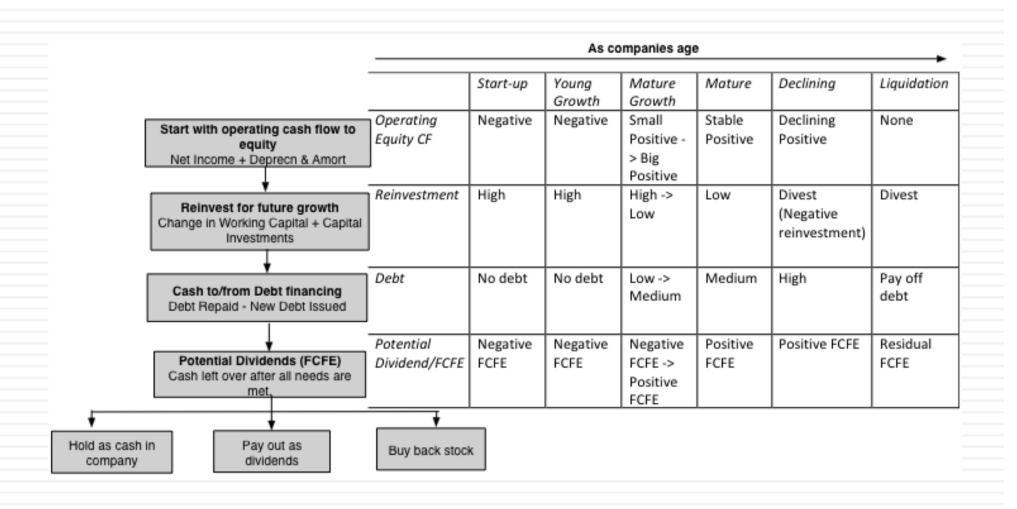
# DATA 2017 UPDATE 9: DIVIDENDS, THE RODNEY DANGERFIELD OF FINANCE

Aswath Damodaran

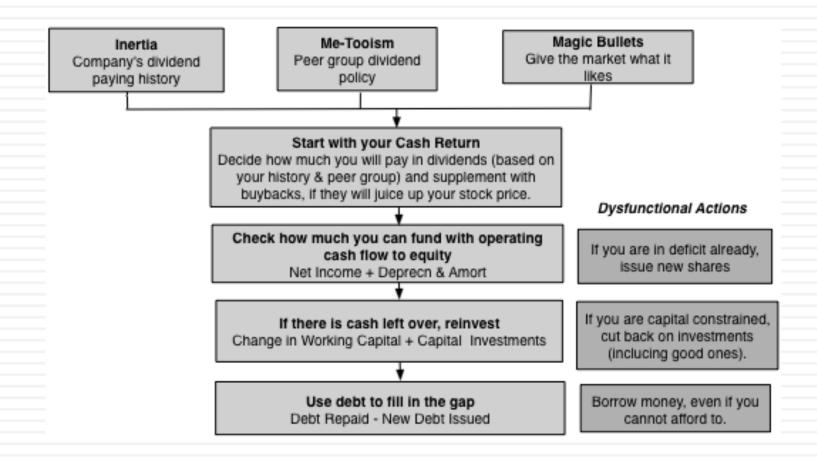
#### The Dividend Decision

- The dividend decision gets no respect and very little serious attention from either academics or practitioners.
- In many companies, the decision of how much to pay on dividends is made either on auto pilot or on a me-too basis.
- That surprises me, since just as a farmer's payoff from planting crops comes from the harvest, an investor's payoff from investing should come from cash flows being returned.

