

It is my cash, and I want it now...

Aswath Damodaran

THE BIG PICTURE...



### **ASSESSING DIVIDEND POLICY**

- Approach 1: The Cash/Trust Nexus
  - Assess how much cash a firm has available to pay in dividends, relative what it returns to stockholders.
  - Evaluate **whether you can trust the managers** of the company as custodians of your cash.
- Approach 2: Peer Group Analysis
  - Find a peer group that you (or analysts following you) decide to compare your firm to...
  - Pick a dividend policy for your company that makes it comparable to other firms in its peer group.

### I. THE CASH/TRUST ASSESSMENT

- Step 1: How much did the the company **actually pay out** during the period in question?
- Step 2: How much could the company have paid out during the period under question?
- Step 3: How much do I trust the management of this company with excess cash?
  - How well did they make investments during the period in question?
  - How well has my stock performed during the period in question?

# HOW MUCH HAS THE COMPANY RETURNED TO STOCKHOLDERS?

- As firms increasing use stock buybacks, we have to measure cash returned to stockholders as not only dividends but also buybacks.
- For instance, for the five companies we are analyzing the cash returned looked as follows.

	Dis	ney	Va	ale	Tata N	<i>Notors</i>	Ва	idu	Deutsch	ne Bank
Year	Dividends	Buybacks	Dividends	Buybacks	Dividends	Buybacks	Dividends	Buybacks	Dividends	Buybacks
2008	\$648	\$648	\$2,993	\$741	7 <i>,</i> 595₹	0₹	¥0	¥0	2,274€	0€
2009	\$653	\$2,669	\$2,771	\$9	3,496₹	0₹	¥0	¥0	309€	0€
2010	\$756	\$4,993	\$3,037	\$1,930	10,195₹	0₹	¥0	¥0	465€	0€
2011	\$1,076	\$3,015	\$9,062	\$3,051	15,031₹	0₹	¥0	¥0	691€	0€
2012	\$1,324	\$4,087	\$6,006	\$0	15,088₹	970₹	¥0	¥0	689€	0€
2008-12	\$4,457	\$15,412	\$23,869	\$5,731	51,405₹	970₹	¥0	¥0	¥4,428	¥0

#### A MEASURE OF HOW MUCH A COMPANY COULD HAVE AFFORDED TO PAY OUT: FCFE

<b>Standard Definition</b>	<b>Modified Version</b>	Simplified (if debt ratio = constant)		
Not Incomo	Not Incomo	Not Incomo		
	Net meonie	iver meome		
+ Depreciation	Reinvestment			
- Cap Ex	- (Cap Ex - Depreciation + Change in Working			
- Change in WC	Capital)	<b>Reinvestment from Equity</b>		
<i>FCFE</i> before debt cash flow	<i>FCFE</i> before debt cash flow	Change in Working Capital)		
+ New Debt Issued	<b>Net CF from Debt</b> + (New Debt Issued - Debt Bonaid)			
- Debt Repaid	Kepala)			
FCFE	FCFE	FCFE		

### ESTIMATING FCFE WHEN LEVERAGE IS STABLE

- The cash flow from debt (debt issue, netted out against repayment) can be a volatile number, creating big increases or decreases in FCFE, depending upon the period examined.
- To provide a more balanced measure, you can estimate a FCFE, assuming a stable debt ratio had been used to fund reinvestment over the period.

Net Income

- (1- Debt Ratio) (Capital Expenditures Depreciation)
- (1- Debt Ratio) Working Capital Needs
- = Free Cash flow to Equity
- Debt Ratio = Debt/Capital Ratio (either an actual or a target)

# DISNEY'S FCFE AND CASH RETURNED: 2008 – 2012

	2012	2011	2010	2009	2008	Aggregate
Net Income	\$6,136	\$5,682	\$4,807	\$3,963	\$3,307	\$23,895
- (Cap. Exp - Depr)	\$604	\$1,797	\$1,718	\$397	\$122	\$4,638
- $\partial$ Working Capital	(\$133)	\$940	\$950	\$308	(\$109)	\$1,956
Free CF to Equity (pre-debt)	\$5,665	\$2,945	\$2,139	\$3,258	\$3,294	\$17,301
+ Net CF from Debt	\$1,881	\$4,246	\$2,743	\$1,190	(\$235)	\$9,825
= Free CF to Equity (actual debt)	\$7,546	\$7,191	\$4,882	\$4,448	\$3,059	\$27,126
Free CF to Equity (target debt ratio)	\$5,720	\$3,262	\$2,448	\$3,340	\$3,296	\$18,065
Dividends	\$1,324	\$1,076	\$756	\$653	\$648	\$4,457
Dividends + Buybacks	\$5,411	\$4,091	\$5,749	\$3,322	\$1,296	\$19,869

