corporate behavior, and market practices. For instance, companies are increasingly adapting their real estate

decisions in response to shifting market conditions and the structural impact of IFRS 16, opting for flexible office spaces and shorter lease terms to better align liabilities with operational needs (Deloitte, 2024). These developments suggest that IFRS 16 is not only reshaping financial disclosures but also influencing broader strategic decision-making. As a result, key financial metrics, such as debt-to-equity ratios, may evolve in relevance, prompting investors to adapt their valuation benchmarks and gradually shifting market expectations.

Chapter 3: Methodology

3.1 Research approach and sampling strategy

This thesis examines the impact of IFRS 16 on the capital structure of retail companies, specifically how lease capitalization affects financial metrics and whether company size influences these changes. To answer this, the study analyzes financial data from publicly listed retail firms before and after IFRS 16 implementation, using regression analysis to assess variations in key indicators such as debt-to-equity ratios, interest coverage, and revenue growth. A quantitative methodology is used, allowing for statistically validated conclusions about IFRS 16's impact on financial metrics while ensuring objectivity and replicability. Unlike qualitative research, which relies on subjective interpretations, this approach enables an evidence-based assessment of financial adjustments following lease capitalization. The sample consists of 30 publicly listed retail firms, covering the four-year period from 2017 to 2020 to facilitate a pre- and post-IFRS 16 comparison. This timeframe ensures that IFRS 16's adoption in 2019 can be assessed without distortions from external economic shocks, such as the COVID-19 pandemic. We chose the retail sector due to its heavy reliance on lease agreements, which prior research identifies as one of the most affected industries by IFRS 16 adoption (Morales-Díaz & Zamora-Ramírez, 2018).

3.2 Data collection and analysis

The study relies on secondary data sources, primarily financial reports obtained from LSEG Refinitiv Workspace and company websites. The key financial statements analyzed include balance sheets to extract lease liabilities, total assets, and debt-related metrics, income statements to assess revenue growth and interest coverage ratios, and cash flow statements to cross-verify the impact of IFRS 16 on financial operations. We cross-verified data from Refinitiv with original financial reports to maintain consistency. We excluded companies with significant gaps in reporting from the sample, and we assessed extreme values to determine whether they should be included or removed to avoid skewed

results. These measures ensured a high degree of reliability in the dataset. We chose only public companies to facilitate access to their financial information.

We conducted a descriptive statistical analysis on key financial variables to provide an initial understanding of the dataset. We performed a mean comparison analysis between the pre- and post-implementation periods to assess IFRS 16's impact. This allowed for a direct measurement of financial shifts following IFRS 16 adoption. Additionally, we used a correlation heatmap to identify interdependencies among variables, ensuring that multicollinearity was addressed before proceeding with regression analysis.

3.3 Statistical methods

To assess the impact of IFRS 16 on firms' capital structures, this study employs Ordinary Least Squares (OLS) regression models on Python, progressively increasing in complexity to account for different financial determinants. The dependent variable in all models is the debt-to-equity ratio, a widely used measure of leverage that reflects a firm's reliance on debt financing relative to its equity base. The primary explanatory variable in the model is Lease Liabilities to Total Assets, which serves as the direct measure of IFRS 16's impact. IFRS 16 effectively increases reported liabilities, which could, in turn, alter leverage ratios. However, the extent to which this change affects a firm's financial position depends on several factors, including existing debt levels, access to alternative financing, and industry-specific dynamics. Prior research (Fülbier et al., 2008) highlights that lease obligations play a crucial role in shaping capital structure, particularly for firms in lease-intensive industries, reinforcing the importance of firm-specific characteristics in determining the extent of IFRS 16's effects. We incorporated Interest Coverage Ratio to account for firms' ability to service debt, as stronger cash flow positions typically correlate with lower reliance on external financing. Additionally, we introduced Revenue Growth percentage to capture the potential impact of firm expansion on financing decisions. Growth-oriented firms often exhibit different capital structures, as they may require additional funding for expansion or may generate higher retained earnings, thereby reducing the need for external debt. Since financial ratios such as indebtedness,

financial autonomy, and current liquidity have shown statistically significant changes post-IFRS 16 implementations (Fülbier et al., 2008; Giner et al., 2019), we deemed them as the best metrics to work on. Prior studies have indeed found that lease capitalization significantly increases reported assets and liabilities, often altering financial ratios by 9% to 28% (Morales-Díaz & Zamora-Ramírez, 2018). By incorporating these variables, the analysis aims to capture how IFRS 16 affects firms' financial decisions and leverage management.

The first regression model provides a baseline analysis of how each independent variable individually relates to leverage. The equation is formulated as:

1) $$Y_i = \beta_1 X_i + \epsilon_i$$

Yi represents the Debt-to-Equity Ratio (the dependent variable), Xi is one of the three independent variables (Lease Liabilities/Total Assets, Revenue Growth, or Interest Coverage Ratio) and ϵi is the error term. This model isolates the direct relationship between leverage and each financial variable, allowing for a fundamental assessment of how capital structure interacts with lease obligations, firm performance, and debt-servicing capacity.

To refine the analysis, a second model incorporates additional firm-specific controls that may influence capital structure decisions.