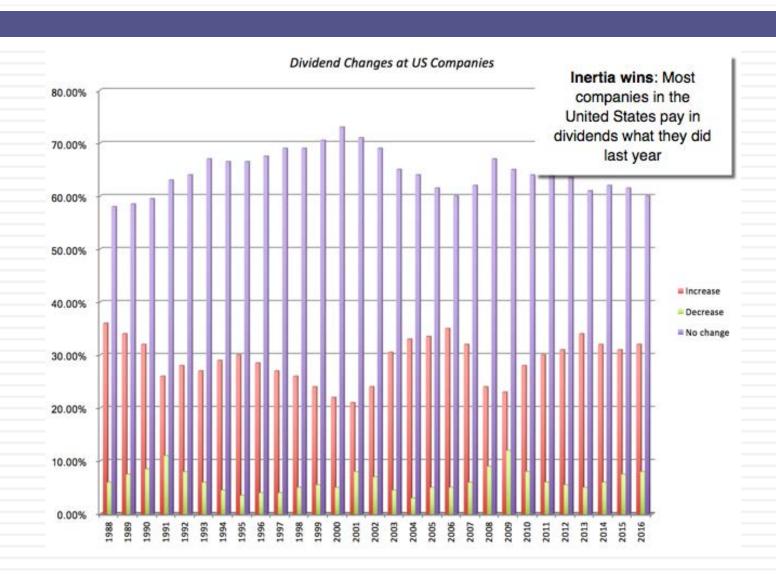
#### Dividends, the Logical Sequence



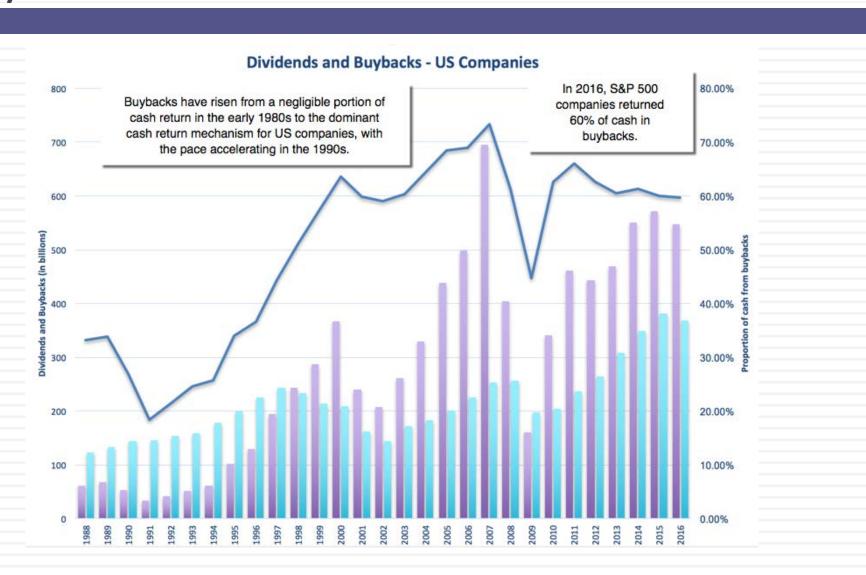
#### Dividends, the Dysfunctional Sequence



### 1. Dividends and sticky



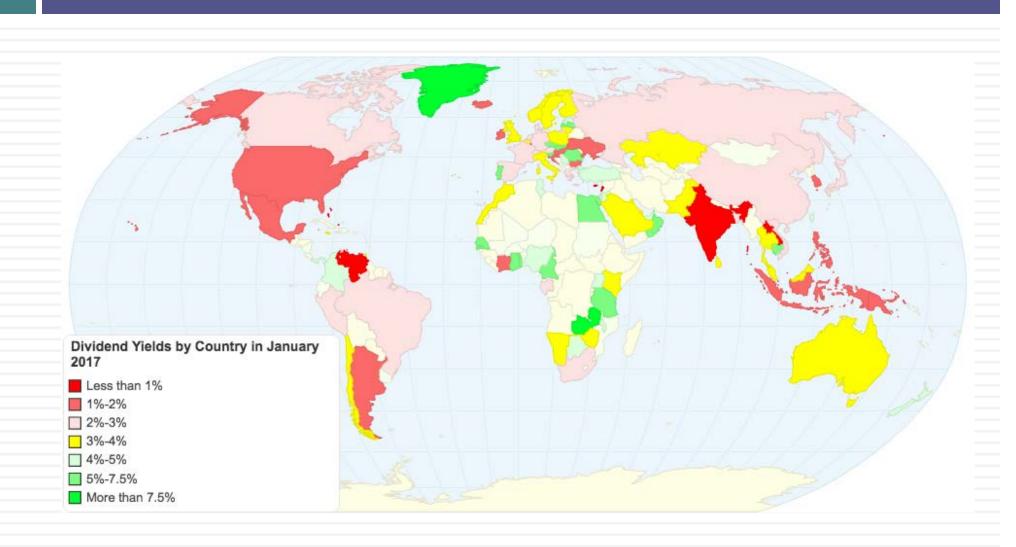
# 2. Dividends are being replaced by Stock Buybacks



