

**The  
CORPORATE  
LIFECYCLE**

**BUSINESS,  
INVESTMENT, AND  
MANAGEMENT  
IMPLICATIONS**

**ASWATH  
DAMODARAN**

**THE DIVIDEND  
DECISION ACROSS  
THE LIFE CYCLE**

*Aswath Damodaran*



Start with equity earnings

Net Income

*plus*

Add back non-cash expenses

Depreciation & Amortization

*minus*

Net out capital expenditures

Capital Expenditures & Acquisitions

*minus*

Net out working capital needs

Change in non-cash Working Capital

*plus*

Add (subtract) debt issued (repaid)

(New Borrowings - Debt repaid)

*equals*

Gives you cash that can be returned

**Free Cash Flow to Equity (Potential Dividend)**

Reinvestment for future growth

# CASH RETURN: MEASURING POTENTIAL DIVIDENDS



	<b>Airbnb</b>	<b>Adobe</b>	<b>Kraft Heinz</b>
<b>Net Income</b>	-\$352	\$4,822	\$1,012
<b>+ Depreciation</b>	\$147	\$788	\$910
<b>- Cap Expenditures</b>	\$25	\$3,030	\$905
<b>+ Divestitures</b>	\$0	\$0	\$5,014
<b>- Change in non-cash WC</b>	-\$138	-\$742	-\$406
<b>FCFE before debt</b>	-\$93	\$3,322	\$6,437
<b>+ New Debt Raised</b>	\$1,979	\$0	\$3,772
<b>- Debt Repaid</b>	\$1,995	\$0	\$1,960
<b>FCFE</b>	-\$109	\$3,322	\$3,235

## FCFE EXAMPLES





■ Net Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
■ FCFE before debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

# FCFE AS COMPANIES AGE: TESLA



Age Decile	# firms	Average Age	Net Income		Absolute Values			Relative Values	
			% Positive	% Negative	Net Income	Market Cap	Revenues	As % of Market Cap	As % of Revenues
Youngest	499	5.04	26.85%	73.15%	\$ (55)	\$ 1,126,924	\$ 319,900	0.00%	-0.02%
2nd decile	522	9.43	29.89%	70.11%	\$ (7,107)	\$ 1,411,921	\$ 234,351	-0.50%	-3.03%
3rd decile	577	13.58	41.77%	58.23%	\$ (13,783)	\$ 1,676,741	\$ 285,956	-0.82%	-4.82%
4th decile	718	18.12	48.19%	51.81%	\$ 45,637	\$ 3,648,970	\$ 698,047	1.25%	6.54%
5th decile	488	23.49	61.07%	38.93%	\$ 237,085	\$ 5,335,170	\$ 1,124,673	4.44%	21.08%
6th decile	652	29.49	66.41%	33.59%	\$ 141,129	\$ 5,200,863	\$ 1,379,075	2.71%	10.23%
7th decile	578	38.19	71.11%	28.89%	\$ 168,379	\$ 4,306,529	\$ 1,883,320	3.91%	8.94%
8th decile	606	52.48	80.53%	19.47%	\$ 441,970	\$ 12,785,577	\$ 3,675,083	3.46%	12.03%
9th decile	581	86.88	83.13%	16.87%	\$ 272,575	\$ 6,338,688	\$ 3,392,256	4.30%	8.04%
Oldest	584	140.22	91.27%	8.73%	\$ 443,447	\$ 8,875,169	\$ 4,619,250	5.00%	9.60%
All firms	6,542	42.24	60.27%	39.73%	\$ 1,746,044	\$ 51,632,631	\$ 18,010,220	3.38%	9.69%