Disney returned about \$1.5 billion more than the \$18.1 billion it had available as FCFE with a normalized debt ratio of 11.58% (its current debt ratio).

#### HOW COMPANIES GET BIG CASH BALANCES: MICROSOFT IN 1996...

- Consider the following inputs for Microsoft in 1996.
  - Net Income = \$2,176 Million
  - Capital Expenditures = \$494 Million
  - Depreciation = \$480 Million
  - Change in Non-Cash Working Capital = \$35 Million
  - Debt = None

FCFE = Net Income - (Cap ex - Depr) – Change in non-cash WC – Debt CF

= \$2,176 - (494 - 480) - \$35 - 0 = \$2,127 Million

 By this estimation, Microsoft could have paid \$2,127 Million in dividends/stock buybacks in 1996. They paid no dividends and bought back no stock. Where will the \$2,127 million show up in Microsoft's balance sheet?

## FCFE FOR A BANK?

- We redefine reinvestment as investment in regulatory capital.
  - FCFE<sub>Bank</sub>= Net Income Increase in Regulatory Capital (Book Equity)
- Consider a bank with \$ 10 billion in loans outstanding and book equity of \$ 750 million. If it maintains its capital ratio of 7.5%, intends to grow its loan base by 10% (to \$11 and expects to generate \$ 150 million in net income:
  - FCFE = \$150 million (11,000-10,000)\* (.075) = \$75 million

#### Deutsche Bank: FCFE estimates (November 2013)

	Current	1	2	3	4	5
Risk Adjusted Assets (grows						
3% each year)	439,851€	453,047 €	466,638 €	480,637 €	495,056 €	509,908 €
Tier 1 as % of Risk Adj assets	15.13%	15.71%	16.28%	16.85%	17.43%	18.00%
Tier 1 Capital	66,561 €	71,156 €	75,967 €	81,002 €	86,271 €	91,783€
Change in regulatory capital		4,595 €	4,811 €	5,035€	5,269 €	5,512 €
Book Equity	76,829 €	81,424 €	86,235 €	91,270 €	96,539 €	102,051 €
ROE (increases to 8%)	-1.08%	0.74%	2.55%	4.37%	6.18%	8.00%
Net Income	-716 €	602 €	2,203 €	3,988 €	5,971 €	8,164 €
- Investment in Regulatory						
Capital		4,595 €	4,811 €	5,035€	5,269 €	5,512 €
FCFE		-3,993 €	-2,608 €	-1,047 €	702 €	2,652 €

#### **DIVIDENDS VERSUS FCFE: ACROSS THE GLOBE**

#### Why money-losing firms sometimes return cash:

1. Inertia: We have always paid dividends

- 2. <u>Signalling worries</u>: Investors may react badly to a dividend cut.
- 3. <u>Hopes of a bounceback</u>: Earnings are volatile, and will bounce back.

4. <u>Peer group pressure</u>: Everyone else pays dividends.

#### Why money-making firms sometimes don't return cash (dividends or buybacks)

- 1. Inertia: We have never returned cash
- 2. <u>Invest fpr grpwth</u>: We need to invest earning back, for growth
- 3. Earnings concerns: Earnings are volatile, and may drop

4. <u>Corporate governance</u>: Managers like to hold on to cash, and stockholders have no power

