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## Corporate Dividend Policy

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## The Theory and Practice of Corporate Dividend and Share Repurchase Policy



## Executive Summary

This paper discusses the theory and practice of corporate dividend and share repurchase policy drawing on the results of a recent survey.

### Theoretical Considerations

- The table below lists the factors that are important in the choice between dividends and repurchases as a payout mechanism

Factor	Dominating Payout Form
Taxes	Depends
Conveying information	Depends on time horizon
Management bonding	Dividends
Shareholder rights	Depends on other factors
Investor preferences	Depends on preferences
Attracting monitors	Depends on other factors
Managing EPS	Repurchases
Changing capital structure	Depends on other factors
Residual policy	Depends on other factors

### Survey Results

- Dividends continue to be the most important distribution mechanism. Of those firms who make some kind of distribution, 94% pay dividends, compared to 39% of the firms buying back shares
- When firms decide on the choice of distribution mechanism, they assign roughly equal weights to five factors:
  - The signal it sends to capital markets
  - The flexibility afforded by the distribution mechanism
  - The accounting implications
  - The tax efficiency of the alternatives
  - The attractiveness to different investors
- All of the above factors, except for the accounting implications, have strong theoretical support
- More than three quarters of the firms that pay dividends have a dividend payout ratio target. However, they are willing to deviate from that target when they set the level of the dividend. Firms set the dividend level so that they do not have to cut it; in addition it is important for companies to keep the dividend per share level stable or growing
- When firms globally are faced with insufficient cash flows to maintain the dividend, their first response is to cut the dividend, followed by cutting deferrable investment and borrowing up to the credit rating limit. The willingness of firms to cut the

dividend when cash flows are insufficient reduces the relative signalling power of dividends over share repurchases

➤ A notable exception is the North American region where cutting dividends is only considered after several other options have been exhausted

- Firms pay special dividends as a return of excess funds to shareholders
- Firms repurchase shares to return excess funds to shareholders, to increase leverage, and to take advantage of temporary mispricing of their shares. Increasing reported EPS and mitigating dilution from employee stock option schemes also affect repurchase decisions, although less strongly

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# Introduction

## This Paper

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This paper provides an overview of current dividend and share repurchase policy theory together with a detailed analysis of the results of a recent corporate survey. The paper is divided into three sections:

- This Introduction
- Theoretical Considerations
- Survey Results

## Global Survey of Corporate Financial Policies & Practices

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The empirical evidence in this paper is drawn from a survey conducted during mid 2005 by Professor Henri Servaes of London Business School and Professor Peter Tufano of Harvard Business School. The project was originated and sponsored by Deutsche Bank AG with the Global Association of Risk Professionals (GARP) acting as secondary sponsor.

334 companies globally participated with responses distributed widely by geography and by industry. Further details of the sample can be found in the note "Survey Questions and Sample" which is available at [www.dbbonds.com/lsg/reports.jsp](http://www.dbbonds.com/lsg/reports.jsp).

## Related Papers

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In addition to this paper, five other papers drawing on the results of the survey include:

- CFO Views
- Corporate Capital Structure
- Corporate Debt Structure
- Corporate Liquidity
- Corporate Risk Management

All these papers are available at [www.dbbonds.com/lsg/reports.jsp](http://www.dbbonds.com/lsg/reports.jsp). The website also contains a streaming video of Professors Servaes and Tufano presenting an overview of the results at a Deutsche Bank hosted conference.

## Notation and Typographical Conventions

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The symbol  $\bar{x}$  denotes the mean of a dataset, while  $\tilde{x}$  denotes the median.  $N$  denotes the size of the dataset. All questions in the survey were optional and some questions were not asked directly, depending on the answers to previous questions. Therefore, the number of responses,  $N$ , to different questions varies and is shown for each question. Items in *italics* indicate that the term appeared as one of the answer options in the survey question. Items underlined indicate a reference to one of the other papers in this series. Due to rounding, the figures in some charts may not add up to the 100% or the total shown.