2) $$Y_i = \beta_1 X_i + \beta_2 EPS_i + \beta_3 Size_i + \epsilon_i$$

This expanded model acknowledges that firms' leverage decisions are shaped not only by lease liabilities and revenue growth but also by earnings capacity and scale effects. Larger firms generally have greater access to credit markets, while firms with higher profitability may opt for internal financing rather than increasing debt. To ensure diversity in financial structures, we initially grouped firms into three categories based on market capitalization (small, medium, and large) to facilitate the analysis of financial trends and descriptive insights. We categorized firms with a market capitalization below €2 billion as small, those between €2 billion and €10 billion as medium, and those exceeding €10 billion as large. However, while this categorization was useful for descriptive and trend analysis, the regression models employed the natural logarithm of market capitalization as a

continuous variable to ensure a more precise and scalable representation of firm size in statistical analyses. This dual approach allows for an intuitive comparison of how firms with different capital structures evolved over time, while ensuring that regression analyses account for size effects in a methodologically robust manner without imposing rigid classification boundaries. EPS (Earnings per Share) accounts for firms' profitability, as higher earnings may reduce the need for debt financing. Firm size, measured as the natural logarithm of market capitalization (in millions of €), provides a continuous and scalable measure of firm size. By including these controls, the second model accounts for structural differences across firms that might influence how IFRS 16 affects leverage.

The third model introduces an interaction term to explicitly examine whether IFRS 16 modifies the relationship between financial variables and leverage. IFRSi is a binary variable, taking the value 0 for the pre-IFRS 16 period (2017-2018) and 1 for the post-IFRS 16 period (2019-2020). (Xi × IFRSi) represents an interaction term, capturing whether the effects of the independent variables change after IFRS 16 adoption. This model allows for an explicit differentiation between pre- and post-IFRS 16 financial behavior. If IFRS 16 significantly impacts leverage, the interaction term should yield a statistically significant coefficient, indicating that firms adjust their financial strategies following lease capitalization. The inclusion of firm size and earnings ensures that the model remains robust, controlling for structural factors that might confound the observed effects.

3) $$Y_i = \beta_1 X_i + \beta_2 IFRS_i + \beta_3 (X_i \times IFRS_i) + \beta_4 EPS_i + \beta_5 Size_i + \epsilon_i$$

These three regression models progressively build upon each other, enabling a stepwise investigation into IFRS 16's impact on capital structure. The first model establishes fundamental relationships, the second model introduces firm-level financial controls, and the third model assesses whether IFRS 16 alters these relationships over time. By structuring the analysis in this way, the study provides a comprehensive evaluation of how IFRS 16 interacts with firms' financial structures, ensuring that observed effects are not merely the result of firm size, earnings, or industry-wide financial trends.

3.4 Ethical considerations and limitations

Since the study exclusively uses publicly available financial data, no ethical concerns are present. The research does not involve human participants, confidential information, or proprietary datasets requiring special permissions. Despite its structured approach, the study has inherent limitations. One constraint is the limited scope of metrics, as the analysis includes only a few financial variables, which may not fully capture IFRS 16's broader impact. The study relies solely on a quantitative approach, excluding qualitative insights such as managerial decisions or strategic adaptations to IFRS 16. We did not consider individual company events and macroeconomic influences which may affect the interpretation of results. Another limitation lies in the sector-specific focus, as the research does not compare IFRS 16's effects across different industries, restricting cross-sectoral insights. The sample size, consisting of thirty companies over four years, provides a reasonable dataset, but expanding it could yield more generalizable conclusions. However, this limitation was necessary to maintain focus within the thesis's scope. Furthermore, differences in IFRS adoption speed or interpretation across companies may introduce inconsistencies in the findings.

Chapter 4: Data analysis

4.1 Descriptive statistics and key metrics

To provide an initial understanding of the dataset used in this study, descriptive statistics in graph 1 summarize the key financial metrics examined. These include Lease Liabilities/Total Assets, Debt-to-Equity Ratio, Interest Coverage Ratio, and Revenue Growth. The dataset consists of 120 observations covering the 30 selected retail companies over the years 2017-2020, offering insight into financial patterns and implications following the adoption of IFRS 16.

The Lease Liabilities/Total Assets ratio is defined as the share of total assets financed through lease obligations, highlighting a firm's reliance on leasing. IFRS 16 increases this ratio by recognizing leases on the balance sheet. The metric has a mean of 0.160 (16.0%), indicating that, on average, lease liabilities account for 16.0% of total assets across firms. The standard deviation of 0.200 (20.0%) suggests notable variability, with some firms carrying significantly higher lease obligations. The median value of 0.095 (9.5%) and 25th percentile of 0.006 (0.6%) suggest that many companies maintain relatively low lease liabilities. However, the 75th percentile of 0.241 (24.1%) highlights a subset of firms that rely more heavily on leasing, suggesting a non-uniform distribution of lease exposure across the sample.

The Debt-to-Equity Ratio is defined as the measure of a firm's financial leverage calculated by dividing total debt by total equity, indicating how a company finances its assets through debt versus equity. The metric has a mean of 0.904, indicating that, on average, firms finance operations with 90.4% debt relative to equity. The standard deviation of 2.519 reflects significant disparities in leverage across firms. The median value of 0.564, along with an interquartile range of 0.316 to 1.246, suggests that while most firms maintain moderate leverage, a few firms operate with particularly high debt levels, which may have financial risk implications.

The Interest Coverage Ratio is defined as the measure of a firm's ability to cover interest expenses with operating income (EBIT/Interest Expense). Higher ratios reflect stronger debt-servicing capacity. The metric shows a mean of 29.473, suggesting that firms, on

average, generate profits that cover 29 times their interest expenses. However, the standard deviation of 79.163 indicates substantial variation, with some firms facing challenges in meeting debt obligations while others maintain robust financial flexibility. The median value of 9.857 and interquartile range (5.110 to 21.500) illustrate that most firms exhibit reasonable interest coverage, though some outliers significantly influence the distribution.

