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# TRIVARIATE RESEARCH

## DOES THE STATE OF INCORPORATION MATTER?

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## BACKGROUND AND RESEARCH SUMMARY

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**Background:** Over the past several months, we have seen a handful of companies move their States of Incorporation. Companies seek approval to move from the states in which they are domiciled for a variety of reasons, including differing state rules on board formation and retention, or lower fees and regulations, among other rationales. Three noteworthy recent examples of companies changing their states of incorporation are Tesla (ticker: TSLA) in February, TripAdvisor (ticker: TRIP) in March, and Cannae Holdings (Ticker: CNNE) in June. As such, we investigated whether there were any meaningful differences in stock performance between states, or companies that changed their State of Incorporation in today's research.

**Current landscape:** Over the last 25 years, the percentage of top 2000 US companies by market capitalization incorporated in Delaware has increased from just under 55% to 70% today. Recently, however, the percentage has plateaued. Less than 2% of all companies are incorporated in NY, CA, and NJ. Contrary to sentiment, the pick-up in incorporations in TX and FL has been quite modest, with both domiciling less than a combined 3% combined today.

**There are some pronounced state-by-state differences:** In Delaware, 77% of the companies incorporated there are in five sectors (Consumer Discretionary, Financials, Healthcare, Industrials, and Technology). But when we looked at other states, there are some meaningful deviations. For instance, 84% of all companies incorporated in California are Financials or Utilities. In Maryland, 71% of the companies incorporated there are in the Real Estate sector. In Texas, 60% of all the companies are either Financials or Industrials. In sum, there does appear to be some geographic rationale to these incorporations that cause state-by-state variability at the sector level.

## INVESTMENT CONCLUSIONS

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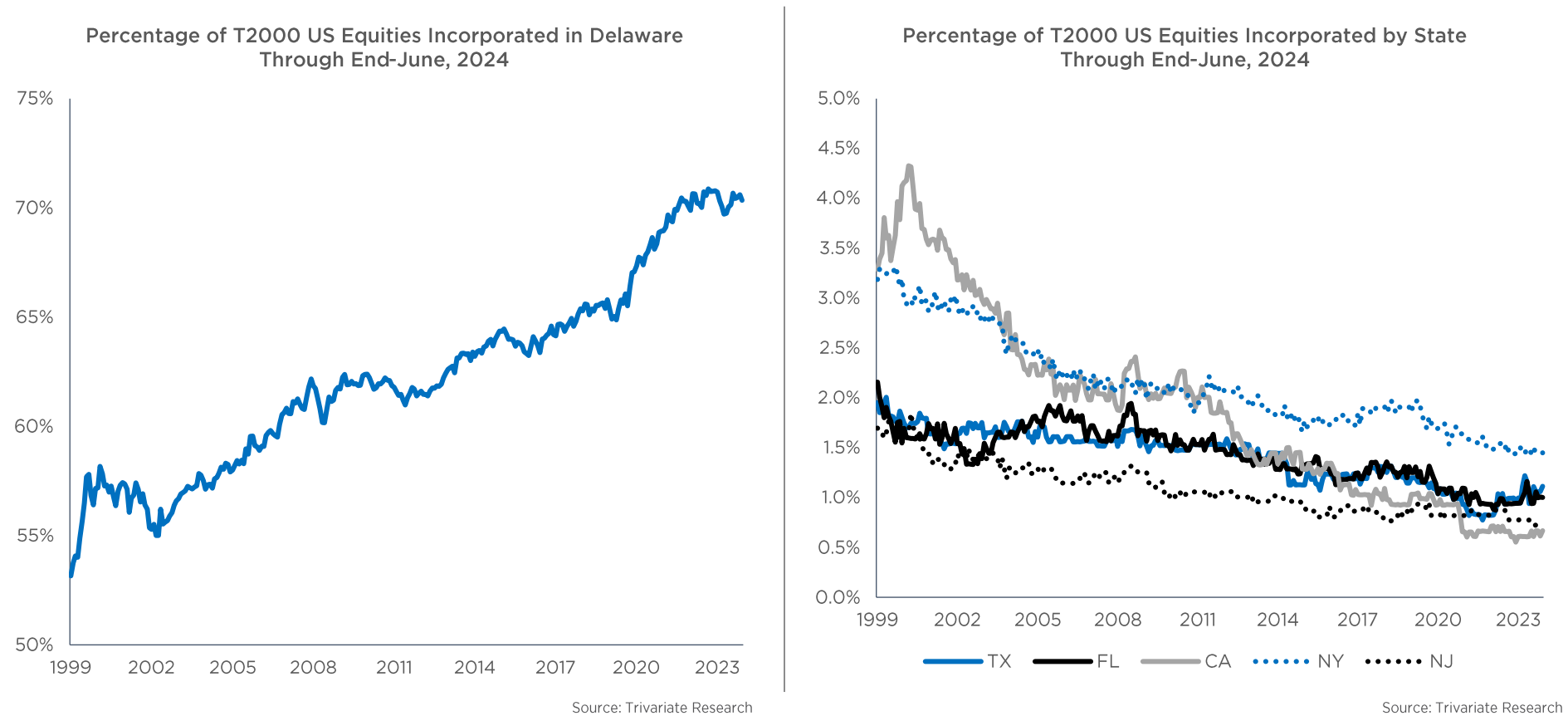
State of incorporation doesn't seem to matter for stock performance: We analyzed the long-term performance of stocks in each state to see if there was any meaningful difference in performance between states. The volatility-adjusted performance between the best state (VA) and the worst (MD) is not statistically significant, particularly as we noted MD is largely Real Estate, and totally different from DE. The highest average performance has been in MA, the lowest in NY. The highest volatility has been in NV, the lowest in VA. In summary: The State of Incorporation tells investors nothing about a company's subsequent stock returns.