# NET INCOME ACROSS LIFE CYCL



# REINVESTMENT ACROSS LIFE CYCLE

Age Decile	# firms	Average Age	Reinvestment (in \$)			Reinvestment as % of Revenues		
			Net Cap Ex	Change in non-cash WC	Reinvestment	Net Cap Ex	Change in non-cash WC	Reinvestment
Youngest	499	5.04	\$ 23,630	\$ 8,058	\$ 31,688	7.39%	2.52%	9.91%
2nd decile	522	9.43	\$ 13,198	\$ 9,176	\$ 22,373	5.63%	3.92%	9.55%
3rd decile	577	13.58	\$ 16,247	\$ 8,671	\$ 24,918	5.68%	3.03%	8.71%
4th decile	718	18.12	\$ 62,010	\$ 8,105	\$ 70,116	8.88%	1.16%	10.04%
5th decile	488	23.49	\$ 90,396	\$ 19,875	\$ 110,271	8.04%	1.77%	9.80%
6th decile	652	29.49	\$ 97,602	\$ 30,451	\$ 128,053	7.08%	2.21%	9.29%
7th decile	578	38.19	\$ 109,105	\$ 24,922	\$ 134,027	5.79%	1.32%	7.12%
8th decile	606	52.48	\$ 151,139	\$ 51,906	\$ 203,044	4.11%	1.41%	5.52%
9th decile	581	86.88	\$ 135,034	\$ 7,848	\$ 142,882	3.98%	0.23%	4.21%
Oldest	584	140.22	\$ 196,861	\$ 14,437	\$ 211,298	4.26%	0.31%	4.57%
All firms	6,542	42.24	\$ 908,805	\$ 189,037	\$ 1,097,842	5.05%	1.05%	6.10%



# DEBT CASH FLOWS ACROSS LIFE CYCLE

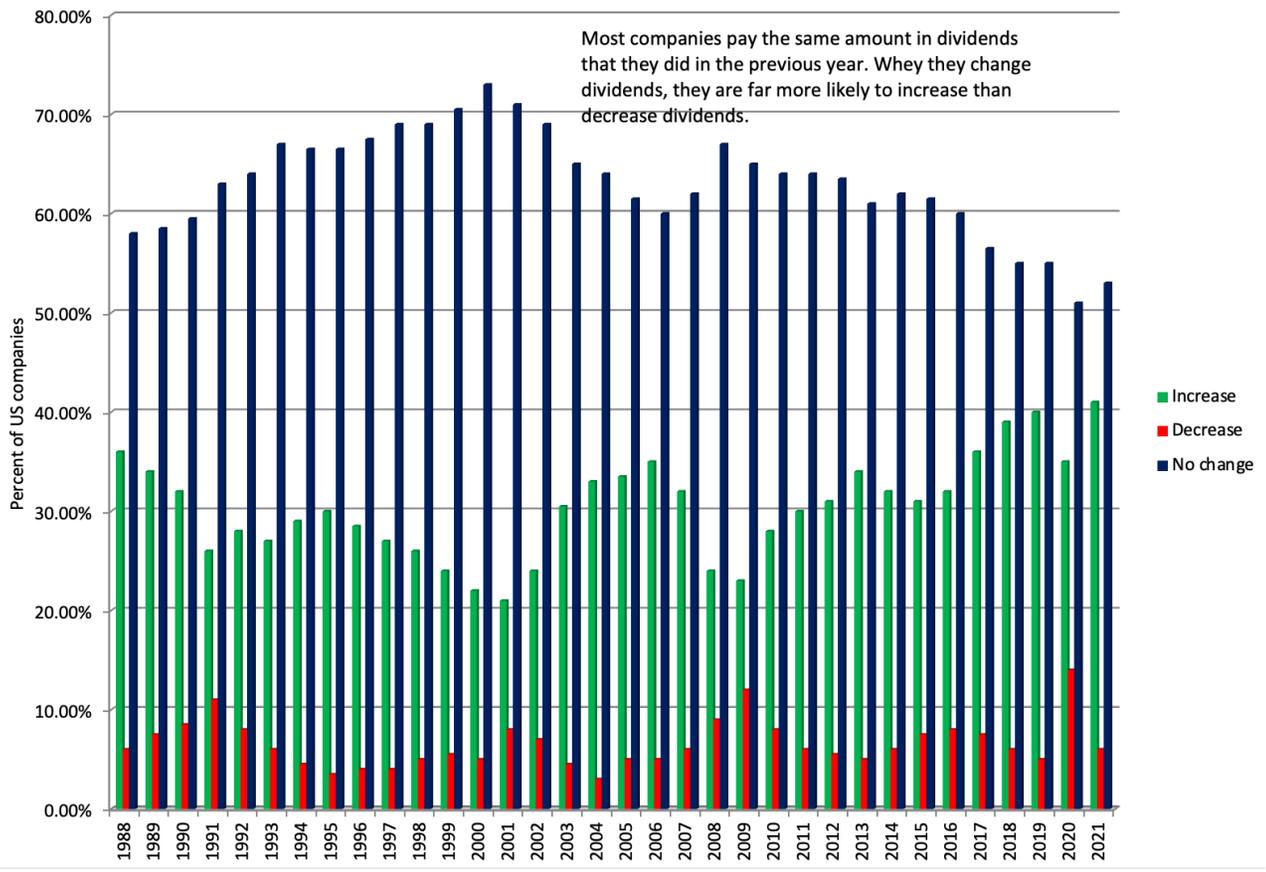