	Africa and	Australia			=1.0	Eastern			Latin	Small		United	
	Fast	Australia & NZ	Canada	China	EU &	& Russia	India	Janan	America & Caribbean	Asia	UK	States	Global
	71 32%	68 21%	17 80%	88 77%	64 66%	50 67%	30 53%	75 52%	76 97%	72 16%	78 22%	60.83%	68 0/%
	71.32%	00.21%	47.09%	00.77%	04.00%	59.07%	39.55%	75.52%	70.0776	72.10%	70.22%	00.03%	00.94%
Net Income < 0	12.52%	5.49%	3.19%	54.04%	13.17%	9.44%	6.14%	32.76%	25.17%	16.26%	17.54%	7.37%	17.31%
FCFE >0	71.21%	63.82%	43.23%	88.77%	59.05%	58.59%	40.95%	72.93%	77.24%	71.45%	74.58%	58.40%	65.46%
FCFE < 0	37.47%	12.66%	5.59%	73.08%	26.98%	20.44%	21.19%	63.76%	45.98%	39.19%	32.72%	15.84%	36.42%

#### Why negative FCFE firms sometimes return cash:

- 1. Inertia: We have always paid returned cash
- 2. <u>Hopes of a bounceback</u>: FCFE are volatile, and will bounce back.
- 3. <u>Increase leverage:</u> Firm has debt capacity and wants to increase debt ratio
- $\underline{\textbf{4. Slow liquidation:}}$  In a bad business, and wants to shrink the firm

#### Why money-making firms sometimes don't pay dividends

- 1. Inertia: We have never returned cash
- 2. <u>Hopes of a bounceback</u>: FCFE are volatile, and may become negatibe.
- 3. <u>Decrease leverage:</u> Firm has borrowed tooo
- much and wants to decrease debt ratio
- 4. Expansion plans: Wants to enter new

#### businesses or markets

#### CASH BUILDUP AND INVESTOR BLOWBACK: CHRYSLER IN 1994

\$3,000 \$9,000 \$8,000 \$2,500 \$7,000 \$2,000 \$6,000 Balance **8** \$1,500 ■ \$5,000 **use 3** \$1,000 Cash \$4,000 \$3,000 \$500 \$2,000 \$0 \$1,000 1986 1987 1988 1989 1990 1991 1992 1993 1994 1985 (\$500) \$0 Year

□ = Free CF to Equity == Cash to Stockholders --- Cumulated Cash

Chrysler: FCFE, Dividends and Cash Balance

# 6 APPLICATION TEST: ESTIMATING YOUR FIRM'S FCFE

- In general, start by estimating the FCFE
- If balance sheet used

Net Income

- + Depreciation & Amortization
- Capital Expenditures
- Change in Non-Cash Working Capital
- Preferred Dividend
- Principal Repaid
- + New Debt Issued

#### = FCFE

 And compare to cash returned Dividends (Common)
+ Stock Buybacks

#### If cash flow statement used Net Income

- + Depreciation & Amortization
- + Capital Expenditures
- + Changes in Non-cash WC
- + Preferred Dividend
- + Increase in LT Borrowing
- + Decrease in LT Borrowing
- + Change in ST Borrowing
- = FCFE

Common Dividend Stock Buybacks

#### A PRACTICAL FRAMEWORK FOR ANALYZING DIVIDEND POLICY



## A DIVIDEND MATRIX

		Quality of projects taker	n: Excess Returns
		Poor projects	Good projects
to Free Cash flow to Equity	Cash Return < FCFE	<i>Cash Surplus + Poor</i> <i>Projects</i> Significant pressure to pay out more to stockholders as dividends or stock buybacks	<i>Cash Surplus + Good Projects</i> Maximum flexibility in setting dividend policy
Cash Returned, relative	Cash return > FCFE	<i>Cash Deficit + Poor Projects</i> Reduce or eliminate cash return but real problem is in investment policy.	<i>Cash Deficit + Good Projects</i> Reduce cash payout, if any, to stockholders

## MORE ON MICROSOFT

- Microsoft had accumulated a cash balance of \$ 43 billion by 2002 by paying out no dividends while generating huge FCFE.
  - At the end of 2003, there was no evidence that Microsoft was being penalized for holding such a large cash balance or that stockholders were becoming restive about the cash balance. There was no hue and cry demanding more dividends or stock buybacks. Why?
  - In 2004, Microsoft announced a huge special dividend of \$ 33 billion and made clear that it would try to return more cash to stockholders in the future. What do you think changed?