#### Measuring Dividends Paid

Cash Return Statistic	Definition	What it measures
Dividend Yield	Dividends/Market Cap	Portion of equity return that comes from dividends
Dividend Payout	Dividends/Net Income (if net income is positive, NA if negative)	Proportion of earnings held back by the company for reinvestment or as cash balance
Cash Return/FCFE	(Dividends + Buybacks)/FCFE (if FCFE is positive, NA if negative)	Percentage of potential dividends returned to stockholders. Remaining goes into cash balance

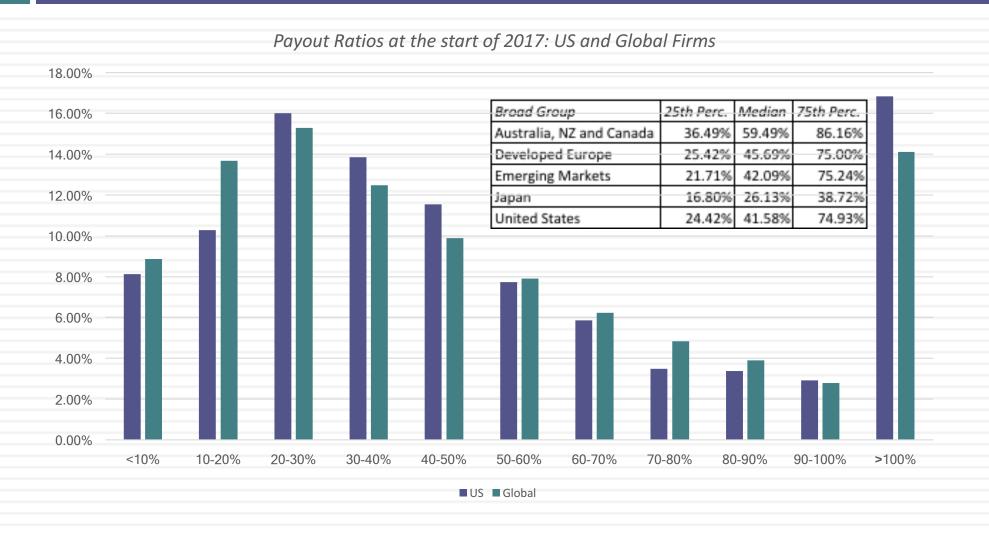
# Dividend Yields & Payout: Global



### A Regional Comparison

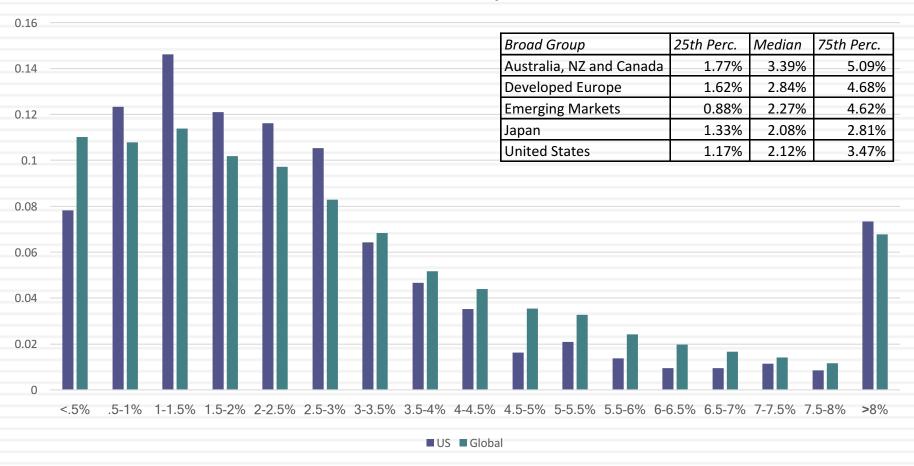
Sub Group	Dividends	Buybacks	Dividend Yield	Cash Return Yield	Buybacks as % of Cash	Dividend Payout	Cash Payout
Africa and Middle East	\$60,060	\$3,236	3.42%	3.60%	5.11%	54.99%	57.95%
Australia & NZ	\$51,049	\$6,304	4.00%	4.49%	10.99%	177.90%	199.87%
Canada	\$45,593	\$21,665	2.41%	3.56%	32.21%	162.72%	240.04%
China	\$269,800	\$18,014	2.61%	2.79%	6.26%	48.76%	52.01%
EU Environs	\$302,565	\$127,252	2.92%	4.15%	29.61%	61.73%	87.70%
East Europe & Russia	\$12,799	\$7,732	2.98%	4.78%	37.66%	26.59%	42.65%
India	\$15,408	\$1,047	0.99%	1.05%	6.36%	30.40%	32.47%
Japan	\$121,840	\$59,378	2.48%	3.68%	32.77%	41.36%	61.51%