Unless otherwise stated, all data in this document is drawn from the results of The Global Survey of Corporate Financial Policies and Practices.

## Theoretical Considerations

In this section we discuss the various arguments about dividend and share repurchase policy that have been advanced on theoretical grounds.

### Irrelevance

To understand how payout policy may affect shareholder value, it is important to understand under the circumstances under which it does not matter.

As a starting point in the analysis, let's consider a very simplified scenario in which:

- There are no taxes
- Corporate executives have the same set of information as investors
- There are no transaction costs
- Investors and markets are rational
- The firm's level of investment is fixed
- There are no costs of recontracting or bankruptcy
- The interest of managers and shareholders are aligned

We call these the *perfect capital markets* assumptions. Under these conditions, consider the following example.

#### Example 1

A firm has assets that generate annual cash flows of €15 in perpetuity. To maintain its assets, the firm needs to invest €5 annually.

Equity investors in this all-equity firm demand a required rate of return of 10%, to compensate them for the inherent risk of the assets.

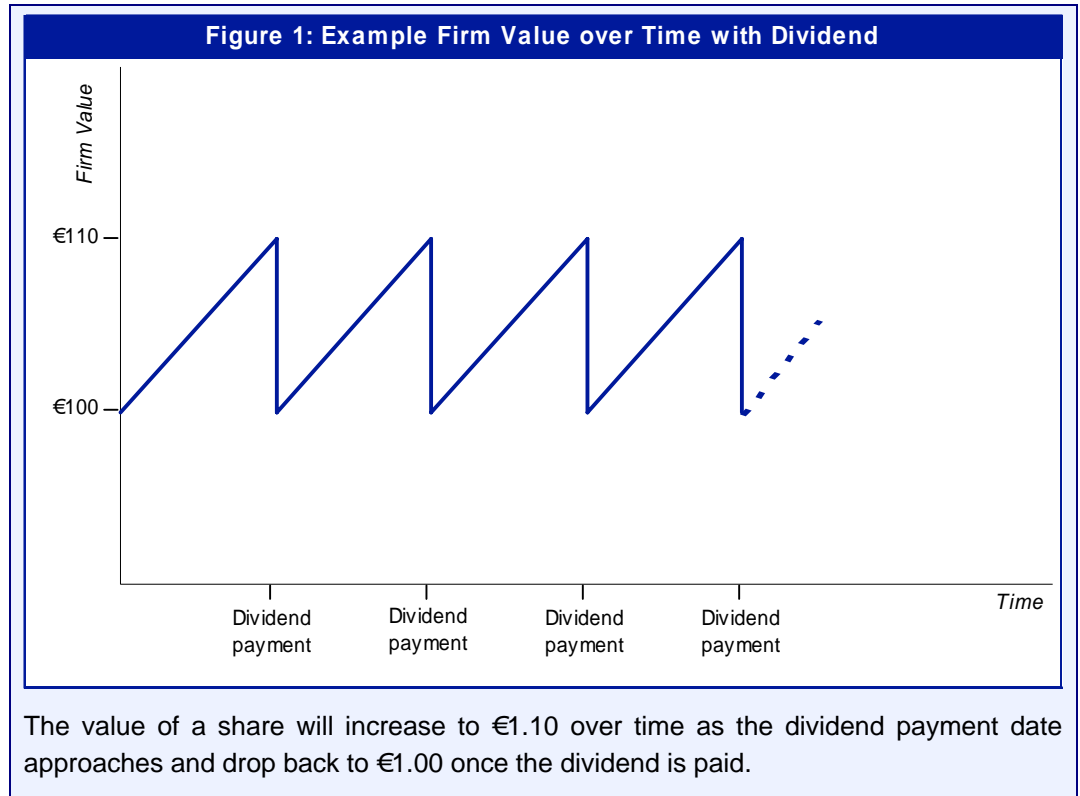
If the firm just pays out €10 per year as a dividend, after having reinvested €5, the value of the firm is €100 [=10/10%].<sup>1</sup> If the firm has 100 shares outstanding, each share is worth €1. This can be computed either as firm value/number of shares outstanding, or as dividend per share divided by the required rate of return: €1.00 [=0.10/10%].

