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Do Corporate Name Changes Affect Share Price?
An Event Studies Analysis of Corporate Rebranding on the NYSE.

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Abstract

I conduct an event studies analysis of the effect of corporate name changes on short-term stock price movements for companies listed on the New York Stock Exchange. Using the NYSE Composite Index as a baseline for comparison, I find that changing corporate name has a small positive effect on share price over the subsequent thirty days.

I. Introduction

Corporate names are in a literal sense a nominal variable. When a company changes its name, the fundamentals of its financial health as measured by sales, labor costs, debt load, and other real factors do not change from the moment before to the moment after. From this perspective, the financial health of a company as reflected in its stock price should also not be altered by a change in name. Yet, every year businesses expend substantial resources in both time and money to change their names.

This behavior suggests that businesses managers believe a change of name will increase the value of their companies. If the managers are correct, the resources expended may constitute a wise investment. If they are wrong and corporate name changes do not by themselves increase value, those resources are being wasted. Assuming an efficient market, the answer to this question should be found in the stock prices of publicly traded companies subsequent to the announcement of name changes, after adjusting for movements of the market as a whole. The purpose of this paper is to conduct that analysis.

II. Literature Review

Previous studies on this subject have tended to focus on issues only tangentially related to corporate name changes such as specific name characteristics, rather than on the effect of the change itself. The few studies that have looked at the effect of the change itself were either restricted to smaller non-US stock exchanges or imposed a variety of restrictions on the types of names studied.

Morris & Reyes (1992) studied corporate name changes based on functional name characteristics such as distinctiveness and memorability. They find a statistically significant positive response among inexperienced investors to names improved by this criterion. They also propose that incurring the cost of a corporate name change may act as a signal to investors of a serious intention to reform the firm

since such an expense would tend not to be incurred for trivial reasons. Muzellec & Lambkin (2005) find that corporate name changes are often the result of fundamental changes in corporate structure such as mergers or acquisitions which may alter business strategy. This finding tends to support the signaling theory of Morris & Reyes (1992).

Karbhari, Muhamad Sori & Mohamad (2004) find that for companies listed on the Malaysian stock exchange, corporate name changes without accompanying Malaysian government regulatory approval for formal restructuring have no significant effect on share price. However, they add the observation that "(i)nvestors in Malaysia are generally cautious about receiving news of a corporate name change".

Andrikopoulos, Daynes, & Pagas (2007) find that for companies listed in the UK, after a name change companies significantly underperform on average over the following 36 months. They argue that this implies that a name change alone is a negative signal to the market. The three year time frame is significant since they also find that markets react slowly to the information content of a name change announcement.

Josev, Chan, & Faff (2004) in a study limited to Australian companies, find significantly abnormal negative returns in the 21 days following a name change announcement. However, they limit the companies studied to those with name changes they categorize as major.

One of the most widely cited studies on this topic is Bosch & Hirschey (1989). In contrast to other studies, they do examine the name change itself rather than the name characteristics, and they do not limit the study to companies on smaller regional exchanges or a particular subset of name types. They also examine a short enough time horizon to focus on the efficient market reaction to the change rather than long term performance. It is the most comparable to this study in terms of time frame and

sample selection. One significant difference in methodology is that Bosch & Hirschey define the event as the date of publication of the name change in the Wall Street Journal, whereas I define the event as the day traders are notified by the exchange, which occurs five business days earlier. Bosch & Hirschey find significant positive abnormal returns for the week prior to Wall Street Journal publication. However, they also find nearly as large negative abnormal returns during the subsequent three weeks. The net abnormal return found over the entire 30 days studied is reported as positive, but not significant.

The widely varying focus, methodologies and results of previous studies make generalized conclusions about the effect of corporate name change on stock price difficult. This study contributes by partially filling that gap.

III. Theory and Hypothesis

The fundamental assumption underlying this study is that the market is semi-strongly efficient (Fama,1970) This implies that the market rapidly incorporates information contained in a name change announcement, and will express that new information in the form of short-term, post-announcement stock price changes. Since the stock market as a whole also moves up and down over time, in order to study unusual price movements of individual stocks they should be measured relative to the market rather than on an absolute basis. If a company name change has a significant effect on its stock price it should be evident as a change in the relationship between that stock and the overall market pre- versus post-announcement using the market benchmark as a control for systemic volatility.