Switching state of incorporation doesn't seem to matter either: We then analyzed whether a company that switches its State of Incorporation (NOT due to a deal) results in meaningfully different stock performance before or after the proposed change in states was announced. There were 92 such examples that were not deal-related. We looked at the announcement data – not the closure date – to make sure performance was not all incorporated prior to the closure. The answer is: there is no difference in the average beta-adjusted performance of stocks in one state switching to another state – both after the announcement and after closure. There is some perspective that switching out of Delaware to other states can result in lower returns, but we see no empirical evidence of this.

On slide 8 we show the performance of companies that recently announced that they are switching their states of incorporation, including TSLA.

# 70% OF ALL US COMPANIES ARE INCORPORATED IN DELAWARE

Over the last 25 years, the percentage of top 2000 US companies by market capitalization that are incorporated in Delaware has gone from just under 55% to 70% today (left). Recently however, the percentage has plateaued. Less than 2% of all companies are incorporated in New York, California, and New Jersey. Contrary to sentiment, the pick-up in incorporations in Texas and Florida has been quite modest, with both domiciling less than a combined 3% of US companies today (right).



## SOME STATES HAVE MEANINGFUL SECTOR DIFFERENCES FROM DE

In Delaware, 77% of the companies are in five sectors (Consumer Discretionary, Financials, Healthcare, Industrials, and Technology). But at the state level, there are some meaningful deviations. For instance, 84% of all companies incorporated in California are Financials or Utilities. 71% of the companies incorporated in MD are in the Real Estate sector. 60% of all the companies in Texas are either Financials or Industrials. There does appear to be some geographic rationale to these incorporations.

Sector Distribution of Companies Incorporated in Various States, Top 2000 US Equities  
As of End-June, 2024

