# *The Subscription Float: Recurring Revenue as Corporate Financing*

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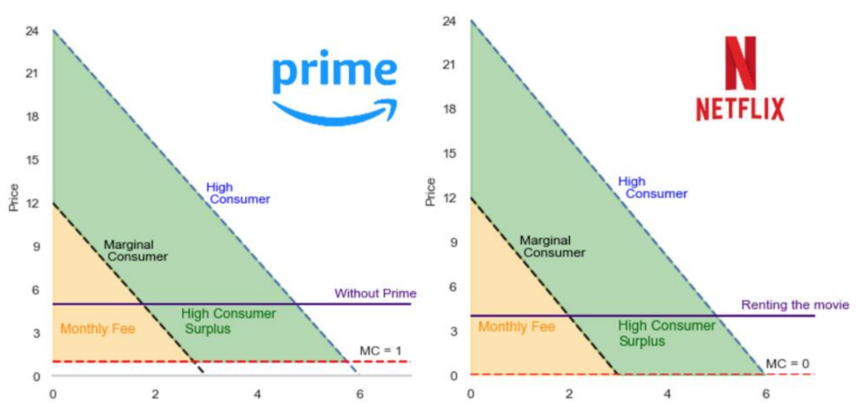
## Economic intuition




Subscriptions are recurring **two-part tariffs:** Netflix approximates a pure subscription (zero marginal price); Prime-like models combine a recurring fee with reduced marginal prices.

## Six stylized facts

1. **Secular rise:** subscription language grows nearly monotonically (2002–2023).
2. **Intensity shift:** subscriptions move from largely "supplemental" to mostly "core."
3. **Why managers adopt: revenue predictability (59%)** and **stickiness (44%)**
4. **Persistence:** once adopted, subscription exposure rarely reverts.
5. **Industry clustering:** concentrated in intangible / tech-facing sectors.
6. **Events:** adoptions, switches, enhancements, and M&A become more frequent.