As a simple example: if the stock price of a particular company was roughly 5% of some overall market index over a long period, then immediately after a name change went to 10% of that

index, it would be reasonable to conclude that the name change had a positive effect on the stock price regardless of any overall market fluctuations that may have occurred.

The hypothesis that I will test in this study is that name changes do not systematically alter stock prices, therefore the difference between the pre- and post-change price to market relationship will not be significantly different from zero.

IV. Methodology

I use an event studies approach because it is the method used in the overwhelming majority of previous papers on this subject and will therefore allow a more direct comparison of results.

I regress individual stock prices on a broad market index over a date window from 180 days before a name change announcement to 30 before the announcement, a time frame similar to that used in Bosch & Hirschey (1989). This process is repeated for each of the companies studied to produce a series of regression coefficients describing the historical, pre-name change relationship between each stock and the broader market index. The need to uncover the pre-change or “normal” price prior to information about the name change being available is the reason why typically, and in this study, the price estimation window closes a few weeks before the name change is announced. The concern is that there might be information leakage to the market from company insiders as knowledge of the change becomes more widespread internally as the change date approaches.

Over a time window of the 30 days immediately following a name change announcement, I collect a second series of stock price and market index data. Using the regression coefficients previously calculated, I create a predicted stock price for each stock over each of the 30 days in the event window using the following formula where the superscript i denotes day number and superscript j denotes stock number:

$$\text{Predicted Stock Price}^{ij} = \beta_0^j + \beta_1^j * \text{Index Price}^i$$

I then calculate the amount by which the actual stock price differs from the predicted price:

$$\text{Abnormal Return}^{ij} = \text{Actual Stock Price}^{ij} - \text{Predicted Stock Price}^{ij}$$

The output of these calculations is a series of values representing the dollar amounts by which stock prices differed from their normal pre-name change pattern for each stock on each of the 30 days immediately post-announcement. I convert the dollar amounts to percentage changes by dividing them by the price of the stock on the day the name changed. I then run a one sample t-test on these values to determine if the group is significantly different from zero. If the data is found to be not significantly different from zero, then I can conclude that the hypothesis that corporate name changes do not systematically alter stock prices is correct.

V. Data

I included publicly traded companies listed on the New York Stock Exchange that have undergone name changes. Using multiple exchanges would have required conversions between different market indices that would have added a level of complexity to the analysis that might have reduced the reliability of the results without yielding sufficient additional information to justify the risk. Given the decision to select a single exchange, the NYSE was the obvious choice because it is both the world's largest exchange by market capitalization and offers user friendly search tools on its website. I confined my search to a single year in order to minimize the noise that would have been introduced into the data if the effect of name changes on stock prices was not constant over time. The year selected was as recent as possible to maximize relevance, but not so recent that the data might not be complete. I chose 2010 as a compromise between these two considerations.

The NYSE issues daily administrative announcements called "Trader Updates". They are organized on the website into 13 categories, one of which "Stock Change" includes announcements of listed companies' name changes. I searched using the following terms: Market: NYSE, Category: Stock Change, Date Range: 1/1/2010-12/31/2010 which returned 171 stocks. I manually filtered this list to remove companies on seven criteria:

- Stock change notices other than name change. The Trader Update category Stock Change included some notices unrelated to company name changes such as changes in ticker symbol.
- Exchange traded funds. Although the study of the effect of changing the name of an ETF may be worthwhile, I assessed that mixing ETF's with businesses would unnecessarily muddle the results.
- Stock classes other than common. Companies that list preferred stock on the exchange in addition to common stock appear as separate name change notices. Since they represent the same company I removed all classes of stock other than common to avoid duplication.
- Name changes administratively imposed by the exchange. The NYSE appears to occasionally force a listed company to change its name. I removed these few cases from the data out of concern that there might have been unusual factors present that could have masked usual effects.
- Ticker symbols that were discontinued during the year. If a company, after changing its name, later merges with another company, it may stop trading under its old ticker symbol. In this case the price data for the merged company as a separate entity ends. It was necessary to remove these cases in order to have complete data on all the companies that were included in the study.