The Revenue Growth rate is defined as the rate of increase in total revenues divided by total revenues from the same period in the previous year. The metric has a mean of 2.187%, indicating modest overall growth across the sample. The high standard deviation of 15.862% reveals considerable variability in revenue trajectories. The median revenue growth rate of 3.222% and interquartile range (-2.704% to 8.819%) show that while many firms experience positive growth, others report revenue declines, possibly influenced by operational strategies, market conditions, or macroeconomic factors.

4.1.1 Key takeaways

The findings reveal that most firms maintain moderate lease obligations, though a subset relies more heavily on leasing, leading to variability in financial structures. The Debt-to-Equity ratio varies significantly across firms, with some displaying high leverage, highlighting different risk profiles in capital structure. Similarly, the Interest Coverage Ratio demonstrates substantial dispersion, as while most firms maintain reasonable debt coverage, some face financial distress, emphasizing the financial disparity within the sample. Lastly, Revenue Growth rates differ considerably, reflecting diverse strategic approaches and market conditions that influence firms in the retail sector.

4.2 Impact of IFRS 16 on key financial metrics

Table 2 shows a comparative analysis conducted between the pre-IFRS 16 (before 2019) and post-IFRS 16 (2019 onward) periods to assess the impact of IFRS 16 on financial metrics. The findings indicate a substantial increase in Lease Liabilities/Total Assets, which rose from an average of 8.9% pre-IFRS 16 to 23.2% post-IFRS 16, reflecting a 14.4 percentage point increase. This change is statistically significant, as evidenced by

the t-test value of -4.2, confirming that IFRS 16 led to a notable rise in reported lease obligations. In contrast, the Debt-to-Equity Ratio increased from 0.675 to 1.132, suggesting a higher reliance on debt financing, though the change was not statistically significant (t-test: -0.993), indicating that IFRS 16's impact on leverage remains inconclusive. We can observe a more pronounced effect in the Interest Coverage Ratio, which declined sharply from 44.196 to 14.752, representing a drop of 29.443. The statistical significance (t-test: 2.065) indicates that IFRS 16 likely contributed to this decline, though variations in profitability and debt management strategies across firms may also play a role. Similarly, Revenue Growth declined from an average of 4.806% pre-IFRS 16 to -0.431% post-IFRS 16, a decrease of 5.237 percentage points, with a t-test value of 1.826, suggesting a moderately significant negative impact on revenue performance. These results highlight IFRS 16's material influence on firms' financial structures, increasing lease obligations, altering leverage dynamics, and potentially straining profitability and revenue growth.

4.3 Correlation matrix analysis

The correlation matrix in table 3 provides insight into the relationships among key financial metrics, offering a preliminary understanding of how IFRS 16 may have influenced firms' financial structures. The correlation between Lease Liabilities/Total Assets and Debt-to-Equity Ratio is at 0.03, indicating a negligible relationship. This suggests that firms with substantial lease liabilities do not necessarily experience a proportional increase in overall leverage. One possible explanation is that companies strategically adjust their capital structures to offset the impact of lease capitalization, treating lease obligations differently from traditional debt. Stancheva-Todorova & Velinova-Sokolova (2019) found that firms with higher lease liabilities often restructure other forms of debt, using leasing as a flexible financing mechanism, potentially explaining the weak correlation observed in our analysis.

The relationship between Lease Liabilities/Total Assets and Interest Coverage Ratio is weakly negative (-0.09), suggesting that firms with higher lease obligations tend to have

slightly lower interest coverage. While this aligns with the expectation that increased financial burdens from lease liabilities could reduce firms' ability to cover interest expenses, the weak correlation implies that profitability levels vary significantly across firms. Some firms may be able to absorb the added lease-related costs without a substantial decline in interest coverage, particularly if they generate strong operating profits.

Similarly, the correlation between Debt-to-Equity Ratio and Interest Coverage Ratio is -0.09, reflecting a weak inverse relationship. This suggests that, in general, firms with higher leverage exhibit lower interest coverage, consistent with financial theory. Although the relationship is not strong, it underscores the tendency of more indebted firms to have a slightly reduced ability to meet interest obligations, likely due to the higher financial burden associated with increased debt levels. The correlation between Revenue Growth and Interest Coverage Ratio is also 0.09, indicating a weak but positive relationship. This suggests that firms experiencing higher revenue growth may have slightly stronger interest coverage, potentially due to improved earnings that provide greater flexibility in meeting financial obligations. However, the low correlation magnitude suggests that this relationship is not substantial and may be influenced by firm-specific factors rather than a direct causal link. Firms with higher revenue growth might not necessarily have proportionally higher profits if operational costs or financial strategies offset earnings improvements.

Finally, Revenue Growth exhibits weak correlations with the other financial metrics. The correlation between Revenue Growth and Debt-to-Equity Ratio is -0.14, suggesting that firms with higher debt levels tend to experience slightly lower revenue growth. This could indicate that increased leverage places financial constraints on expansion or that firms with declining revenue may turn to debt financing as an alternative source of capital. Meanwhile, the correlation between Revenue Growth and Lease Liabilities/Total Assets is -0.03, showing no meaningful relationship, which suggests that leasing decisions do not correspond to revenue fluctuations.

4.4 Trends and firm specific impact of IFRS 16

As shown in graph 1, we built a plot of the evolution of key financial indicators over time; to facilitate interpretation and comparison the data has been normalized using the z-score method, which transforms each variable by subtracting the mean and dividing by the standard deviation. This normalization minimizes conflicts arising from differing measurement scales across the variables.