Age Decile	# firms	Average Age	Debt Cash Flows (in \$)			Debt Cash Flows (as % of Mkt Cap)		
			Debt Raised	Debt Repaid	Debt Raised - Debt Repaid	Debt Raised	Debt Repaid	Debt Raised - Debt Repaid
Youngest	499	5.04	\$ 84,557	\$ 81,784	\$ 2,773	7.50%	7.26%	0.25%
2nd decile	522	9.43	\$ 440,923	\$ 407,614	\$ 33,309	31.23%	28.87%	2.36%
3rd decile	577	13.58	\$ 3,047,999	\$ 3,029,136	\$ 18,863	181.78%	180.66%	1.13%
4th decile	718	18.12	\$ 139,534	\$ 129,418	\$ 10,115	3.82%	3.55%	0.28%
5th decile	488	23.49	\$ 253,522	\$ 198,831	\$ 54,691	4.75%	3.73%	1.03%
6th decile	652	29.49	\$ 2,579,024	\$ 2,532,428	\$ 46,597	49.59%	48.69%	0.90%
7th decile	578	38.19	\$ 409,397	\$ 359,079	\$ 50,318	9.51%	8.34%	1.17%
8th decile	606	52.48	\$ 1,541,161	\$ 1,500,417	\$ 40,744	12.05%	11.74%	0.32%
9th decile	581	86.88	\$ 1,969,257	\$ 2,067,172	\$ (97,915)	31.07%	32.61%	-1.54%
Oldest	584	140.22	\$ 772,170	\$ 932,487	\$ (160,317)	8.70%	10.51%	-1.81%
All firms	6,542	42.24	\$ 11,320,471	\$ 11,321,542	\$ (1,071)	21.93%	21.93%	0.00%