Let us examine the immediate effect on the value of the firm of the dividend payment. The valuation of €100 computed above assumes that the next dividend is paid exactly one year from now. As time goes by, firm value increases to reflect the fact that the next dividend payment comes closer. Right before the €10 dividend payment, firm value will be nearly €110 because investors are entitled to €10 almost immediately plus a perpetuity of €10 starting one year from now. After the dividend payment, the value of the firm declines back to €100.

Figure 1 illustrates the value of the firm over time.

<sup>1</sup> See Appendix II for derivation of this formula.

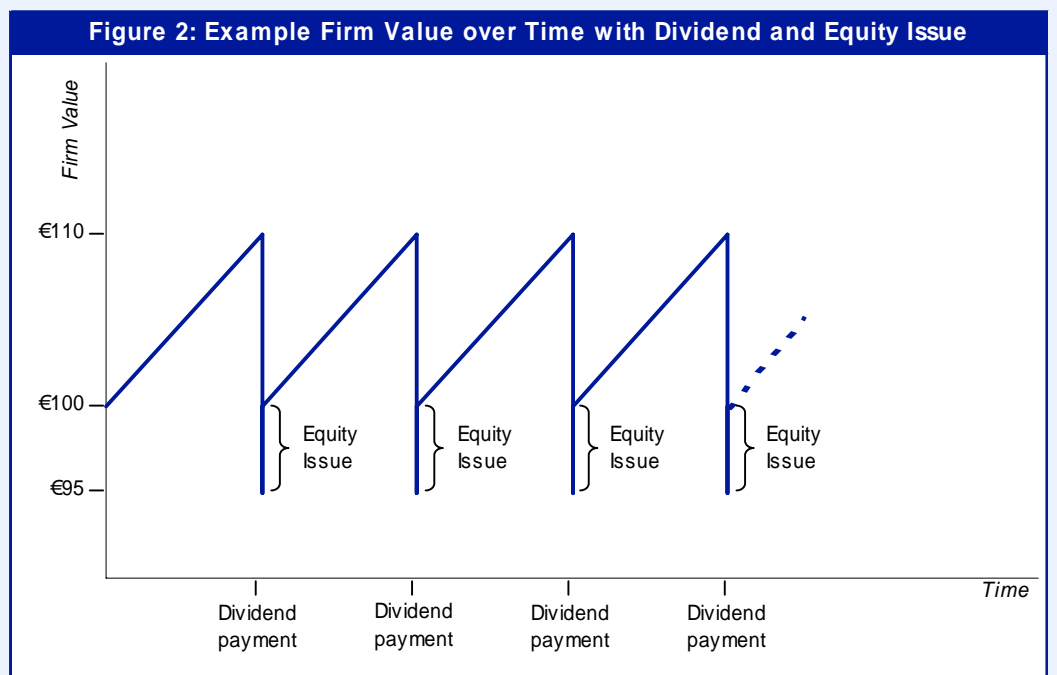




**Example 2**

What happens to firm value if instead of paying out €10, the firm pays out the entire €15 and then immediately raises the additional funding through an equity issue?

Firm value will drop temporarily to €95 after the dividend payment, but immediately after the equity issue, it will increase again to €100 and the above scenario continues. The following graph illustrates this pattern.



Thus, fundamentally, firm value will not be affected by the decision to pay out all earnings as a dividend, as long as the firm raises additional financing to continue its

predetermined investment policy [see Miller and Modigliani (1961) for the first theoretical analysis of this issue].