- Companies going through bankruptcy. I initially intended to study only this group. However, I discovered that the normal practice of the exchange is to de-list any company filing for bankruptcy and only re-list them after they emerge from reorganization. This would have created discontinuous data that would have required a more complex analytical framework.
- Companies without complete data for other undetermined reasons. There were a few cases of companies that the website reported as "data not available". These companies were excluded on that basis.

This process yielded a list of 25 companies that had given notice of name change to the exchange resulting in a name change Trader Update being issued between January 1, 2010 and December 31, 2010. The list of companies, ticker symbols, and name change notification dates is listed in appendix A, table 1.

For these 25 companies, I used the Yahoo! Finance website to gather daily stock prices. I used Yahoo! Finance for this part of the data collection because it adjusts historical prices to compensate for intervening stock splits or reverse splits, which would have distorted the data. I downloaded prices for the period from July 1, 2009 through February 1, 2011 so that 180 days prior to the earliest possible name change announcement in 2010 and 30 days after the latest possible announcement in 2010 would both be included in the data set. I downloaded corresponding data for the NYSE Composite Index exchange traded fund for this date range as the broadest listed index of overall market movement.

VI. Results

I find that stock prices increased by an average of 4.4% relative to the NYSE Composite Index in the 30 days following the announcement of a company name change, as shown in appendix A, table 2. This change was statistically significant at the 95% confidence level. The 95% confidence interval was

2.4% to 6.4% with a standard deviation of 2.4%. T-test results are presented in appendix A, table 2. Summary statistics for all 25 stocks are presented in appendix A, table 3. Coefficients for the regression of stock price on NYSE Composite Index are presents in appendix A, table 4.

VII. Conclusion

Finding a statistically significant 4.4% average increase in the price of stocks in the 30 days following a corporate name change suggests that the substantial resources of time and money put into corporate rebranding is not necessarily being wasted.

These results show that the information contained in a name change is perceived on average as positive by market participants. This does not, however, imply that the economic fundamentals governing long term profitability are also changed. Although it is apparent that changing a company name does have a positive expected value over the following month, whether that effect is lasting, transitory, or even destructive beyond that time horizon is still unknown.

The reasons for a name change to affect share price are still not well understood and present themselves as an obvious next line of inquiry. An efficient market with rational expectations would imply that the present discounted value of such a company would be increased, rather than the higher share price systematically dissipating or reversing. A follow-on study tracking the stock prices of re-named companies over a multi-year period could shed valuable light on both the advisability of making such changes and on the ability of financial markets to accurately price in new information over different time frames.

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Appendix A - Tables

Table 1 – Companies included in this study.

Date of company name change	New company name	NYSE Ticker symbol
9/28/2010	Valeant Pharmaceuticals International, Inc.	VRX
9/10/2010	Sprott Resource Lending Corp.	SILU
7/26/2010	Entertainment Gaming Asia Incorporated	EGT
7/15/2010	Alere Inc.	ALR
7/1/2010	XL Company Group plc	XL
7/1/2010	Commonwealth Reit	CWH
6/30/2010	FLY Leasing Limited	FLY
6/28/2010	Brigus Gold Corp.	BRD
6/2/2010	Corelogic, Inc.	CLGX
5/3/2010	Crystal Rock Holdings, Inc.	CRVP
5/17/2010	MPG Office Trust, Inc.	MPG
5/12/2010	CNO Financial Group, Inc.	CNO
4/8/2010	Biglari Holdings Inc.	BH
4/20/2010	China Metro-Rural Holdings Limited	CNR
4/13/2010	CAMAC Energy, Inc.	CAK
3/15/2010	Stanley Black & Decker, Inc.	SWK
12/15/2010	NextEra Energy Capital Holdings Inc.	NEE
12/14/2010	Embraer S.A	ERJ
11/8/2010	Feihe International, Inc.	ADY
11/22/2010	China Botanic Pharmaceutical, Inc.	CBP
11/15/2010	Pulse Electronics Corporation	PULS
10/4/2010	Crestwood Midstream Partners LP	CMLP
10/18/2010	The Jones Group Inc.	JNY
1/4/2010	Lumber Liquidators Holdings, Inc.	LL
1/4/2010	Willis Group Holdings plc	WSH

Table 2 – Results of t-test on whether the change in stock prices after company name change are significantly different from zero.