Age Decile	# firms	Average Age	Free Cash Flows to Equity (pre-debt)			Free Cash Flows to Equity (post-debt)		
			\$ Value	% Negative	As % of Revenues	\$ Value	% Negative	As % of Revenues
Youngest	499	5.04	\$ (31,743)	76.15%	-9.92%	\$ (28,970)	75.75%	-9.06%
2nd decile	522	9.43	\$ (29,480)	72.99%	-12.58%	\$ 3,828	70.11%	1.63%
3rd decile	577	13.58	\$ (38,702)	61.53%	-13.53%	\$ (19,839)	62.74%	-6.94%
4th decile	718	18.12	\$ (24,478)	55.99%	-3.51%	\$ (14,363)	56.96%	-2.06%
5th decile	488	23.49	\$ 126,814	45.08%	11.28%	\$ 181,504	48.77%	16.14%
6th decile	652	29.49	\$ 13,077	43.87%	0.95%	\$ 59,673	45.55%	4.33%
7th decile	578	38.19	\$ 34,352	44.64%	1.82%	\$ 84,670	46.89%	4.50%
8th decile	606	52.48	\$ 238,926	37.95%	6.50%	\$ 279,670	45.38%	7.61%
9th decile	581	86.88	\$ 129,693	35.46%	3.82%	\$ 31,778	44.75%	0.94%
Oldest	584	140.22	\$ 232,149	27.05%	5.03%	\$ 71,832	42.47%	1.56%
All firms	6,542	42.24	\$ 648,201	48.98%	3.60%	\$ 647,130	52.37%	3.59%