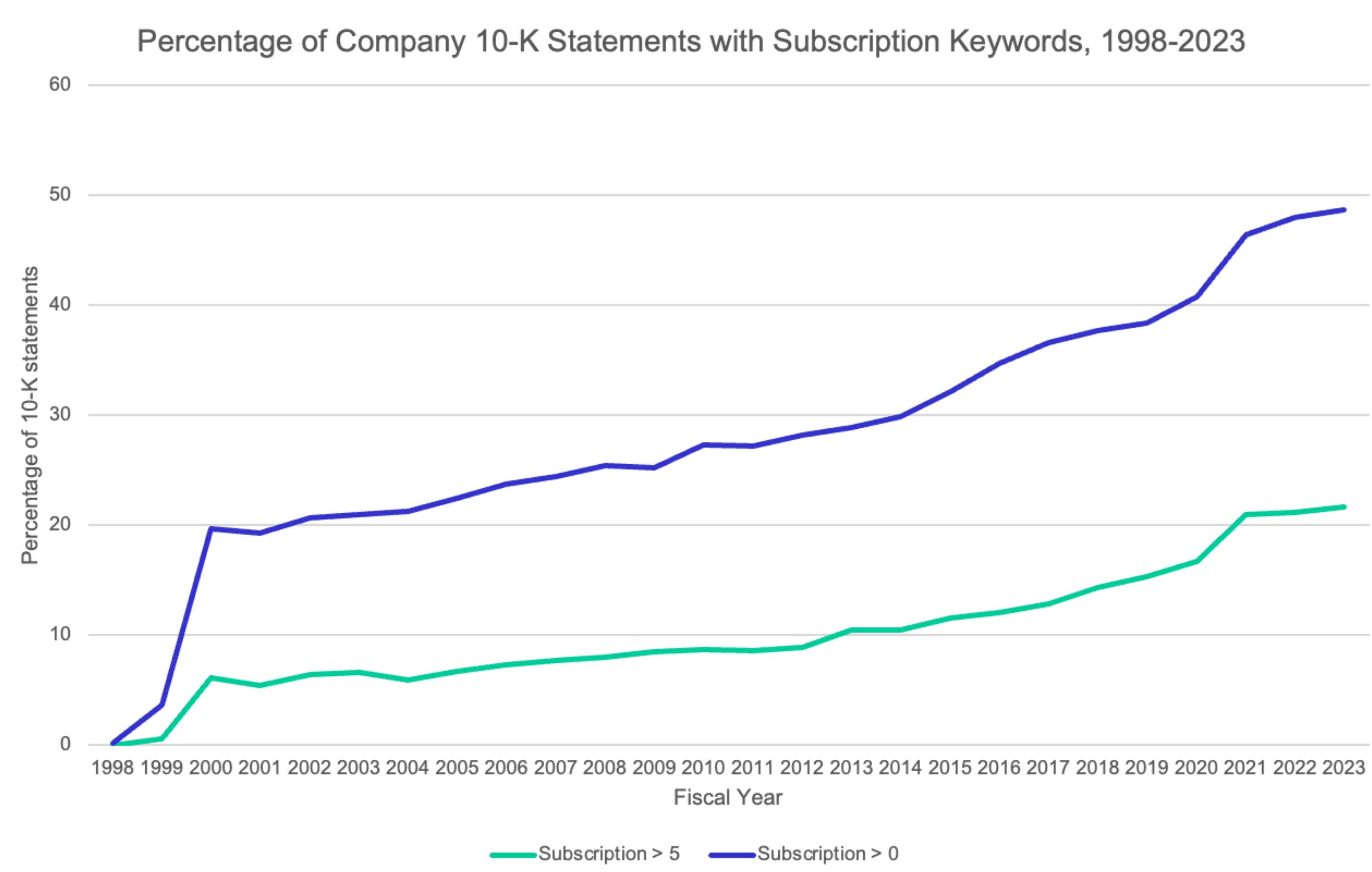
## Data + measurement

- SEC EDGAR 10-Ks for 2023-active public firms; core analyses from **2002–2023.**
- **Subscription salience:** count of subscription keywords; main threshold = **5+** mentions.
- LLM (Gemini) parses MD&A into structured fields (salience: All/Core/Supplemental; stated rationales; event types).

## Main findings

Subscriptions act, in part, as **customer financing**: recurring payments create deferred-revenue "**float**", allowing firms to hold **less cash** and **invest in asset growth.** Some of this "float" is **passive: FTC shocks** reveal significant market value to **cancellation frictions.**

### The Rise of Subscriptions




Share of firms mentioning subscription keywords rises from **20.7% → 48.7%** (2002→2023).

### Corporate finance implications:

Using within-firm adoption, subscription adoption reduces precautionary liquidity and shifts capital allocation.

**Baseline results (within-firm):**

- **−2.3 to −2.6%** Cash/Assets
- **+8.3 to +8.6%** Asset growth

### Market price of cancellation frictions:

**6/17/24 FTC Adobe lawsuit:**

CAR (subscription firms) ≈ **−1.9%**

**10/16/24 Click-to-cancel final rule "relief rally":** CAR (subscription economy) ≈ **+3.3%**

## Identification

Within-firm adoption design: compares the same firm pre-/post-adoption using firm fixed effects and time fixed effects. I estimate panel regressions of the form:

$$Y_{it} = \alpha + \beta\,\text{Subscription}_{it} + \gamma X_{it} + \mu_i + \theta_t + \epsilon_{it}$$