**Example 3**

But does this firm value effect also apply to shareholders? After all, the €15 annual dividend payment corresponds to a dividend per share of €1.50, which at a required rate of return of 10% seems to translate into a share price of €15. However, this logic is flawed. The dividend per share in one year will be €1.50, but it will be smaller in subsequent years because there will be more shares outstanding after the equity issue.

Figure 3 illustrates what happens over the following 10 years in this example

**Figure 3: Share Price with Equity Issuance**

Year	Shares Outstanding Start of Year	Dividend	Dividend Per Share	Number of Shares Issued	Shares Outstanding Year End
1	100.00	15.00	0.1500	5.26	105.26
2	105.26	15.00	0.1425	5.54	110.80
3	110.80	15.00	0.1354	5.83	116.64
4	116.64	15.00	0.1286	6.14	122.77
5	122.77	15.00	0.1222	6.46	129.24
6	129.24	15.00	0.1161	6.80	136.04
7	136.04	15.00	0.1103	7.16	143.20
8	143.20	15.00	0.1048	7.54	150.73
9	150.73	15.00	0.0995	7.93	158.67
10	158.67	15.00	0.0945	8.35	167.02

At the end of the first year, the firm pays a dividend per share of €0.15. Firm value declines to €95 or €0.95 per share after the dividend payment. The firm then needs to issue 5.26 [=5/0.95] more shares, increasing the number of shares outstanding to 105.26. At the end of the second year, the total dividend is still €15, but divided by 105.26 shares, this implies a dividend per share of only €0.1425. The firm will again have to issue €5 worth of shares. The share price after the dividend payment has now declined 0.9025 [=95/105.26], so the firm will have to issue 5.54 [=5/0.9025] new shares. This will repeat indefinitely. However, note that today's price per share is not affected. The expected dividend per share in year 1 is €0.15, declining at a 5% rate annually. We can therefore value this as a growing perpetuity with a growth rate of -5%.

The value of a cash flow  $C_1$  starting one year from now, and growing at a rate of  $g\%$ , with a required rate of return of  $r\%$  is<sup>2</sup>

$$\frac{C_1}{r - g}$$

Thus, the value of a share in the company is: €1.00 [=0.15/ (0.10-(-0.05))]. This is exactly the same as the share value with a dividend payment of €0.10 per share annually. Both firm value and share price are unaffected by the decision to increase the payout. This result is also known as Miller and Modigliani's dividend irrelevance

<sup>2</sup> See Appendix II for derivation of this formula.

proposition. It says that the value of the firm is unaffected by dividend policy as long as investment policy is fixed.

If the firm decided to pay the €15 out as a dividend, we would see the share price decline over time, which is not the case if the firm pays €10 out as a dividend. However, the investor is not worse off, because the decline in share price is compensated by a higher dividend. This is illustrated in the following figure.

**Figure 4: Evolution of Dividends and Capital Gains**

Year	Share Price at the Start of Year	Dividend Per Share	Capital Gain	Share Price at End of Year	Total Return
1	1.0000	0.1500	-0.0500	0.95	10%
2	0.9500	0.1425	-0.0475	0.90	10%
3	0.9025	0.1354	-0.0451	0.86	10%
4	0.8574	0.1286	-0.0429	0.81	10%
5	0.8145	0.1222	-0.0407	0.77	10%
6	0.7738	0.1161	-0.0387	0.74	10%
7	0.7351	0.1103	-0.0368	0.70	10%
8	0.6983	0.1048	-0.0349	0.66	10%
9	0.6634	0.0995	-0.0332	0.63	10%
10	0.6302	0.0945	-0.0315	0.60	10%

The annual return is 10% for every year, made up of a 15% dividend yield and a 5% capital loss. Thus, the investor takes more in dividend income, but sacrifices stock price appreciation. If investors do not want this outcome, they can reinvest part of the dividend, so that their portfolio holdings in the company continue to be €1. The following figure illustrates this strategy