According to graph 2, the Interest Coverage Ratio shows a sharp and consistent decline for large firms post-2018, indicating a significant reduction in their ability to cover interest expenses. Medium and small firms exhibit a more stable trend, though with a slight decrease over time. Medium-sized firms experienced a more pronounced decline after 2019, likely due to their greater sensitivity to liquidity constraints. With less access to capital than larger firms, they may have prioritized cash flow preservation to meet debt obligations. The overall trend suggests that firms pre-emptively adjusted financial strategies to mitigate the impact of lease capitalization, as evidenced by the relatively stable trend for small firms.

As evidenced by graph 3, the Debt-to-Equity Ratio highlights a dramatic surge in leverage for small firms starting in 2019, while medium and large firms show moderate and steady increases. The sharp increase for small firms suggests lease capitalization had a stronger impact on their capital structure, possibly due to limited financing options or lower pre-existing debt levels. However, at the aggregate level, leverage ratios remained largely unaffected, aligning with regression findings. This suggests firms adjusted their capital structures to offset the impact of lease liabilities.

The Revenue Growth Percentage graph demonstrates substantial variability across firm sizes. Large firms peaked in 2019 before a sharp decline, while medium firms maintained moderate growth and small firms showed near-zero or negative growth. This fluctuation suggests that larger firms saw temporary expansion opportunities but later faced setbacks due to market conditions and operational restructuring post-IFRS 16. The increased lease obligations may have impacted financial flexibility, influencing firms' strategic financial decisions.

The Lease Liabilities to Total Assets graph shows a steady rise across all firm sizes, with small firms having the highest lease liabilities relative to assets. The peak in 2019 coincides with the full IFRS 16 implementation. Although lease liabilities stabilized for small firms post-2019, large firms saw a slight decline, possibly reflecting strategic balance sheet adjustments. The trends confirm that smaller firms rely more heavily on leasing, shaping their financial profiles and long-term strategies. Firms in lease-intensive industries likely took proactive measures to maintain financial stability, highlighting that IFRS 16's impact varies based on firm characteristics and strategic behavior, rather than being solely driven by accounting adjustments.

4.5 Regression analysis of key financial determinants

As shown in table 4, the Lease Liabilities/Total Assets coefficient does not show statistical significance across any of the three regression models, indicating that lease obligations do not have a strong explanatory power in relation to the dependent variable. While Model (1) reports a positive coefficient of 0.415, its lack of significance suggests that any observed effect could be due to noise rather than a meaningful relationship. When controlling for firm-specific factors in Model (2), the coefficient turns slightly negative at -0.146 yet remains statistically insignificant. In Model (3), which includes interaction effects, the coefficient increases to 0.215 but still does not reach significance. These findings suggest that the inclusion of lease liabilities in capital structure models does not yield a consistent or robust relationship with the dependent variable, possibly due to firms' strategic adjustments in financing decisions following IFRS 16 implementation. The adjusted R^2 values across the models also indicate that Lease Liabilities/Total Assets contributes minimally to explaining variations in the dependent variable, reinforcing the notion that leasing decisions may not directly influence firms' broader financial structures in a statistically meaningful way.

According to table 5, the Interest Coverage Ratio exhibits a weak negative relationship with the dependent variable, with its coefficients progressively decreasing across the models. In Model (1), the coefficient of -0.003 is statistically insignificant, suggesting

that interest coverage alone does not provide meaningful explanatory power. However, in Model (2), which controls for additional firm characteristics, the coefficient reaches statistical significance at the 5% level (-0.001), indicating that firms with higher interest coverage tend to have lower values of the dependent variable when accounting for firm size and earnings. This effect weakens slightly in Model (3), where the coefficient moves to -0.002 but loses statistical significance. The decline in explanatory power in the interaction model suggests that while interest coverage has some predictive capability, its impact is sensitive to firm-specific factors and does not independently drive variations in the dependent variable. The adjusted R^2 values remain relatively stable across the models, reinforcing the idea that interest coverage plays a secondary role in explaining the financial dynamics under IFRS 16.

As evidenced by table 6, the Revenue Growth variable demonstrates the most consistent and statistically significant relationship with the dependent variable across the three regression models. In Model (1), the coefficient of -0.021 is significant at the 10% level, indicating a weak negative relationship. When we introduce firm controls in Model (2), this effect strengthens to -0.026, with statistical significance at the 5% level, suggesting that declining revenue growth is more closely associated with the dependent variable when we consider for firm-specific characteristics. In Model (3), which includes interaction effects, the coefficient further declines to -0.031, though its significance weakens slightly. The consistently negative coefficients across all models suggest that revenue contraction is associated with the dependent variable, potentially indicating that firms experiencing lower revenue growth face greater financial pressures post-IFRS 16. Moreover, the relatively higher adjusted R^2 values in these regressions suggest that revenue growth explains a meaningful portion of the variation in the dependent variable, making it a more relevant predictor compared to lease liabilities and interest coverage.

To further examine the role of firm-specific characteristics and the moderating effect of IFRS 16, table 7 presents the regression coefficients for EPS, firm size, and the interaction term ($Xi \times IFRSi$). As expected, EPS demonstrates a strong and statistically significant positive relationship with the dependent variable across Models (2) and (3), indicating that higher profitability is associated with lower leverage, as firms with greater earnings

rely less on external financing. Firm size exhibits a negative and significant relationship with leverage, suggesting that larger firms maintain more conservative capital structures. The interaction term (Xi × IFRSi) in Model (3) is positive but statistically insignificant, implying that the effect of lease liabilities on capital structure remains relatively stable before and after IFRS 16 implementation. These results reinforce the notion that firm-specific characteristics play a crucial role in shaping financial structures, often mitigating the direct impact of lease capitalization on leverage.