State	Comm. Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities
DE	5%	13%	5%	6%	13%	17%	17%	17%	5%	2%	1%
CA	0%	0%	0%	0%	42%	0%	8%	8%	0%	0%	42%
FL	0%	6%	0%	6%	17%	6%	44%	0%	0%	17%	6%
IN	0%	14%	0%	0%	33%	14%	24%	5%	10%	0%	0%
MA	0%	0%	5%	0%	14%	19%	24%	33%	0%	0%	5%
MD	0%	4%	1%	0%	20%	0%	3%	1%	1%	71%	0%
MN	0%	18%	6%	6%	6%	12%	24%	0%	12%	0%	18%
NV	8%	28%	4%	8%	12%	12%	12%	16%	0%	0%	0%
NY	12%	8%	0%	0%	15%	4%	23%	19%	8%	0%	12%
OH	0%	10%	16%	0%	26%	3%	19%	0%	19%	3%	3%
PA	3%	14%	3%	6%	26%	3%	9%	11%	9%	3%	14%
TX	0%	10%	0%	5%	45%	0%	15%	5%	5%	5%	10%
VA	0%	8%	24%	0%	12%	12%	24%	0%	12%	4%	4%
WI	0%	16%	0%	0%	21%	0%	32%	11%	5%	0%	16%

Source: Trivariate Research

# HISTORICAL PERFORMANCE BY STATE WAS NOT MEANINGFUL

We analyzed the long-term performance of stocks in each state to see if there was any meaningful difference in performance between states. The volatility-adjusted performance between the best state (VA) and the worst (MD) IS not statistically significant, particularly as we noted MD is largely Real Estate, and totally different from DE. The highest average performance has been in MA, the lowest in NY. The highest volatility has been in NV, the lowest in VA.

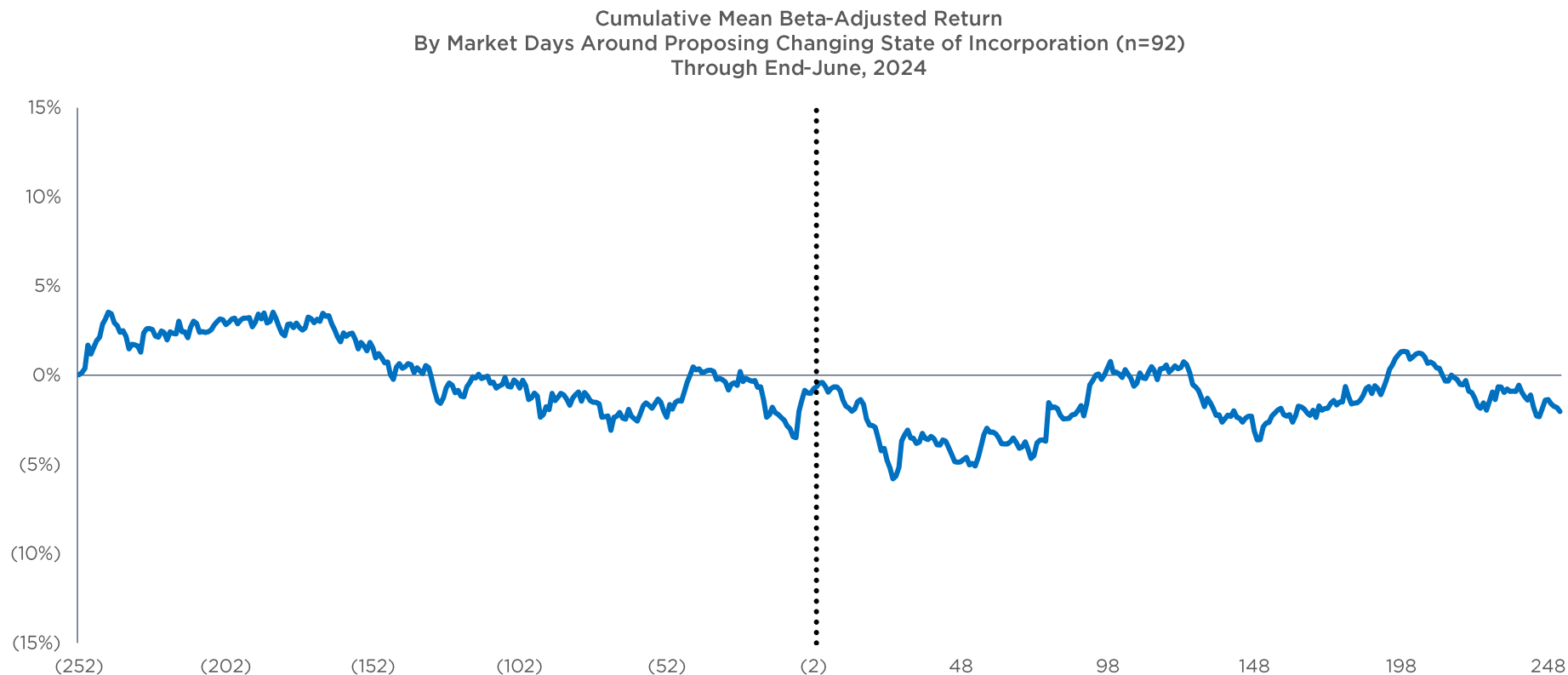
Long-Term Performance of Stocks by State of Incorporation  
States with At Least 20 Stocks Over Time, Top 2000 US Equities  
1999 to End-June, 2024