Number of observations	554
Mean	.0441131
Standard error	.0102277
Standard deviation	.2407326
Significance level	.05
Degrees of freedom	553
Confidence interval	.0240231 to .0642031
t-statistic	4.3131

p-value

0.0000

Table 3 – Summary statistics of stock prices for the 30 days following a company name change.

New company name	N	Mean	St. dev.	Min	Max
Valeant Pharmaceuticals International, Inc.	22	10.99273	.5669482	10.44	12.85
Sprott Resource Lending Corp.	22	28.02136	.9372619	26.5	29.44
Entertainment Gaming Asia Incorporated	22	388.9495	31.06741	319.74	413.92
Alere Inc.	22	1.221818	.0359413	1.15	1.29
XL Company Group plc	23	4.525217	.2522601	4.19	5.07
Commonwealth Reit	23	18.67696	.8309985	17.49	20.34
FLY Leasing Limited	23	21.07652	.5579395	20.12	21.72
Brigus Gold Corp.	22	5.375	.3693721	4.81	6.19
Corelogic, Inc.	23	2.09913	.170931	1.8	2.33
Crystal Rock Holdings, Inc.	22	2.168636	.1683617	1.84	2.5
MPG Office Trust, Inc.	22	.7454545	.0566297	.64	.86
CNO Financial Group, Inc.	21	19.67905	.5812306	18.54	20.68
Biglari Holdings Inc.	23	.9582609	.0371303	.88	1.04
China Metro-Rural Holdings Limited	22	28.18091	.3596018	27.45	29.01
CAMAC Energy, Inc.	22	8.982727	.5367112	8.14	9.85
Stanley Black & Decker, Inc.	23	15.16391	2.383502	12.75	19.27
NextEra Energy Capital Holdings Inc.	22	25.04818	1.231332	22.94	27.64
Embraer S.A	22	2.839091	.2217229	2.43	3.29
Feihe International, Inc.	22	47.96409	.7540662	46.65	49.69
China Botanic Pharmaceutical, Inc.	22	3.976818	.1487851	3.7	4.29
Pulse Electronics Corporation	21	1.694762	.0390665	1.65	1.82
Crestwood Midstream Partners LP	22	54.76591	1.089988	53.28	57.45
The Jones Group Inc.	23	25.54696	.6614408	24.08	26.81
Lumber Liquidators Holdings, Inc.	22	24.49227	.3701342	23.74	25.09
Willis Group Holdings plc	21	16.3281	.5845136	15.11	17.13

Table 4 – Regression coefficients of stock price on NYSE Composite Index for the period between 180 and 30 days prior to company name change announcement.

Company name	Constant	Slope
Valeant Pharmaceuticals International, Inc.	-0.0052699	49.36625
Sprott Resource Lending Corp.	0.0046392	4.939125
Entertainment Gaming Asia Incorporated	0.0074581	230.8748
Alere Inc.	0.0000298	1.298133
XL Company Group plc	0.0000647	4.045194
Commonwealth Reit	0.003233	-4.801756
FLY Leasing Limited	0.0014283	6.543382
Brigus Gold Corp.	0.0024977	-12.7152
Corelogic, Inc.	0.0003678	-0.1395894
Crystal Rock Holdings, Inc.	-0.0001631	3.015396
MPG Office Trust, Inc.	0.0001062	-0.1375689
CNO Financial Group, Inc.	0.0039518	-6.233609
Biglari Holdings Inc.	-4.34E-006	1.073706
China Metro-Rural Holdings Limited	0.0069472	-24.82235
CAMAC Energy, Inc.	0.0012974	-0.6932176
Stanley Black & Decker, Inc.	0.0055435	-21.28075
NextEra Energy Capital Holdings Inc.	0.0061933	-20.46619
Embraer S.A	0.0028483	-18.50867
Feihe International, Inc.	0.0039073	20.50821
China Botanic Pharmaceutical, Inc.	0.0013658	-5.876
Pulse Electronics Corporation	-0.0000446	1.604145