Chapter 5: Discussion of findings

5.1 The Impact of IFRS 16 on capital structure and financial determinants

From our results we can observe that the implementation of IFRS 16 has not led to a uniform increase in leverage among firms, likely due to proactive financial adjustments made to counterbalance the recognition of lease liabilities on the balance sheet. Instead of experiencing a direct shift in capital structure, companies may have adapted their financing strategies to maintain financial flexibility. This could involve reducing other forms of debt to offset the impact of lease capitalization or renegotiating lease agreements to align with operational and financial goals. Additionally, firms with stronger financial positions may have absorbed the effects without significant restructuring, while others might have adjusted their expenditure or liquidity management to mitigate perceived financial strain. The relatively low explanatory power of lease obligations in predicting leverage changes suggests that businesses prioritize broader financial strategies over accounting adjustments when making capital structure decisions. Ultimately, the adoption of IFRS 16 appears to have reinforced the need for firms to actively manage their financial policies, whether by diversifying funding sources, optimizing cost structures, or reassessing long-term investment and operational strategies.

5.2 Financial performance metrics and adjustments

Interest coverage plays a complex role in capital structure decisions, with results varying across the regression models. In Model (1), interest coverage exhibits a negative but insignificant effect, indicating that firms with higher interest coverage ratios do not necessarily reduce their reliance on debt financing. However, in Model (2), the coefficient becomes statistically significant at the 5% level, suggesting that when we control for firm characteristics, higher interest coverage is associated with lower leverage. This relationship weakens in Model (3), where the coefficient remains negative but loses significance, implying that interaction effects do not enhance its explanatory power. The findings suggest that firms may incorporate debt-servicing capacity considerations when structuring their capital, but this influence is not strong enough to remain consistent across

different specifications. The stable adjusted R^2 values indicate that while interest coverage adds some explanatory power, it is not the primary determinant of leverage, and its effect is contingent on firm-specific financial strategies.

Revenue growth demonstrates the most consistent and statistically significant relationship with the dependent variable across all models. The negative coefficients across Model (1), Model (2), and Model (3) suggest that firms with lower revenue growth tend to have higher leverage, potentially reflecting financial pressures that drive reliance on external financing. The statistical significance strengthens in Model (2), indicating that after controlling for firm size and earnings, the relationship becomes clearer. However, in Model (3), where we introduce interaction terms, the coefficient remains negative, but its significance slightly weakens, suggesting that additional factors might mediate this effect. The higher adjusted R^2 values in these models indicate that revenue growth serves as a meaningful predictor of leverage, reinforcing the notion that firms experiencing lower growth are more likely to depend on debt, either due to constrained cash flows or the need to sustain operations during periods of stagnation. These results emphasize the importance of revenue trends in shaping financial policies, particularly in environments where lease obligations and interest coverage do not exert a dominant influence.

5.3 Key takeaways

As we can see from our findings, a mix of revenue trends, debt management practices, and broader financial strategies shape capital structure decisions rather than IFRS 16 alone. Lease liabilities did not show a significant impact on leverage, indicating firms may have proactively adjusted financing strategies to absorb lease capitalization effects. Interest coverage exhibited a moderate but inconsistent relationship with leverage, suggesting that firms consider debt-servicing capacity as part of broader financial planning rather than as a standalone factor. Revenue growth, on the other hand, showed the strongest and most consistent correlation with leverage, reinforcing the idea that firms with lower revenue growth depend more on external financing. These findings underscore the importance of financial performance in shaping capital structures and highlight that

IFRS 16 acts as a financial reporting adjustment rather than a fundamental driver of financing choices.

5.4 Recommendations for future research

This study provides valuable insights into the impact of IFRS 16 on capital structure by analyzing key financial determinants through multiple regression models. However, several avenues for future research remain to address the study's limitations and further enhance understanding of the topic. A primary limitation is the scope of the dataset. Expanding the sample size would improve the generalizability of findings and allow for a more comprehensive assessment of firms' financing decisions. Extending the time horizon to include additional pre- and post-implementation years could also reveal longer-term trends and potential lag effects in capital structure adjustments. Beyond dataset considerations, future research could explore firms' behavioral and strategic responses to IFRS 16. Examining whether companies renegotiate lease agreements or adjust their financing strategies in response to the new standard would provide deeper insights into managerial decision-making. A comparative analysis between IFRS 16 and alternative frameworks, such as US GAAP, could further illuminate regulatory impacts on multinational firms, particularly regarding differences in lease accounting and financial disclosure requirements. Additionally, incorporating macroeconomic variables, such as interest rate fluctuations and credit market conditions, could provide a broader perspective on how IFRS 16 interacts with external financial environments. Finally, supplementing quantitative research with qualitative methods, such as interviews with finance professionals or case studies, would help uncover the strategic motivations behind financial decisions, offering explanations beyond numerical data. These approaches could contribute to a more holistic understanding of IFRS 16's broader implications on corporate financial management.

Chapter 6: Conclusion

This thesis investigates the impact of IFRS 16 on the capital structure of retail firms by analyzing how companies adjust their financial strategies in response to lease capitalization. The introduction of IFRS 16 represents a fundamental shift in financial reporting, increasing transparency by eliminating off-balance-sheet financing for operating leases. This change has significant implications for capital structure management, particularly concerning leverage, interest coverage, and revenue growth. By evaluating these key financial metrics through regression analysis across three models, this study provides a detailed assessment of how firms navigate financing decisions under the new regulatory framework. The analysis is based on financial data from 30 publicly listed retail firms between 2017 and 2020, covering both the pre- and post-IFRS 16 periods. Regression models assess variations in the debt-to-equity ratio, with lease liabilities, revenue growth, and interest coverage as independent variables. The findings indicate that IFRS 16's impact on capital structure is limited and highly dependent on firms' financial strategies rather than being a uniform regulatory effect. Although we initially anticipated that capitalizing leases would significantly increase leverage, the results showed no meaningful relationship, suggesting companies may have offset lease liabilities through other financing adjustments. Interest coverage shows a moderate relationship with leverage, becoming statistically significant in the second model, where we control for additional firm characteristics, but loses strength when we introduce interaction effects.