**Figure 5: Keeping €Investment in the Firm Constant**

Year	Shares Held at Start of Year	Share Price at Start of Year	Share Price at Year End	Dividend Per Share	Total Dividend Received by Investor	Dividend Reinvested	Shares Purchased	Total Shares Held	Portfolio Holdings
1	1.000	1.000	0.950	0.150	0.15	0.05	0.053	1.053	1.00
2	1.053	0.950	0.903	0.143	0.15	0.05	0.055	1.108	1.00
3	1.108	0.903	0.857	0.135	0.15	0.05	0.058	1.166	1.00
4	1.166	0.857	0.815	0.129	0.15	0.05	0.061	1.228	1.00
5	1.228	0.815	0.774	0.122	0.15	0.05	0.065	1.292	1.00
6	1.292	0.774	0.735	0.116	0.15	0.05	0.068	1.360	1.00
7	1.360	0.735	0.698	0.110	0.15	0.05	0.072	1.432	1.00
8	1.432	0.698	0.663	0.105	0.15	0.05	0.075	1.507	1.00
9	1.507	0.663	0.630	0.100	0.15	0.05	0.079	1.587	1.00
10	1.587	0.630	0.599	0.095	0.15	0.05	0.084	1.670	1.00

The investor starts with 1 share held at the start of the year. The investor receives a dividend of €0.15, but reinvests €0.05 in the firm. These funds are employed to purchase 0.053 new shares at a price of €0.95. At the end of the year, the investor now holds 1.053 shares worth €0.95 each, for a total portfolio of €1.00. This scenario continues in the subsequent 10 years.

In sum, investors can decide for themselves how much they want as a 'net' dividend and how much they want to reinvest in the firm. Firms cannot affect value by changing dividend payout policy, as long as investment decisions are fixed.

**Example 4**

Could the firm in the above example have increased its value if it decided to employ the €10 of excess funds to repurchase shares instead of paying a dividend? Again, the answer is no. If the firm employs the funds to repurchase shares, there will be fewer shares outstanding and each share is worth more. However, the value of the firm as a whole is unaffected. A shareholder in the above scenario can expect a 10% share price appreciation annually, but no dividend income. The following figure lists the relevant variables in case of a share repurchase.

**Figure 6: Share Repurchase Instead of a Dividend Payment**

Year	Shares Outstanding Start of Year	Price Per Share at Year-End	Shares Repurchased	Shares Outstanding at Year End
1	100.00	1.10	9.09	90.91
2	90.91	1.21	8.26	82.64
3	82.64	1.33	7.51	75.13
4	75.13	1.46	6.83	68.30
5	68.30	1.61	6.21	62.09
6	62.09	1.77	5.64	56.46
7	56.45	1.95	5.13	51.32
8	51.32	2.14	4.67	46.65
9	46.65	2.36	4.24	42.41
10	42.41	2.59	3.86	38.55

If an investor wants some income from the shares, the investor can simply sell some shares on the open market to maintain their ownership in the firm at €1. Note that investors in the firm who buy shares back are not taking on more risk by having returns in the form of capital gains. It is completely up to investors to determine how much exposure they want to the firm. If they want less exposure, they can sell their stock. Thus, the firm's choice between dividends and capital gains has nothing to do with the risk appetite of investors.

In sum, the irrelevance argument of payout policy suggests that firms cannot create value when changing their payout policy as long as the level of investment is held fixed. An investor who does not receive enough income can always sell some shares to create a home-made dividend. Similarly, investors who do not want the dividends can use them to purchase more shares and maintain or increase their ownership in the company.

We now relax the perfect capital market assumptions one by one to examine their effect on optimal payout policy.