Latin America	\$36,267	\$11,545	1.96%	2.58%	24.15%	53.78%	70.90%
Small Asia	\$110,558	\$24,411	2.64%	3.22%	18.09%	43.85%	53.53%
UK	\$100,647	\$27,079	3.39%	4.31%	21.20%	147.08%	186.65%
United States	\$491,299	\$602,988	1.93%	4.30%	55.10%	56.09%	124.93%
Global	\$1,617,886	\$910,653	2.41%	3.77%	36.02%	56.44%	88.20%

#### Dividend Payout Ratio: January 2017



#### Dividend Yields: January 2017

#### Dividend Yeilds at the start of 2017: US & Global



#### Highest Cash Return Sectors - US

					Dividends +	
Industry name	Number of firms	Dividends	Net Income	Payout	Buybacks	Cash Return as % of Net Income
Software (System & Application)	236	\$15,151.34	\$29,411.55	51.51%	\$48,354.25	164.41%
Drugs (Biotechnology)	426	\$8,962.10	\$19,474.23	46.02%	\$35,518.16	182.39%
Education	36	\$73.65	\$314.31	23.43%	\$ 689.23	219.29%
Engineering/Construction	48	\$282.77	\$613.29	46.11%	\$ 1,369.93	223.37%
Restaurant/Dining	86	\$6,207.60	\$12,250.75	50.67%	\$29,939.62	244.39%
Food Wholesalers	16	\$731.90	\$1,347.18	54.33%	\$ 3,314.00	246.00%
Insurance (General)	19	\$3,251.45	\$5,663.57	57.41%	\$19,106.19	337.35%
Hospitals/Healthcare Facilities	38	\$206.47	\$703.48	29.35%	\$ 4,342.55	617.30%
Oil/Gas Distribution	78	\$26,996.88	\$4,163.51	648.42%	\$28,017.30	672.92%
Oil/Gas (Integrated)	7	\$22,799.00	\$1,749.90	1.38%	\$24,309.35	1389.18%