Meanwhile, the strong, negative link between revenue growth and leverage confirms our prior prediction that lower-growth firms would rely more heavily on debt, underlining the importance of earnings trajectories in shaping financing decisions. These results highlight that IFRS 16's influence on financial structure is intertwined with broader corporate financing strategies rather than being an isolated determinant. The findings align with prior literature emphasizing firms' ability to anticipate and mitigate the effects of accounting reforms. Studies such as Morales-Díaz and Zamora-Ramírez (2018) and Giner and Pardo (2018) suggest that while IFRS 16 alters reported liabilities and performance metrics, firms often counterbalance these effects through lease renegotiation and capital

structure optimization. The limited explanatory power of lease liabilities in this study supports this notion, reinforcing the idea that strategic financial planning plays a more crucial role than lease capitalization itself. Additionally, the significant relationship between interest coverage and leverage in the second model aligns with the trade-off theory of capital structure, which states that firms weigh the tax benefits of debt against the risks of financial distress. The varying significance of interest coverage across models suggests that firms prioritize debt-servicing capacity in certain financial conditions, while in other cases, broader financial strategies may overshadow its impact. Beyond its theoretical implications, this study also provides practical insights for corporate finance professionals, investors, and policymakers. For firms, the results suggest that capital structure decisions should prioritize liquidity management and debt-servicing capacity over rigid adherence to traditional leverage metrics. Investors should account for firms' strategic financial responses rather than assuming IFRS 16 leads to direct changes in financial risk. Policymakers and regulatory bodies may consider supporting alternative reporting indicators that emphasize liquidity and financial resilience rather than focusing solely on leverage ratios. Given that lease liabilities did not significantly impact capital structure, further research could explore whether alternative accounting measures provide a more accurate reflection of financial health.

Several limitations in this study provide opportunities for future research. The analysis is constrained by its sample size and focus on the retail sector, limiting its generalizability across industries. Future studies could expand the dataset, incorporate cross-industry comparisons, and explore regional variations in IFRS 16 adoption. Additionally, integrating qualitative research methods, such as interviews with finance executives, could provide deeper insights into how firms strategically adapt to new accounting standards beyond the numerical relationships captured in quantitative analysis.

In conclusion, this study finds that IFRS 16 has not fundamentally altered firms' capital structures but has influenced financial decision-making in more subtle ways. While lease liabilities did not emerge as a key determinant of leverage, firms have adapted by prioritizing interest coverage and strategic financial adjustments. The consistent negative relationship between revenue growth and leverage suggests that firms experiencing

slower growth rely more on external financing, emphasizing the importance of financial performance in shaping capital structures. The variation in significance across the three regression models indicates that no single factor dominates capital structure decisions, reinforcing the notion that firms take a holistic approach to financial management rather than responding to IFRS 16 in isolation. These findings contribute to the ongoing discussion on capital structure management under evolving regulatory frameworks and lay the groundwork for future research on long-term financial adaptations to IFRS 16 and similar accounting changes.

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Table 1: Descriptive statistics – key values

This table summarizes key financial variables through central tendency and dispersion measures. The mean represents the average value, while the standard deviation reflects variability across firms. The median indicates the midpoint of the distribution, and the 25th and 75th percentiles provide insight into the spread of values, highlighting differences between lower and upper quartiles.

	Mean	**St. dev**	**Pctl (25)**	**Median**	**Pctl (75)**
Lease Liabilities / Total Assets	0.160	0.200	0.006	0.095	0.241
Debt-to-Equity ratio	0.904	2.519	0.316	0.564	1.246
Interest Coverage ratio	29.473	79.163	5.110	9.857	21.500
Revenue growth %	2.187	15.862	-2.704	3.222	8.819

Table 2: Descriptive statistics – mean comparison

This table shows the values obtained for the mean with a comparison before and after the implementation of IFRS 16, with a difference column to assess the registered changes and a t-test to evaluate their significance. *****, **, *** represent significance at the 1%, 5%, and 10% levels respectively.

	Mean pre-IFRS 16	**Mean post-IFRS 16**	**Difference**	**t-test**
Lease Liabilities / Total Assets	0.089	0.232	0.144	4.2***
Debt-to-Equity ratio	0.675	1.132	0.457	0.993
Interest Coverage ratio	44.196	14.752	-29.443	-2.065**
Revenue growth %	4.806	-0.431	-5.237	-1.826*