## Personal Taxes and Dividend–Repurchase Choice

In the above example, investors were indifferent between dividends and repurchases because their returns were exactly the same in both scenarios: 10%. Investors did not care whether they received a 10% capital appreciation or a 10% dividend yield, or any combination between the two. However, this is not the case if the personal tax rate on dividends is different from the personal tax on capital gains. Investors then need to decide whether they value a 10% capital gain more than a 10% dividend. This depends on two factors:

- The statutory tax rates on dividends and capital gains
- The expected holding period of the investor

Even if the two tax rates are the same, the payments of dividends have immediate tax consequences, but were dividends not paid, but rather reinvested to produce capital gains, the tax consequences arise when the shares are sold. If the investor does not plan on selling their shares for say 10 years, the *effective* capital gains tax rate is much lower than the statutory capital gains tax rate.

The firm's decision is then one of using that distribution method which imposes the lowest personal taxes on investors. In some countries, this decision is straightforward. For example, in the United States, there are virtually no investors who pay a lower tax on dividends than on capital gains.<sup>3</sup> The conclusion is that, from a tax perspective, U.S. companies should never pay dividends. Capital gains are virtually always taxed lower.

The situation in, for example, the U.K. is less straightforward. The effective tax rate on dividend payments for individuals in the highest bracket is 25%. The capital gains tax is 40% for those individuals; however, investors who hold shares for longer periods of time can exclude some gains from taxes. For a holding period of 10 years or more, 40% of the gains can be excluded. This implies that the actual tax rate is 40% of 60% of the gain or 24%. Moreover, there is the effect of deferment—holding shares for 10 years implies you only pay capital gains taxes in 10 years. The implication is that U.K. companies should pay dividends if most of their investors have a short-term holding period, while they should repurchase shares if most of their investors have a long-term holding period.

The fact that the method of payout depends on the tax preference of investors leads to what is called *dividend clienteles*. That is, firms attract a clientele of investors who favour the payout policies adopted by the firm. Firms with high payouts will attract investors who pay low taxes on dividends, while firms with low payouts or payouts through repurchases attract investors who pay low taxes on capital gains. Because the investors have chosen investments based on their current payout policy, the firm does not benefit from changing its policy.

While the dividend clientele argument has some appeal, we note two caveats:

- As the above discussion suggests, in the US most investors prefer capital gains, yet many firms still pay dividends

<sup>3</sup> The only major exception is corporations who receive dividends from their ownership in other corporations. They only have to pay taxes on 30% of the dividend. This reduces the effective tax on dividend income to 30% of the corporate tax rate of 35%, which is 10.5%.

- If investors focus too much on payout policy in their portfolio decisions, they are likely to end up with a portfolio that is less diversified and may lack exposure to certain sectors of the economy

The dividend clientele argument does not necessarily rely on taxes alone. If, for whatever reason, certain groups of investors prefer companies with certain payout policies, they could also form a dividend clientele.

## Asymmetric Information

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In this section, we discuss the choice between paying dividends or repurchasing shares when investors have less information about the prospects of the firm than managers. Two separate questions need to be addressed:

- Are firms indifferent between dividend payments and repurchases?
- Will payout policy affect the investment policy of the firm so that we can no longer rely on the irrelevance result?

### Signalling and Underinvestment

We will deal with the second question first. In the section on Irrelevance, we argued that firm value does not depend on payout policy, as long as investment policy is fixed. But, if the market is poorly informed about the firm's prospects, would firms have an incentive to give up some of their investment? Miller and Rock (1985) argued that this is exactly what will happen. The market will interpret a dividend payment (or a repurchase) as a signal of quality, which will create an incentive for the firm to underinvest, so that more funds are available to signal quality.<sup>4</sup> The surprising result of their analysis is that high quality firms will underinvest more, because they can afford it, and therefore have the greatest incentive to signal.

This dividend signalling theory has several implications:

- Firms will pay dividends to signal quality to the market
- Firms will be very reluctant to cut their dividend because that will provide a negative signal
- Firms will not increase their dividend unless they feel comfortable that they can maintain the dividend in the future; as a result, the pattern in dividend payments will be much smoother than the pattern in earnings or cash flows
- Dividend increases are associated with positive stock price changes
- Dividend cuts are associated with negative stock price changes
- Firms may forego projects that add value to the firm in order not to have to cut the dividend

Note that this is self reinforcing: firms are reluctant to cut dividends—investors know this and hence interpret dividend cuts to indicate a serious problem, making firms more reluctant to cut dividends.

