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Individual Assignment 2

The PERMNO, PERMCO, and GVKEY for those firms from WRDS

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| --- | --- | --- | --- | --- | --- |
|  | Company Name | Ticker | PERMNO | PERMCO | GVKEY |
| 1 | Netflix, Inc. | NFLX | 89393 | 43145 | 147579 |
| 2 | General Mills, Inc. | GIS | 17144 | 20798 | 005071 |
| 3 | Domino's Pizza, Inc. | DPZ | 90248 | 45379 | 160211 |
| 4 | First Solar, Inc. | FSLR | 91611 | 51447 | 175404 |
| 5 | Woodward, Inc. | WWD | 84403 | 27497 | 011580 |

Forecast for market reaction to each announcement

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Ticker | Announcement Type | Expectation | Justification |
| 1 | NFLX | Seeking to Sell/Divest | + | Regard possible sale as a positive signal that someone wants to buy the stock of Netflix since they think the company is good. |
| 2 | GIS | Seeking to Sell/Divest | - | It sought disposals maybe because it do not have much energy to generate profit. So the stock price may go down. |
| 3 | DPZ | Seeking to Sell/Divest | + | It sought buyers to grab a slice of business because it wanted to get more exposed to the pizza market. |
| 4 | FSLR | Seeking to Sell/Divest | - | Update on sale of First Solar’s premises, maybe it cannot handle the whole business well, then the price went down. |
| 5 | WWD | M&A Transaction Cancellations | - | Almost all the M&A can drag up the stock price, so the cancellation of it may cause the price to go down. |

The return between the two sides of the window (-2,2)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Ticker | Announcement Date | Stock Price at t=-2 | Stock Price at t=2 | Return (-2,2) |
| 1 | NFLX | 20121031 | 61.50999832 | 76.90000153 | 0.250203278 |
| 2 | GIS | 20180222 | 55.95000076 | 51.41999817 | -0.080965193 |
| 3 | DPZ | 20200306 | 341.8900146 | 343.9500122 | 0.006025323 |
| 4 | FSLR | 20120829 | 25.54000092 | 19.98999977 | -0.217306224 |
| 5 | WWD | 20200405 | 53.09999847 | 60.79000092 | 0.144821143 |

Use Fama-French 3 factor model to get CARs (Estimation window:100d, Minimum number of valid returns: 70, Gap: 50d)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Ticker | Announcement Date | CAR(-1,1) | CAR(-2,2) | CAR(0,2) |
| 1 | NFLX | 20121031 | 0.250337694 | 0.293089182 | 0.141670484 |
| 2 | GIS | 20180222 | -0.058272891 | -0.099610043 | -0.068953702 |
| 3 | DPZ | 20200306 | 0.059652485 | 0.038170861 | 0.064498447 |
| 4 | FSLR | 20120829 | -0.2048191 | -0.147499643 | -0.198741067 |
| 5 | WWD | 20200405 | 0.081716639 | 0.081803263 | 0.137025967 |

From the CAR generated and compared to the return in the above chart, we can see that the CAR has the same sign as the corresponding raw returns in question 2.

Expectation confirmation

|  |  |  |  |
| --- | --- | --- | --- |
|  | Ticker | Expectation Confirmation | Updated Justification |
| 1 | NFLX | Yes | Carl Icahn takes 10% stake of Netflix shares, because he got some ideas about how Netflix can lift its stock value. Then, the stock price surged. |
| 2 | GIS | Yes | Before the M&A transaction between General Mills and Blue Buffalo, the stock price of Blue Buffalo was about $34/share, but after the transaction, it went up to $40/share as in the report in SEC, the stock price of GIS went down maybe because it was too expensive for GIS to merge Blue Buffalo at $40/share, so the market thought the transaction was overvalued. |
| 3 | DPZ | Yes | By the news of Domino’s Pizza, its same-store sales lifted 20.9 percent at U.S. franchises and 22 percent at company-owned stores. Market thought that their business was going well, so the price went up. |
| 4 | FSLR | Yes | It sold its $1.2 billion premises because their business maybe don’t need many premises, this may make investors think their business had some problem, so the price went down. |
| 5 | WWD | No | The pandemic has resulted in a need for Woodward and Hexcel company to focus on its respective businesses and has impacted the companies’ ability to realize the benefits of the merger during these unprecedented times. The market thought that this decision conformed to their expectation at that time, so this was a mature decision, then the stock price went up. |