# FCFE ACROSS LIFE CYCLE

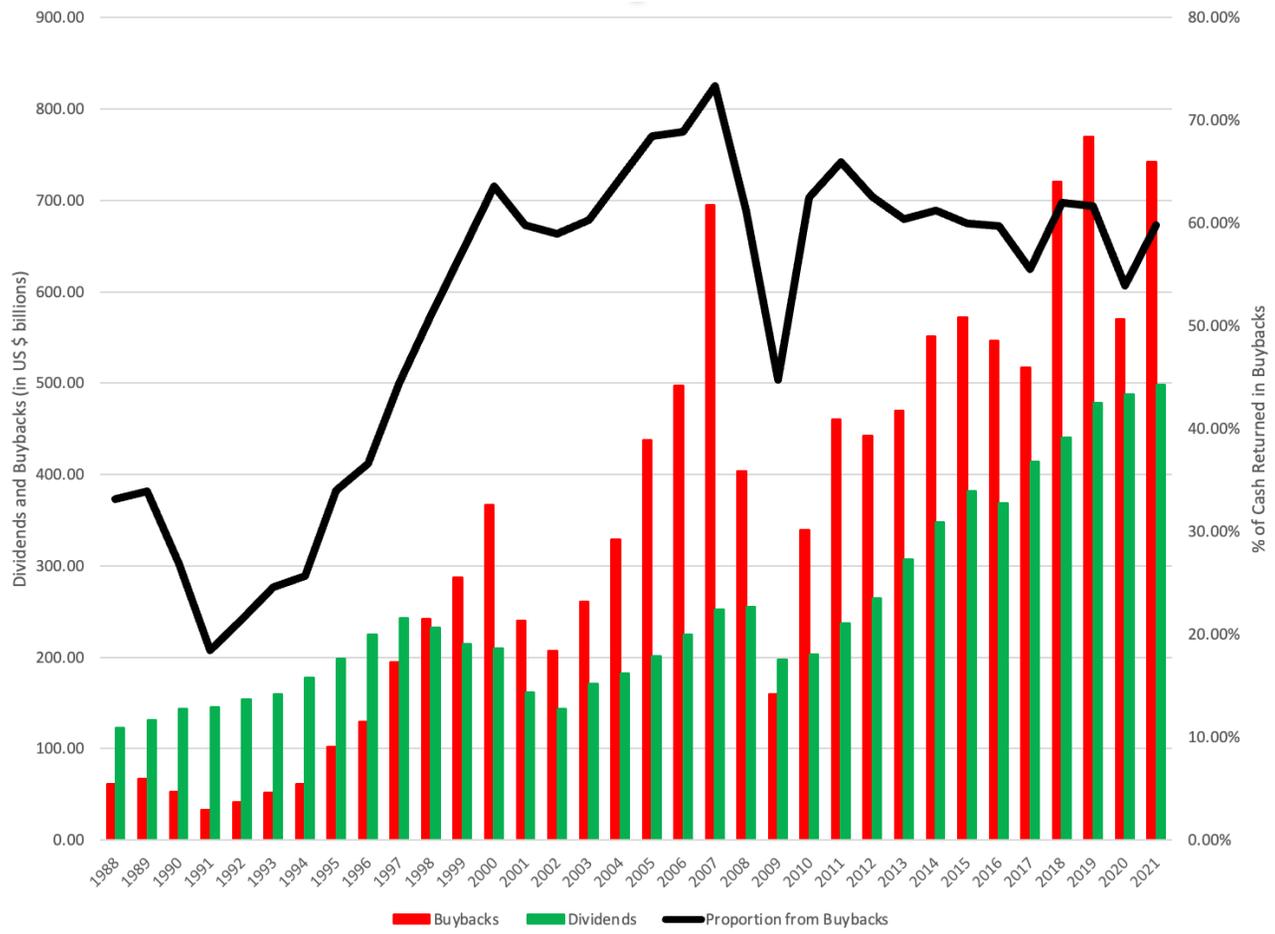




# CASH RETURN: DIVIDEND STICKINESS







Aswath Damodaran

# THE RISE OF BUYBACKS IN THE US



<i>Sub Region</i>	<i>Number of firms</i>	<i>Market Cap (\$ mil)</i>	<i>Net Income (\$ mil)</i>	<i>Dividends (\$ mil)</i>	<i>Buybacks (\$ mil)</i>	<i>Dividend Payout</i>	<i>% of cash from Buybacks</i>	<i>Cash Payout Ratio</i>
Africa and Middle East	2,356	4698102	260259	138928	\$ 12,274.95	53.38%	8.12%	58.10%
Australia & NZ	1,878	1930982	77123	45034	\$ 6,578.66	58.39%	12.75%	66.92%
Canada	2,937	3129490	162432	65382	\$ 34,780.69	40.25%	34.72%	61.66%
China	7,043	19024215	1001151	471821	\$ 50,414.13	47.13%	9.65%	52.16%
Eastern Europe & Russia	528	649262	99799	33562	\$ 6,154.50	33.63%	15.50%	39.80%
EU & Environs	6,000	17098249	868662	332208	\$ 132,019.21	38.24%	28.44%	53.44%
India	3,982	3572361	120717	35772	\$ 8,540.15	29.63%	19.27%	36.71%
Japan	3,947	6510572	448920	127328	\$ 58,087.77	28.36%	31.33%	41.30%
Latin America & Caribbean	1,043	1724743	122751	61399	\$ 17,400.56	50.02%	22.08%	64.19%
Small Asia	9,408	7205112	426861	160991	\$ 10,953.15	37.72%	6.37%	40.28%
UK	1,255	3599149	193457	86628	\$ 18,860.98	44.78%	17.88%	54.53%
United States	7,229	52446672	1789714	591709	\$ 842,299.68	33.06%	58.74%	80.12%
Global	47,607	121588908	5571847	2150763	\$ 1,198,364.43	38.60%	35.78%	60.11%

