

***Tesla Stock Split***

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In an word file, explain what has happened on the event date.  
✓ Why is it relevant for the firm value?  
✓ What do you expect to be the impact of the event on the stock price? Positive, negative, ambiguous? Please  
explain

Tesla, after months and months of stock price increase (almost ) announced a five for one split in mid-august 2020.

In general, the main purpose of a stock split Is a liquidity increase. Whenever stocks get more liquid and potentially more traded on a daily basis, prices decrease.

In the tesla example, stock prices have reached unprecedent level, but somehow the stock split we’re discussing here had the opposite effect; increasing way more stock’s price. You could all basically wonder how and why?

A stock split is a decision to increase the number of shares outstanding by issuing more shares to current shareholders. As said before the idea is to increase stock liquidity and drive prices down so the stock becomes more affordable.

As the trend was back then really favorable to what we call “Growth” stocks, the tesla stock split had the exact opposite effect. In fact consumers tended to consider the first price decrease following stock split announcement as an opportunity to seize. Following this scheme the demand for tesla stocks grew in unconventional way making prices grow faster than before.

Until here everything appears logic and consistent with market structures and efficiencies. But here’s a point that could be missed out and really helps picture tesla’s decision in a different way.

Factually stock splits doesn’t impact the value of a firm. In fact we only modify the number of shares, the market capitalization remains the same. And here our case becomes interesting as the growth in stock’s demand helped increase stock prices and number of stocks have also been multiplied by five, the market capitalization literally exploded. Instead of playing on only one variable, the board played on both stock’s price and number of shares which are the only components to market capitalization calculus (Market Cap = Stock’s price x number of shares).

The evolution scheme combined both behavioral, market and corporate finance concepts. An elementary case with real interesting results putting a little bit ahead to reconsider the preponderance of tech and growth firms in the market. The case exhibits how market efficiency could be put in danger.