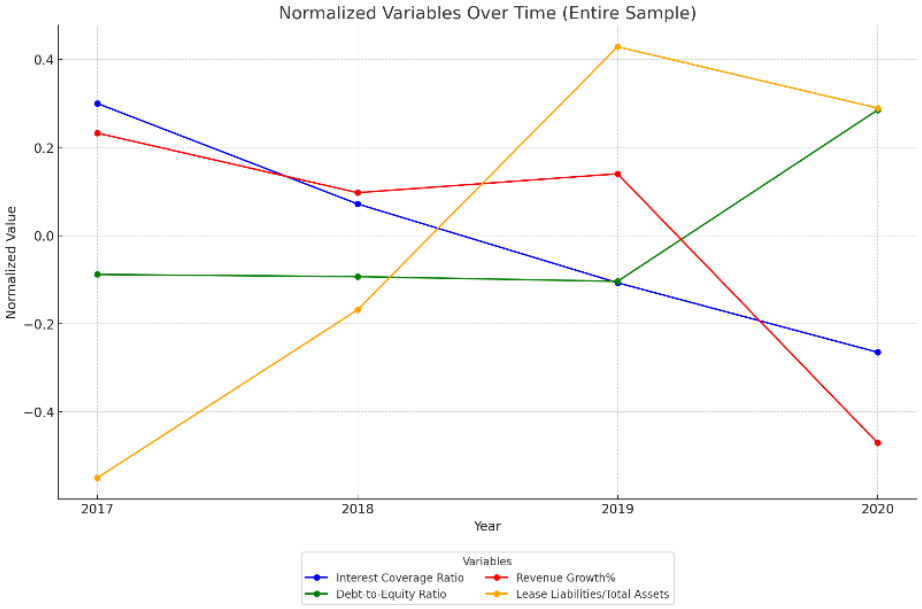
Table 3: Heatmap correlation matrix

This table represents the correlation matrix among the variables. The heatmap uses numerical correlation coefficients and color intensity. Correlation values range from -1 to 1, where positive values indicate that variables move in the same direction, negative values suggest an inverse relationship, and values near zero denote weak or no correlation.

	Lease Liabilities / Total Assets	*Debt-to-Equity ratio*	*Interest Coverage ratio*	*Revenue growth %*
Lease Liabilities / Total Assets	1.00	0.03	-0.09	-0.03
Debt-to-Equity ratio	0.03	1.00	-0.09	-0.14
Interest Coverage ratio	-0.09	-0.09	1.00	0.09
Revenue growth %	-0.03	-0.14	0.09	1.00

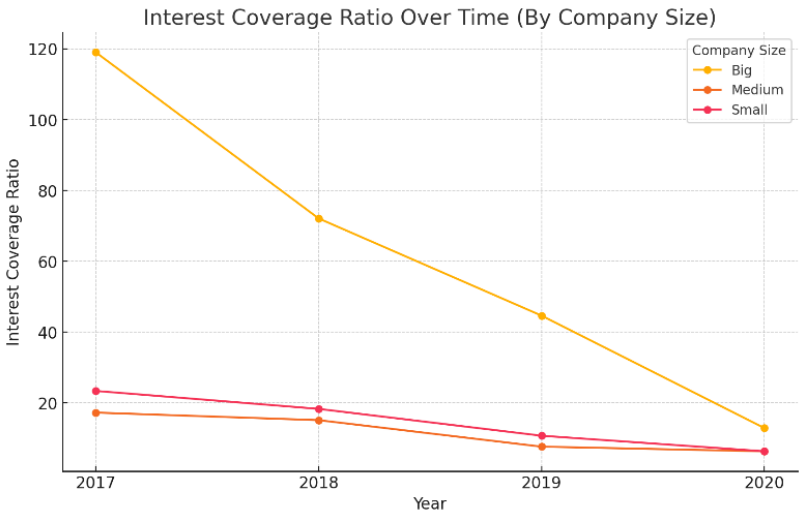
Graph 1: Normalized variables over time for the entire sample

This graph presents the trend analysis results conducted to assess the changes in the main variables over the years 2017-2020 for the entire sample. The values were normalized to facilitate comprehension and readability.



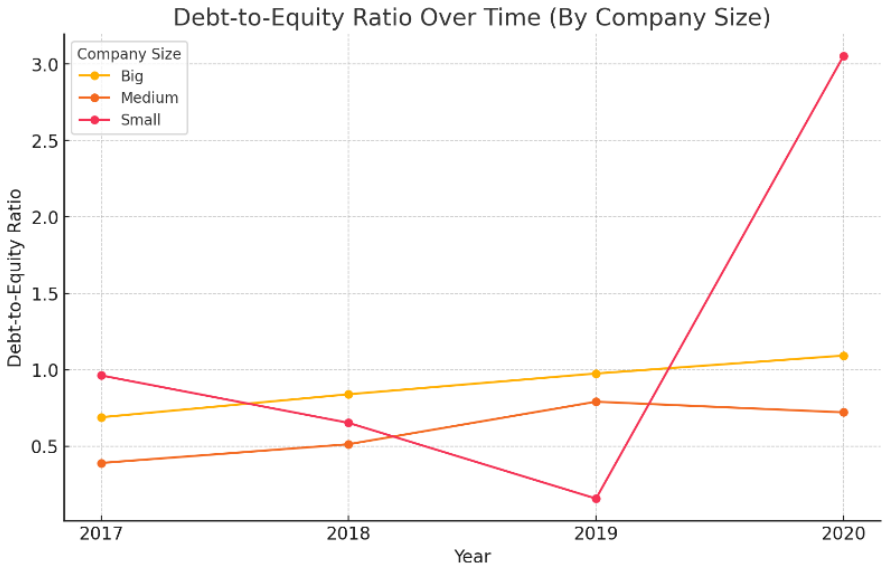
Graph 2: Interest Coverage Ratio over time by company size

This graph presents the trend analysis results conducted to assess the changes in Interest Coverage Ratio over the years 2017-2020 divided by the company size (small, medium, and big).