### CASE 1: DISNEY IN 2003

- FCFE versus Dividends
  - Between 1994 & 2003, Disney generated \$969 million in FCFE each year.
  - Between 1994 & 2003, Disney paid out \$639 million in dividends and stock buybacks each year.
- Cash Balance
  - Disney had a cash balance in excess of \$ 4 billion at the end of 2003.
- Performance measures
  - Between 1994 and 2003, Disney has generated a return on equity, on it's projects, about 2% less than the cost of equity, on average each year.
  - Between 1994 and 2003, Disney's stock has delivered about 3% less than the cost of equity, on average each year.
  - The underperformance has been primarily post 1996 (after the Capital Cities acquisition).

#### CAN YOU TRUST DISNEY'S MANAGEMENT?

- Given Disney's track record between 1994 and 2003, if you were a Disney stockholder, would you be comfortable with Disney's dividend policy?
  - a. Yes
  - b. No
- Does the fact that the company is run by Michael Eisner, the CEO for the last 10 years and the initiator of the Cap Cities acquisition have an effect on your decision.
  - a. Yes
  - b. No

# THE BOTTOM LINE ON DISNEY DIVIDENDS IN 2003

- Disney could have afforded to pay more in dividends during the period of the analysis.
- It chose not to and used the cash for acquisitions (Capital Cities/ABC) and ill-fated expansion plans (Go.com).
- While the company may have flexibility to set its dividend policy a decade ago, its actions over that decade have frittered away this flexibility.
- Bottom line: Large cash balances would not be tolerated in this company. Expect to face relentless pressure to pay out more dividends.

#### FOLLOWING UP: DISNEY IN 2009

- Between 2004 and 2008, Disney made significant changes:
  - It replaced its CEO, Michael Eisner, with a new CEO, Bob Iger, who at least on the surface seemed to be more receptive to stockholder concerns.
  - Its stock price performance improved (positive Jensen's alpha)
  - Its project choice improved (ROC moved from being well below cost of capital to above)
- The firm also shifted from cash returned < FCFE to cash returned > FCFE and avoided making large acquisitions.
- If you were a stockholder in 2009 and Iger made a plea to retain cash in Disney to pursue investment opportunities, would you be more receptive?
  - a. Yes
  - b. No

### A FOLLOW-UP TWIST: DISNEY IN 2013

- Disney did return to holding cash between 2008 and 2013, with dividends and buybacks amounting to \$2.6 billion less than the FCFE (with a target debt ratio) over this period.
- Disney continues to earn a return on capital well in excess of the cost of capital and its stock has doubled over the last two years.
- Now, assume that Bob Iger asks you for permission to withhold even more cash to cover future investment needs. Are you likely to go along?
  - a. Yes
  - b. No
- It is now 2025, and Iger is back again. Given what has happened at Disney in recent years, would your judgment be different now?

#### CASE 2: VALE – DIVIDENDS VERSUS FCFE

	Aggregate	Average
Net Income	\$42,948.00	\$8,589.60
Dividends	\$23,869.00	\$4,773.80
Dividend Payout Ratio	55.58%	87.76%
Stock Buybacks	\$5,731.00	\$1,146.20
Dividends + Buybacks	\$29,600.00	\$5,920.00
Cash Payout Ratio	68.92%	
Free CF to Equity (pre-debt)	(\$3,076.00)	(\$615.20)
Free CF to Equity (actual debt)	(\$1,266.00)	(\$253.20)
Free CF to Equity (target debt ratio)	\$13,252.43	\$2,650.49
Cash payout as % of pre-debt FCFE	FCFE negative	
Cash payout as % of actual FCFE	FCFE negative	
Cash payout as % of target FCFE	223.36%	

## VALE: ITS YOUR CALL.

- Vale's managers have asked you for permission to cut dividends (to more manageable levels). Are you likely to go along?
  - Yes
  - No
- Like most Brazilian companies, Vale has two classes of shares common shares with voting rights and preferred shares without voting rights. However, Vale has committed to paying out 35% of its earnings as dividends to the preferred stockholders. If they fail to meet this threshold, the preferred shares get voting rights. If you own the preferred shares, would your answer to the question above change?
  - Yes
  - No

## MANDATED DIVIDEND PAYOUTS

- Assume now that the government decides to mandate a minimum dividend payout for all companies. Given our discussion of FCFE, what types of companies will be hurt the most by such a mandate?
  - a. Large companies making huge profits
  - b. Small companies losing money
  - c. High growth companies that are losing money
  - d. High growth companies that are making money
- What if the government mandates a cap on the dividend payout ratio (and a requirement that all companies reinvest a portion of their profits)?