#### Lowest Cash Return Sectors

Industry name	Number of firms	Dividends	Net Income	Payout	Dividends + Buybacks	Cash Return as % of Net Income
Shoe	10	\$1,127.53	\$4,443.07	25.38%	\$ 267.24	6.01%
Paper/Forest Products	23	\$248.79	\$1,894.67	13.13%	\$ 360.42	19.02%
Reinsurance	3	\$98.30	\$1,289.30	7.62%	\$ 378.30	29.34%
Real Estate (Operations & Services)	54	\$130.03	\$1,131.43	11.49%	\$ 361.15	31.92%
Auto & Truck	15	\$6,027.70	\$21,194.81	28.44%	\$ 9,326.08	44.00%
Homebuilding	33	\$355.01	\$5,035.73	7.05%	\$ 2,225.80	44.20%
Chemical (Diversified)	8	\$3,652.00	\$11,213.60	32.57%	\$ 5,428.00	48.41%
Software (Internet)	297	\$1,165.14	\$20,999.79	5.55%	\$11,367.88	54.13%
Building Materials	41	\$607.80	\$3,984.65	15.25%	\$ 2,478.10	62.19%
Healthcare Products	254	\$4,359.82	\$15,309.77	28.48%	\$ 9,595.85	62.68%

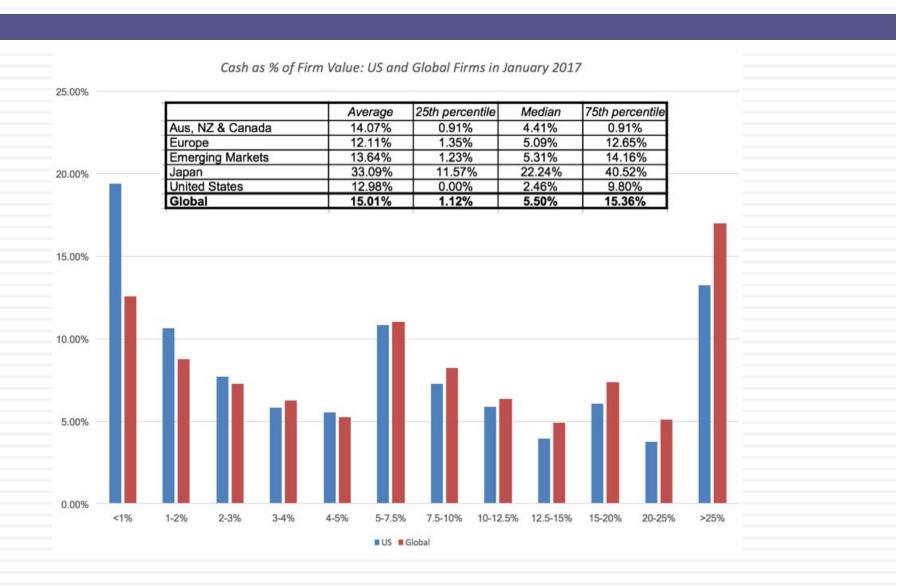
#### Dividends and Cash Balances

 The cash balance of a company is a direct consequence of how much cash it chooses to return, relative to its potential dividends (FCFE).

$$Cash \ Balance = \sum_{t=-n}^{t=0} \{FCFE_t - (Dividends_t + Buybacks_t)\} + New \ Stock \ Issued_t$$

- If a company issues no new equity, the only way it can accumulate a large cash balance is by consistently returning less than the FCFE, year after year.
- Any discussion of dividend policy is indirectly also a discussion about cash balances. Put differently, the question of whether a company has too large or small a cash balance is also a question about whether the firm returns too little or too much cash to investors.

#### Cash Holdings across Companies



#### In closing

- 1. Stocks are not bonds: It might be time to reexamine the notion of fixed and predictable dividends, as the cash payoff on stocks. It harkens back to a different era, when stocks were marketed as bonds with some price appreciation and where the companies that were traded were mature companies with stable earnings.
- Equity is a residual claim: In a global setting where earnings are increasingly difficult to predict, it makes more sense to make dividends into a residual cash flow.
- Letting go will be hard: The adjustment will take time and there will be many (investors and companies) that will have difficult adjusting.