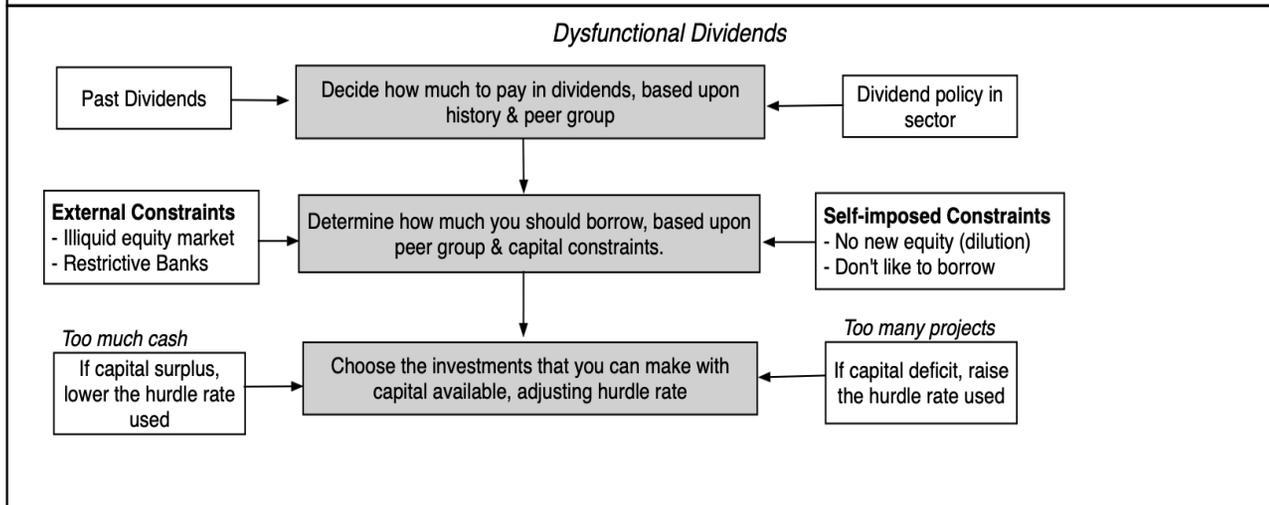
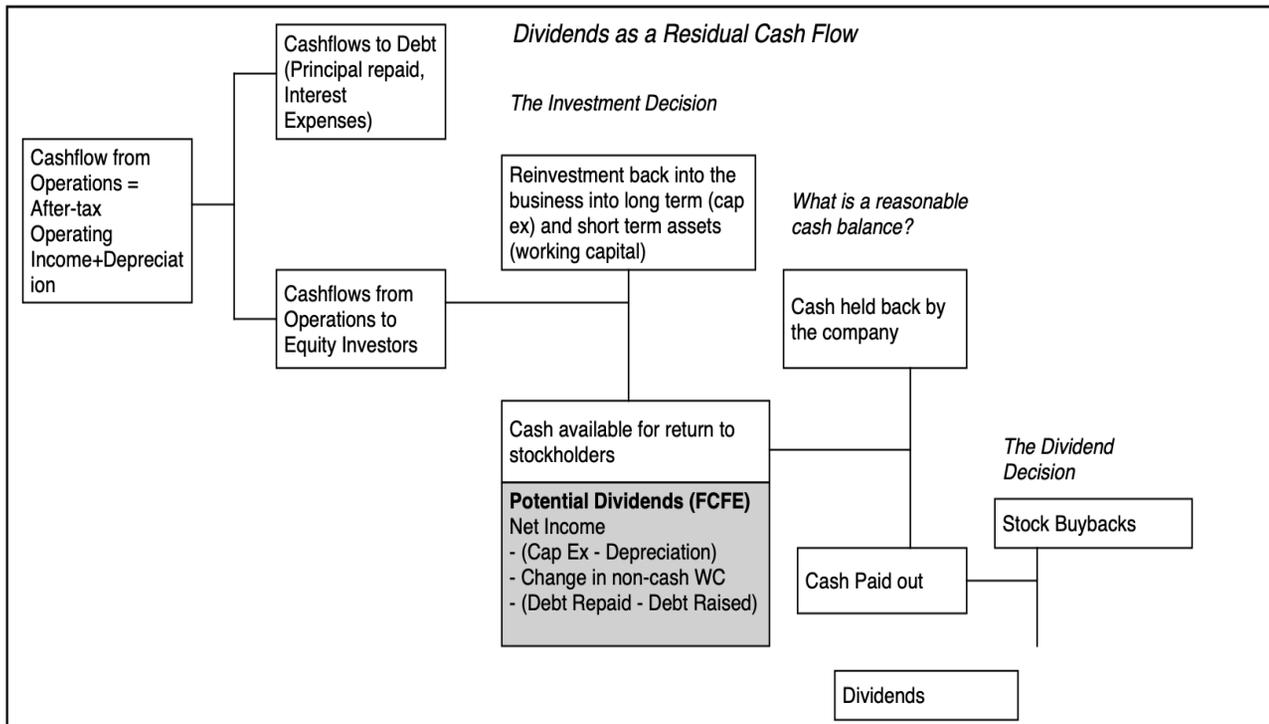
**AND ACROSS THE  
WORLD...**



# CASH RETURN CHOICES ACROSS THE LIFE CYCLE

Age Decile	# firms	Average Age	Cash Returners		Dividend Payers		Stock Buybacks	
			% Returning Cash	% Not Returning Cash	% of Dividend Payers	% of Non-dividend Payers	% Buying Back	% Not Buying Back
Youngest	499	5.04	30.66%	69.34%	15.03%	84.97%	23.05%	76.95%
2nd decile	522	9.43	30.27%	69.73%	11.49%	88.51%	26.44%	73.56%
3rd decile	577	13.58	30.85%	69.15%	12.31%	87.69%	27.38%	72.62%
4th decile	718	18.12	32.31%	67.69%	11.56%	88.44%	28.41%	71.59%
5th decile	488	23.49	43.24%	56.76%	15.98%	84.02%	38.52%	61.48%
6th decile	652	29.49	48.16%	51.84%	22.39%	77.61%	41.87%	58.13%
7th decile	578	38.19	56.92%	43.08%	25.61%	74.39%	49.13%	50.87%
8th decile	606	52.48	68.15%	31.85%	42.74%	57.26%	57.92%	42.08%
9th decile	581	86.88	79.69%	20.31%	62.13%	37.87%	63.86%	36.14%
Oldest	584	140.22	84.42%	15.58%	74.83%	25.17%	64.38%	35.62%
All firms	6,542	42.24	46.90%	53.10%	27.10%	72.90%	39.15%	60.85%





# DYSFUNCTIONAL DIVIDENDS!



Returning no cash when a firm has positive FCFE or returning less cash than is available, as FCFE, adds to cash balances.