#### CASE 3: BP: SUMMARY OF DIVIDEND POLICY: 1982-1991

		Summary of calculations		
	Average	Standard Deviation	Maximum	Minimum
Free CF to Equity	\$571.10	\$1,382.29	\$3,764.00	(\$612.50)
Dividends	\$1,496.30	\$448.77	\$2,112.00	\$831.00
Dividends+Repurchases	\$1,496.30	\$448.77	\$2,112.00	\$831.00
Dividend Payout Ratio	84.77%			
Cash Paid as % of FCFE	262.00%			
ROE - Required return	-1.67%	11.49%	20.90%	-21.59%

#### **BP: JUST DESSERTS!**

#### B.P.'s Shares Plummet After Dividend Is Slashed

#### By MATTHEW L. WALD

British Petroleum said yesterday that it would cut its dividend by 55 percent, take a pretax restructuring charge of \$1.82 billion for the second quarter and lay off 11,500 employees, or 10 percent of its worldwide work force. The moves came five weeks after Robert B. Horton, B.P.'s chairman, resigned under pressure from the company's outside directors.

Analysts anticipated a dividend cut by the oil company, the world's third largest, but the one announced was at the low end of their expectations. In response, shares of the company's American depository rights, each of which represents 12 shares of the London-based company, dropped \$3.625, or 7.36 percent, to \$45.375. It was the most active issue on the New York Stock Exchange, with 5.89 million shares traded.

The Royal Dutch/Shell group also reported a disappointing quarter yesterday, with earnings on a replacement cost basis — excluding gains or losses on inventory holdings — of \$868 million, down 22 bercent.

#### Quick Recovery Seems Unlikely

Adding to the gloom at B.P., the new chief executive, David A. G. Simon, said the prospects for a quick recovery were poor. "External trading conditions are expected to remain difficult, particularly for the downstream oil and chemicals businesses, with growth prospects for the world's economies remaining uncertain," he said in a statement. Downstream oil is an industry term for refining and marketing operations, as distinct from oil production.

Downstream margins in the United States would be hurt later this year, he predicted, when clean air rules

take effect and gasoline must be reformulated to reduce pollution. "In Europe, recovery will derend upon seasonal heating oil der nd," Mr. Simon said.

The crude oil market, he predicted, would remain balanced unless Iraqi oil was allowed to re-enter the market. The compary said it was well positioned to to advantage of any

#### The giant British oil company bet on rising oil prices.

increase in oil prices, but the company's oil production in the United States is declining, B.P. is the largest producer in Alaska.

The market for petrochemicals in Europe remains weak.

B.P.'s second quarter profits, before one-time transactions, declined to \$193 million from \$515 million, valuing inventories on a replacement-cost basis. James J. Murchie, an analyst at Stanford C. Bernstein, estimated that after exceptional items, earnings per share fell to 30 cents in the second quarter, compared with 62 cents a year earlier.

pared with 62 cents a year earlier. Analysts attributed B.P.'s problems to the company's acquisitions in the last few years, and heavy capital expenditures. Summing up the company's recent history, Frank P. Kneuttel of Prudential Securities Research said, "Debt rose, interest expense rose, and profits have gone to hell."

Mr. Murchle, who worked for Standard Oil of Ohlo and then B.P.



after B.P. acquired Sohlo, said, as it "What you've got is a company that thought oil prices were going to go to capital." If B.P.'s costs of finding oil are the same as the industry average, he said, then the company has been spending enough to replace 120 per-

cent to 130 percent of its annual production, which is not a successful strategy if prices do not rise. In addition, he said, the company.

had been spending twice as much on the its refining and marketing operation

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as it was recording in depreciation. Another analyst at a large stock brokerage house, who spoke on the condition of anonymity said, "They took all the old Sohio stations and turned them into modern B.P. stations; they took all the B.P. stations," and turned them into ultramodern stations." The analyst said that while some of

the cuts were obvious "some came i the cuts were obvious" some came i the cuts for a contract later Continued on Page D2

