Companies Quit Splits, Letting Share Prices Soar

BY ERIK HOLM AND BEN EISEN

Big companies are giving up on the stock split.

So far this year, just two firms in the S&P 500 have split their shares. Twenty years ago, the figure was nearly two a week, according to Birinyi Associates.

A stock split boosts the number of shares in order to lower the per-share price, so the recent dearth is allowing share prices to soar. After decades of mostly remaining in a range between $25 and $50, the average stock in the large-company index is now trading above $98, the highest ever, Birinyi says.

Some are much higher, flirting with $1,000. On Friday, shares of Amazon.com Inc. closed at $995.78. Google parent Alphabet Inc.'s Class A shares were just shy of that.

A big stock price is "a new way of calling attention to yourself," said William C. Weld, a finance professor at the University of North Carolina's Kenan-Flagler Business School. It used to be that splitting shares signaled reliability and stability, he said. "Companies now are saying 'look at us, we're tough and strong.' "

In the 1990s, when stock picking for one's own account

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◆ 'Spotify split' would benefit the NYSE.................................. B1

Splitting Up

The average price of stocks in the S&P 500 has risen as stock splits have become less common.

Source: Birinyi Associates

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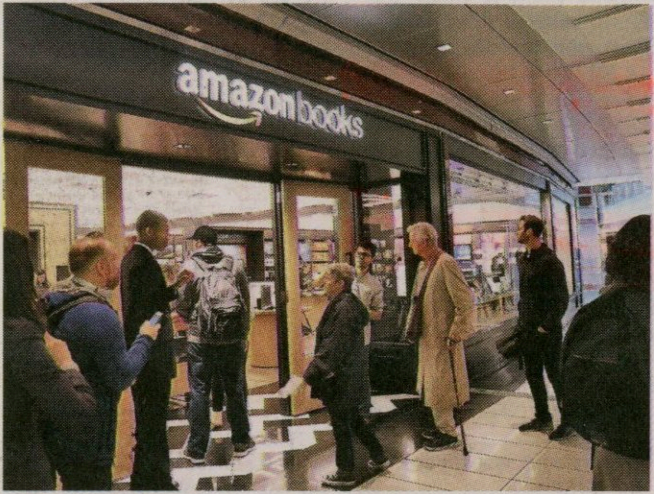

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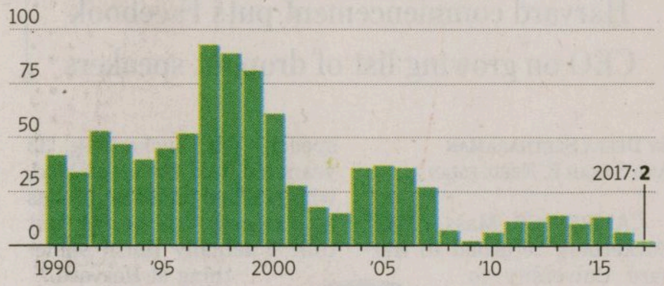
People enter the newly opened Amazon Books store on Thursday.

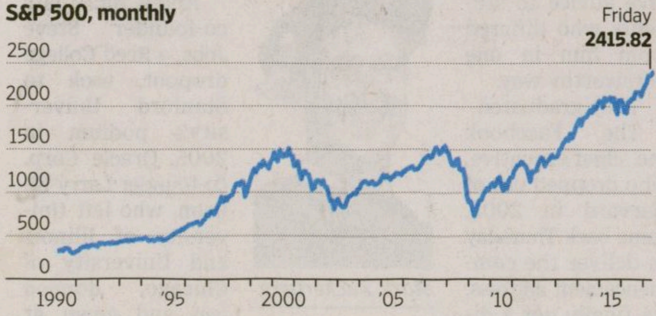
Out of Fashion

The number of stock splits by S&P 500 companies has remained low in spite of the market rally since 2009.

Number of stock splits by S&P 500 companies*



S&P 500, monthly



*2017 figure as of May 26. Other years are calculated using S&P 500 constituents at yearend.

Sources: Birinyi Associates; SIX Financial (S&P 500)

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SPLITS

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was in vogue, companies considered splits a way to keep shares affordable for small investors. Even though nothing changes fundamentally about the company with a stock split—it's like trading a dime for two nickels—they once generated excitement and, often, a short-term pop for the shares.

In recent years, though, individuals have gravitated toward index funds. And institutional investors don't like stock splits, because increasing the number of shares boosts trading costs.

"If you split the stock, you are effectively providing a source of income to the brokerage community," said Weston Hicks, chief executive of insurer Alleghany Corp., which trades at $588.44. "We're trying to appeal to the long-term investor, and keeping a consistent scorecard is the way to do that."

The godfather of the no-split camp is **Berkshire Hathaway** Inc. Chairman Warren Buffett. Berkshire's Class A shares are the priciest U.S.-listed equities. At $248,540 a share, Berkshire is up more than three million percent since Mr. Buffett bought his first slug of the stock in December 1962—at $7.50 a share.

For years, Mr. Buffett said he didn't want to split the shares because he didn't want to attract investors who found such a move to be a good reason for buying a stock. "People who buy for non-value reasons are likely to sell for non-value reasons," he said in a 1984 letter to shareholders.

There are other reasons behind the trend. Before the rise of discount brokerages and a decline in trading commissions in the '90s, even small-time investors often had to buy shares in round lots of 100, which meant that a high price could make such a purchase prohibitively expensive. These days, though, retail investors can buy as little as one share, and often pay commissions of $10 or less.

Academics who have studied share splits have also posited that executives who split their company's stock may be motivated by a desire to keep their share prices from looking expensive. Now, some companies

"Companies now are saying 'look at us, we're tough and strong.' "

and their investors seem to treat higher stock prices as an accomplishment, a phenomenon that economist Richard Thaler from the **University of Chicago Booth School of Business** calls "equally nonsensical."

"But at least Amazon can say 'well, the market sent us all the way up here,' " said Mr. Thaler, who co-wrote an academic paper on stock splits with UNC's Mr. Weld in 2009.

For his part, Mr. Weld theorizes that companies may have held off on splitting shares in recent years in response to the financial crisis, when stock prices dropped sharply and some big companies were humbled into performing reverse splits to raise their share price to avoid being delisted.

Even the biggest critics of the share split say there are times when it is appropriate, so long as it's about more than a cosmetic lowering of the share price. Alphabet, then called Google, effectively split its shares by creating a new class of stock in 2014. **Apple** Inc. did an unusual 7-for-1 split that same year, a move that lowered the price of the shares to a level where the company could be comfortably added to the price-weighted Dow Jones Industrial Average in 2015. And even Berkshire Hathaway in 2010 split its Class B shares to help execute an acquisition.

Amazon founder and CEO Jeff Bezos hasn't ruled out the idea of a split, which the firm did three times as a young public company.

A shareholder at Amazon's annual meeting in Seattle on Tuesday asked Mr. Bezos if he would consider splitting the company's shares to give members of the middle class and younger people the chance to afford the shares. "We don't have any plans to do this at this point," Mr. Bezos said. "But we'll continue to look at that."

Ball Corp., a supplier of metal packaging and one of the two S&P 500 companies that split its stock this year, did so in tandem with a boost to its dividend.

The dual move was designed to send a signal to investors that it has strong cash flow, though the firm believes the dividend increase is more important, said Chief Financial Officer Scott Morrison. "The split in and of itself isn't really that exciting."

—Laura Stevens contributed to this article.