Returning cash when a firm has negative FCFE or returning more cash than is available as FCFE will burn through cash.

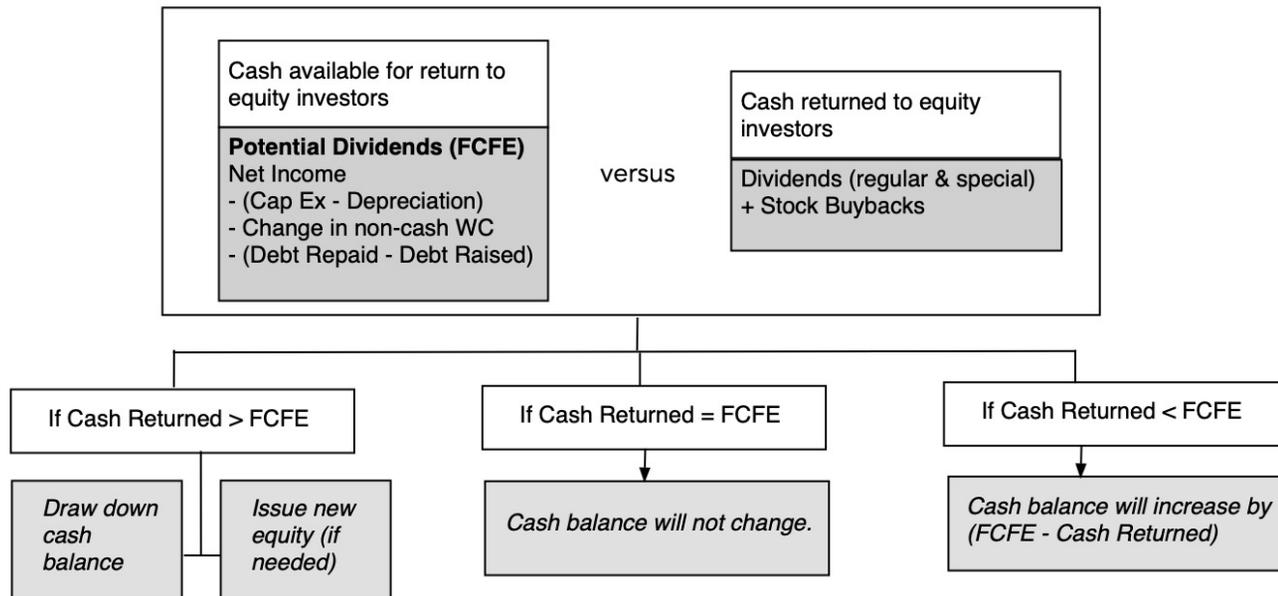
	<i>Positive FCFE, No cash returned</i>	<i>Cash returned, FCFE &gt; Dividends + Buybacks</i>	<i>Total Cash Accumulators</i>	<i>FCFE &lt; 0, No Cash Return</i>	<i>Cash returned, FCFE &lt; Dividends + Buybacks</i>	<i>FCFE Negative, Cash Returned</i>	<i>Cash Burners</i>
Australia, NZ and Canada	9.45%	9.19%	18.63%	67.71%	3.92%	9.74%	81.37%
Developed Europe	18.01%	22.12%	40.13%	33.30%	7.46%	19.10%	59.87%
Emerging Markets	14.66%	24.29%	38.96%	24.62%	8.25%	28.18%	61.04%
Japan	13.93%	36.89%	50.81%	13.59%	7.61%	27.98%	49.19%
United States	10.88%	18.47%	29.35%	35.11%	8.10%	27.44%	70.65%
Global	14.06%	22.77%	36.82%	30.75%	7.61%	24.82%	63.18%