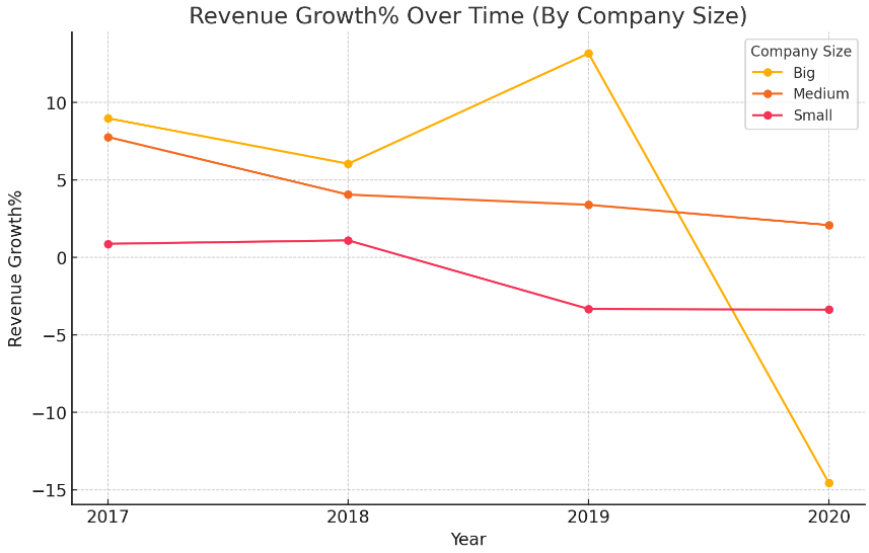
Graph 3: Debt-to-Equity Ratio over time by company size

This graph presents the trend analysis results conducted to assess the changes in Debt-to-Equity Ratio over the years 2017-2020 divided by the company size (small, medium, and big).



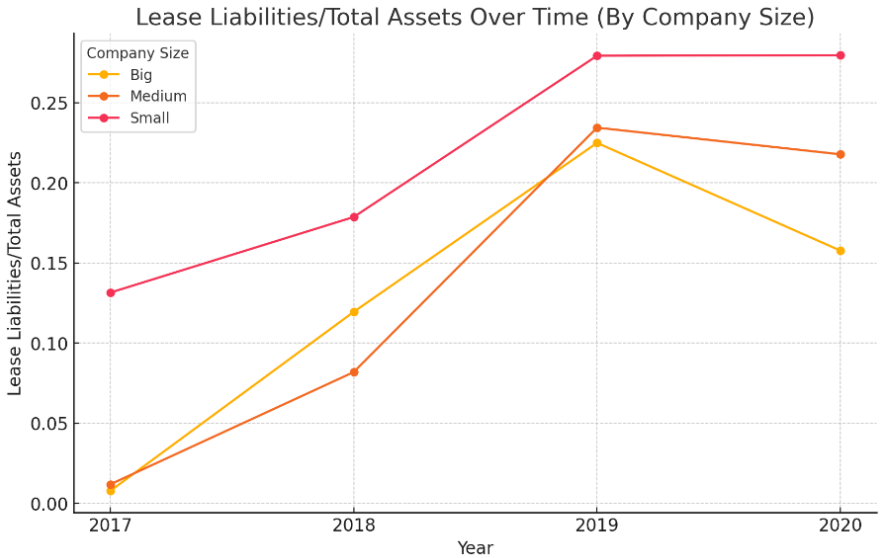
Graph 4: Revenue Growth % over time by company size

This graph presents the trend analysis results conducted to assess the changes in Revenue Growth% over the years 2017-2020 divided by the company size (small, medium, and big).



Graph 5: Lease Liabilities/Total Assets over time by company size

This graph presents the trend analysis results conducted to assess the changes in Lease Liabilities/Total Assets over the years 2017-2020 divided by the company size (small, medium, and big).



Tables 4-6: Regression analysis results for the 3 models

The following tables represent the results obtained from the regression analysis. Standard errors are shown in parentheses, the table presents the Adjusted R^2 and number of observations for each variable and model. *****, **, *** represent significance at the 1%, 5%, and 10% levels respectively. The number in parentheses corresponds to the referred model.

Variable	(1)	(2)	(3)
Lease Liabilities / Total Assets	0.415	-0.146	0.215
	(1.158)	*(1.009)*	*(1.449)*
Adjusted R^2	-0.007	0.276	0.284
N of observations	120	120	120

Table 4

Variable	(1)	(2)	(3)
Interest Coverage Ratio	-0.003	-0.001**	-0.002
	(0.004)	*(0.003)*	*(0.003)*
Adjusted R^2	-0.001	0.278	0.277
N of observations	120	120	120

Table 5

Variable	(1)	(2)	(3)
Revenue growth %	-0.021*	-0.026**	-0.031*
	(0.015)	*(0.012)*	*(0.025)*
Adjusted R^2	-0.010	0.303	0.298
N of observations	120	120	120

Table 6

Table 7: Regression analysis results for control variables and interaction term

The following table presents the results obtained from the regression analysis for the control variables (EPS and Size) and the interaction term (Xi × IFRSi). Standard errors are shown in parentheses, and the table includes the Adjusted R^2 and number of observations for each model. *****, **, *** represent significance at the 1%, 5%, and 10% levels respectively. The number in parentheses corresponds to the referred model.

Variable	(1)	(2)	(3)
EPS	-	0.116***	0.117***
		(0.020)	(0.020)
Size	-	-0.285***	-0.283***
		(0.079)	(0.079)
Xi × IFRSi	-	-	0.010
			(0.029)
Adjusted R^2	-	0.276	0.298
N of observations	120	120	120

REGRESSION MODELS

1)

$$Y_i = \beta_1 X_i + \epsilon_i$$

2)

$$Y_i = \beta_1 X_i + \beta_2 EPS_i + \beta_3 Size_i + \epsilon_i$$

3)

$$Y_i = \beta_1 X_i + \beta_2 IFRS_i + \beta_3 (X_i \times IFRS_i) + \beta_4 EPS_i + \beta_5 Size_i + \epsilon_i$$