L. C. Marsher

#### MANAGING CHANGES IN DIVIDEND POLICY

	Periods Around Announcement Date						
Category	Prior Quarter	Announcement Period	Quarter After				
Simultaneous announcement of earnings decline/loss (N = 176)	-7.23%	-8.17%	+1.80%				
Prior announcement of earnings decline or loss $(N = 208)$	-7.58%	-5.52%	+1.07%				
Simultaneous announcement of investment or growth opportunities ( <i>N</i> = 16)	-7.69%	-5.16%	+8.79%				

#### CASE 4: THE LIMITED: SUMMARY OF DIVIDEND POLICY: 1983-1992

	L.	Summary of calculations		
	Average	Standard Deviation	Maximum	Minimum
Free CF to Equity	(\$34.20)	\$109.74	\$96.89	(\$242.17)
Dividends	\$40.87	\$32.79	\$101.36	\$5.97
Dividends+Repurchases	\$40.87	\$32.79	\$101.36	\$5.97
Dividend Payout Ratio	18.59%			
Cash Paid as % of FCFE	-119.52%			
<i>ROE - Required return</i>	1.69%	19.07%	29.26%	-19.84%

## **GROWTH FIRMS AND DIVIDENDS**

- High growth firms are sometimes advised to initiate dividends because its increases the potential stockholder base for the company (since there are some investors - like pension funds that cannot buy stocks that do not pay dividends) and, by extension, the stock price. Do you agree with this argument?
- Yes
- No
- Why?

## 5. TATA MOTORS

	Aggregate	Average
Net Income	\$421,338.00	\$42,133.80
Dividends	\$74,214.00	\$7,421.40
Dividend Payout Ratio	17.61%	15.09%
Stock Buybacks	\$970.00	\$97.00
Dividends + Buybacks	\$75,184.00	\$7,518.40
Cash Payout Ratio	17.84%	
Free CF to Equity (pre-debt)	(\$106,871.00)	(\$10,687.10)
Free CF to Equity (actual debt)	\$825,262.00	\$82,526.20
Free CF to Equity (target debt ratio)	\$47,796.36	\$4,779.64
Cash payout as % of pre-debt FCFE	FCFE negative	
Cash payout as % of actual FCFE	9.11%	
Cash payout as % of target FCFE	157.30%	

Negative FCFE, largely because of acquisitions.

## SUMMING UP...

	Quality of projects taker	ו: ROE versus Cost of Equi
	Poor projects	Good projects
ut relative to FCFE Cash Surplus	<i>Cash Surplus + Poor</i> <i>Projects</i> Significant pressure to pay out more to stockholders as dividends or stock buybacks	Baidu Cash Surplus + Good Projects Maximum flexibility in setting dividend policy
<i>Dividends paid o</i> Cash Deficit	Deutsche Bank Cash Deficit + Poor Projects Cut out dividends but real problem is in investment policy.	Disney Cash Deficit + Good Projects Reduce cash payout, if any, to stockholders Vale Tata Mtrs

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# 6 APPLICATION TEST: ASSESSING YOUR FIRM'S DIVIDEND POLICY

 Compare your firm's dividends to its FCFE, looking at the last 5 years of information.

- Based upon your earlier analysis of your firm's project choices, would you encourage the firm to return more cash or less cash to its owners?
- If you would encourage it to return more cash, what form should it take (dividends versus stock buybacks)?

## II. THE PEER GROUP APPROACH

 In the peer group approach, you compare your company to similar companies (usually in the same market and sector) to assess whether and if yes, how much to pay in dividends.

	D	ividend Yield	Dividend Payout				
Company	2013	Average 2008-12	2013	Average 2008-12	Comparable Group	Dividend Yield	Dividend Payout
Disney	1.09%	1.17%	21.58%	17.11%	US Entertainment	0.96%	22.51%
					Global Diversified		
Vale	6.56%	4.01%	113.45%	37.69%	(Market cap> \$1 b)	3.07%	316.32%
Tata Motors	1.31%	1.82%	16.09%	15.53%	Global Autos (Market Cap> \$1 b)	2.13%	27.00%
Baidu	0.00%	0.00%	0.00%	0.00%	Global Online Advertising	0.09%	8.66%
Deutsche Bank	1.96%	3.14%	362.63%	37.39%	European Banks	1.96%	79.32%