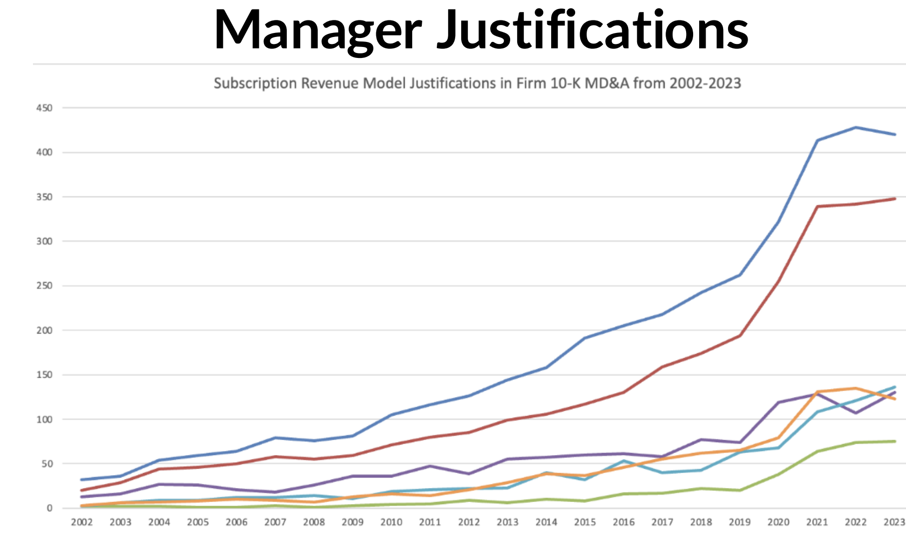
## Firm outcomes

| | Cash/Assets | Asset growth |
|---|---|---|
| Baseline FE | $-0.0232^{***}$ | 0.0318 |
| | (0.0054) | (0.0226) |
| + Volatility | $-0.0262^{***}$ | $0.0856^{**}$ |
| | (0.0061) | (0.0405) |
| + Liquidity ctrls | $-0.0264^{***}$ | $0.0830^{**}$ |
| | (0.0055) | (0.0415) |

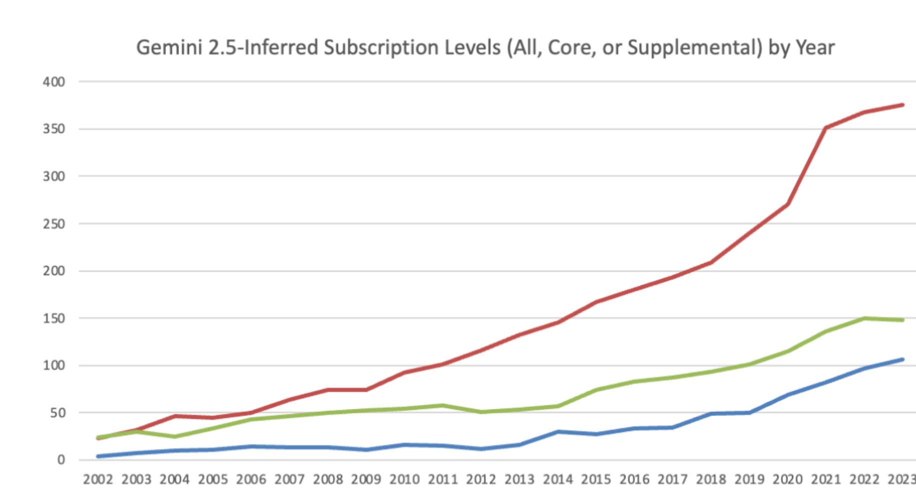
- **CF volatility** falls post-adoption, but the **cash effect persists** even **controlling for  it**
- Controlling for CF **volatility, asset growth rises** after adoption.

## Trends from Firm MD&A

### Manager Justifications




### Subscription Intensity




## Heterogeneity (Cash)

| | Cash/Assets |
|---|---|
| *Intensity (one regression)* | |
| Core / All | $-0.0346^{***}$ |
| | (0.0112) |
| Supplemental | $-0.0227^{**}$ |
| | (0.0098) |
| *Rationale (one regression)* | |
| Predictability / Stickiness | $-0.0316^{***}$ |
| | (0.0105) |
| Without predict./stick. | $-0.0260^{**}$ |
| | (0.0099) |