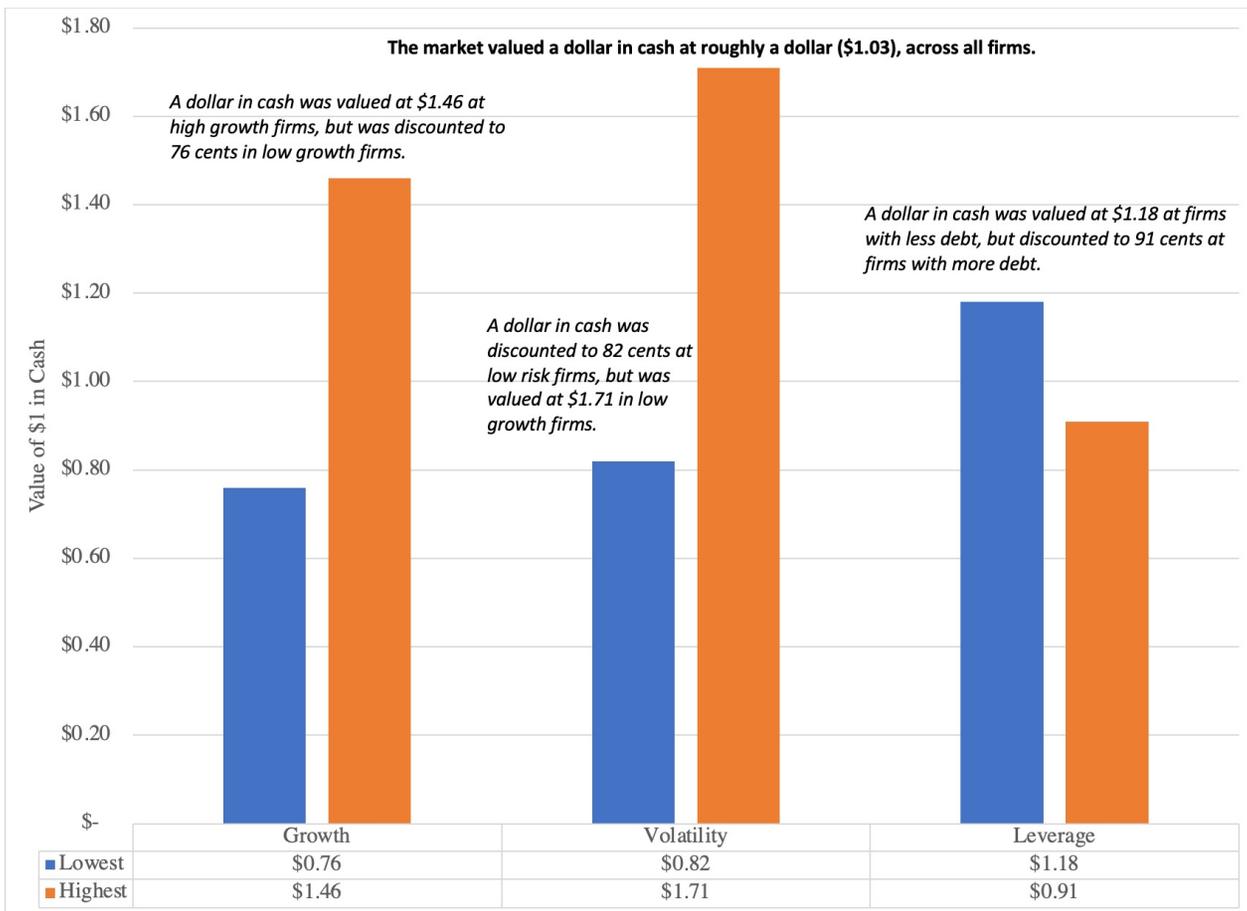
In a sample of 47,606 publicly traded firms, listed globally, 36.82% returned less cash than they had available as FCFE, in 2021, and 63.18% returned more in cash than they had available as FCFE.

# A GLOBAL PICTURE OF CASH RETURN VS FCFE



# CASH RETURN AND CASH BALANCES





# INVESTOR VIEWS OF CASH BALANCES



# DIVIDEND POLICY ACROSS THE LIFE CYCLE!