State	Annualized Mean	Annualized Standard Deviation	Sharpe Ratio	Hit Rate
VA	12.8%	16.5%	0.77	62.9%
MA	15.2%	21.7%	0.70	59.8%
NV	14.8%	23.6%	0.63	61.1%
TX	11.8%	19.1%	0.62	65.4%
CA	13.4%	21.6%	0.62	59.1%
PA	11.1%	18.0%	0.62	63.2%
IN	11.9%	19.6%	0.61	60.2%
Top 2000	11.6%	19.3%	0.60	61.3%
DE	12.3%	20.7%	0.59	61.2%
FL	11.1%	19.0%	0.58	64.1%
OH	10.8%	18.6%	0.58	60.9%
MN	11.3%	19.8%	0.57	61.3%
WI	11.0%	19.7%	0.56	59.1%
NY	10.1%	18.4%	0.55	59.9%
MD	10.7%	19.9%	0.54	61.9%

Source: Trivariate Research

## THE RETURNS OF STOCKS CHANGING STATE WEREN'T MEANINGFUL

We then analyzed whether a company that switches its State of Incorporation (NOT as a result of a deal) had meaningfully different performance before and after the proposed change in states was announced. The answer is no – the average beta-adjusted performance of stocks in one state switching to another state – both before and after the announcement – did not deviate from the overall market in a statistically significant way.



Source: Trivariate Research

## RECENT EXAMPLES OF STATE CHANGES

There has been substantial volatility in returns of those switching states, but no clear pattern over the last two years.

Companies That Have Recently Changed Their States of Incorporation  
As of July 25<sup>th</sup>, 2024

Ticker	Company	Sector	Market Cap. (US \$Bil.)	Announcement Date	1-Year Return	Former State	Current State
TSLA	Tesla, Inc.	Consumer Discretionary	703.62	4/17/2024	8.0%	DE	TX
CNNE	Cannae Holdings, Inc.	Financials	1.24	4/15/2024	(6.1%)	DE	NV
BG	Bunge Global SA	Consumer Staples	16.37	8/7/2023	(3.5%)	Bermuda	Switzerland
TRIP	Tripadvisor, Inc.	Communication Services	2.45	4/10/2023	0.5%	DE	NV
FIBK	First Interstate BancSystem, Inc.	Financials	3.36	3/10/2023	1.7%	MT	DE
DFLI	Dragonfly Energy Holdings Corp.	Industrials	0.51	1/23/2023	(70.9%)	DE	NV
AGYS	Agilysys, Inc.	Information Technology	0.93	2/9/2022	103.9%	OH	DE
CRY	Artivion, Inc.	Health Care	0.80	1/4/2022	(41.8%)	FL	DE
WGO	Winnebago Industries, Inc.	Consumer Discretionary	2.43	10/20/2021	(16.1%)	IA	MN
CSCO	Cisco Systems, Inc.	Information Technology	166.75	10/21/2020	46.1%	CA	DE
ARNC	Howmet Aerospace Inc.	Industrials	10.97	10/16/2017	(15.2%)	PA	DE
GTE	Gran Tierra Energy Inc.	Energy	0.92	4/29/2016	(13.2%)	NV	DE

Source: Trivariate Research

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