#### A CLOSER LOOK AT DISNEY'S PEER GROUP

Company	Market Cap	Dividends	Dividends + Buybacks	Net Income	FCFE	Dividend Yield	Dividend Payout	Cash Return/FCFE
The Walt Disney Company	\$134,256	\$1,324	\$5,411	\$6,136	\$1,503	0.99%	21.58%	360.01%
Twenty-First Century Fox, Inc.	\$79,796	\$415	\$2,477	\$7,097	\$2,408	0.52%	6.78%	102.87%
Time Warner Inc	\$63,077	\$1,060	\$4,939	\$3,019	-\$4,729	1.68%	27.08%	NA
Viacom, Inc.	\$38,974	\$555	\$5,219	\$2,395	-\$2,219	1.42%	23.17%	NA
The Madison Square Garden Co.	\$4,426	\$0	\$0	\$142	-\$119	0.00%	0.00%	NA
Lions Gate Entertainment Corp	\$4,367	\$0	\$0	\$232	-\$697	0.00%	0.00%	NA
Live Nation Entertainment, Inc	\$3,894	\$0	\$0	-\$163	\$288	0.00%	NA	0.00%
Cinemark Holdings Inc	\$3,844	\$101	\$101	\$169	-\$180	2.64%	63.04%	NA
MGM Holdings Inc	\$3,673	\$0	\$59	\$129	\$536	0.00%	0.00%	11.00%
Regal Entertainment Group	\$3,013	\$132	\$132	\$145	-\$18	4.39%	77.31%	NA
DreamWorks Animation SKG Inc.	\$2,975	\$0	\$34	-\$36	-\$572	0.00%	NA	NA
AMC Entertainment Holdings	\$2,001	\$0	\$0	\$63	-\$52	0.00%	0.00%	NA
World Wrestling Entertainment	\$1,245	\$36	\$36	\$31	-\$27	2.88%	317.70%	NA
SFX Entertainment Inc.	\$1,047	\$0	\$0	-\$16	-\$137	0.00%	NA	NA
Carmike Cinemas Inc.	\$642	\$0	\$0	\$96	\$64	0.00%	0.00%	0.27%
Rentrak Corporation	\$454	\$0	\$0	-\$23	-\$13	0.00%	NA	NA
Reading International, Inc.	\$177	\$0	\$0	-\$1	\$15	0.00%	0.00%	0.00%
Average	\$20,462	\$213	\$1,083	\$1,142	-\$232	0.85%	41.28%	79.02%
Median	\$3,673	\$0	\$34	\$129	-\$27	0.00%	6.78%	5.63%

# GOING BEYOND AVERAGES... LOOKING AT THE MARKET

 Regressing dividend yield and payout against expected growth across all US companies in January 2014 yields:

PYT = 0.649 -	0.296 (BETA)	800 (EGR)	+ .300	(DCAP)	$R^2 = 19.6\%$
(32.16)	(15.40)	(8.90)	(7.33)	)	
YLD = 0.0324	– .0154 (BETA	A)038	(EGR)	+ .023 (DCAP)	$R^2 = 25.8\%$
(38.81)	(19.41)	(13.2	5)	(13.45)	

- PYT = Dividend Payout Ratio = Dividends/Net Income
- YLD = Dividend Yield = Dividends/Current Price
- BETA = Beta (Regression or Bottom up) for company
- EGR = Expected growth rate in earnings over next 5 years (analyst estimates)
- DCAP = Total Debt / (Total Debt + Market Value of equity)

#### USING THE MARKET REGRESSION ON DISNEY

- To illustrate the applicability of the market regression in analyzing the dividend policy of Disney, we estimate the values of the independent variables in the regressions for the firm.
  - Beta for Disney (bottom up) = 1.00
  - Disney's expected growth in earnings per share = 14.73% (analyst estimate)
  - Disney's market debt to capital ratio = 11.58%
- Substituting into the regression equations for the dividend payout ratio and dividend yield, we estimate a predicted payout ratio:
  - Predicted Payout = .649 0.296 (1.00)-.800 (.1473) + .300 (.1158) = .2695
  - Predicted Yield = 0.0324 .0154 (1.00)-.038 (.1473) + .023 (.1158) = .0140
- Based on this analysis, Disney with its dividend yield of 1.09% and a payout ratio of approximately 21.58% is paying too little in dividends. This analysis, however, fails to factor in the huge stock buybacks made by Disney over the last few years.