Thus, dividend policy is employed to convey information at the cost of underinvestment. This signalling argument also applies to repurchases, except that repurchases are generally not considered permanent by investors. That is, if a firm repurchases shares

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<sup>4</sup> See also Bhattacharya (1979) for an analysis of dividend signalling.

in one year, the market generally does not expect this to continue in the future. Many observers, therefore, argue that the signalling power of repurchases is weaker than that of dividends to communicate long-run prospects for the firm.

### Signalling and Undervaluation

There is a second angle to the asymmetric information argument, which does not require the firm to invest less than optimal. If managers are better informed about the prospects of the firm than investors, they may be able to use payout policy to rectify undervaluation. By increasing dividends or repurchases, managers can inform the market about the true quality of the firm. Dividends are much less flexible than repurchases in this context, because they entail commitment for the future and because they are generally paid periodically. Repurchases may work better to correct undervaluation, especially when the firm already has a repurchase programme in place. In that case, the firm can repurchase shares in the open market whenever it feels that the current share price is too low, given the firm's prospects.

There is a third option, which is to pay a special dividend. A special dividend is not different from a regular dividend, except that through its designation, investors should see it as a one-off. Special dividends are less flexible than repurchases, but more flexible than regular dividends. As discussed earlier, mechanisms that are less flexible may have more signalling power, however. The following figure summarizes the trade-off between flexibility and signalling power.

**Figure 7: Different Payout Options in Terms of Flexibility and Signalling Power**

	Ordinary Dividend	Special Dividend	Share Repurchase
Flexibility	Low	Medium	High
Signalling Power	High	Medium	Lower

Despite the apparent appeal of special dividends as a signalling mechanism, DeAngelo et al. (2004) find that, at least in the United States, the number of firms paying special dividends has declined over time.

In sum, from a signalling perspective, dividends may be preferred over repurchases because they provide less flexibility to the firm.

There is another drawback to repurchases, as pointed out by Brennan and Thakor (1990). Suppose that there is an information gap between management and shareholders. Moreover, suppose that some shareholders are better informed than others, so that the information gap for them is smaller. What happens when a firm engages in a share repurchase under these conditions? Shareholders with the least information may decide to sell because of liquidity or other reasons. However, shareholders with more information about the true prospects of the firm may decide to hold on to their shares if they know that the firm's prospects are likely to improve. Thus, a repurchase does not treat all shareholders equally. A dividend accrues to all shareholders and therefore treats all shareholders equally. This discriminatory aspect of repurchases may make them less appealing to certain groups of investors.

### Managerial Self-Interest

Jensen (1986), among others, has argued that managers often have the incentives or inclination to grow the firm beyond its optimal size through investments and acquisitions that do not add value to the firm. This non-value maximizing behaviour is sometimes

called empire building. Shareholders are concerned about this, and can take various actions to curtail these actions.

Some managers may not wish to engage in empire-building and would like to inform the market about their intentions. Statements to this effect may not be very credible because there is no true commitment. Payout policy can help, however. By setting payouts at a certain level, managers commit to returning funds to shareholders. Thus, payouts act as a bonding mechanism. Again, ordinary dividends may be more powerful than special dividends and repurchases because only ordinary dividends are expected to be repeated.

If this bonding argument is valid, we should find that managers of firms who cut their dividend are more likely to be replaced. This is indeed to the case, at least based on U.S. evidence [see Kaplan and Reishus (1990)].

One concern regarding the validity of this explanation is that managers can always make high payouts, and use capital markets to raise the necessary funds through equity or debt issues. Thus, firms must either be prohibited from accessing capital markets, or the mere fact that they access capital markets must lead to increased scrutiny, which affects the ability of managers to engage in self-serving behaviour [see Easterbrook (1984)].

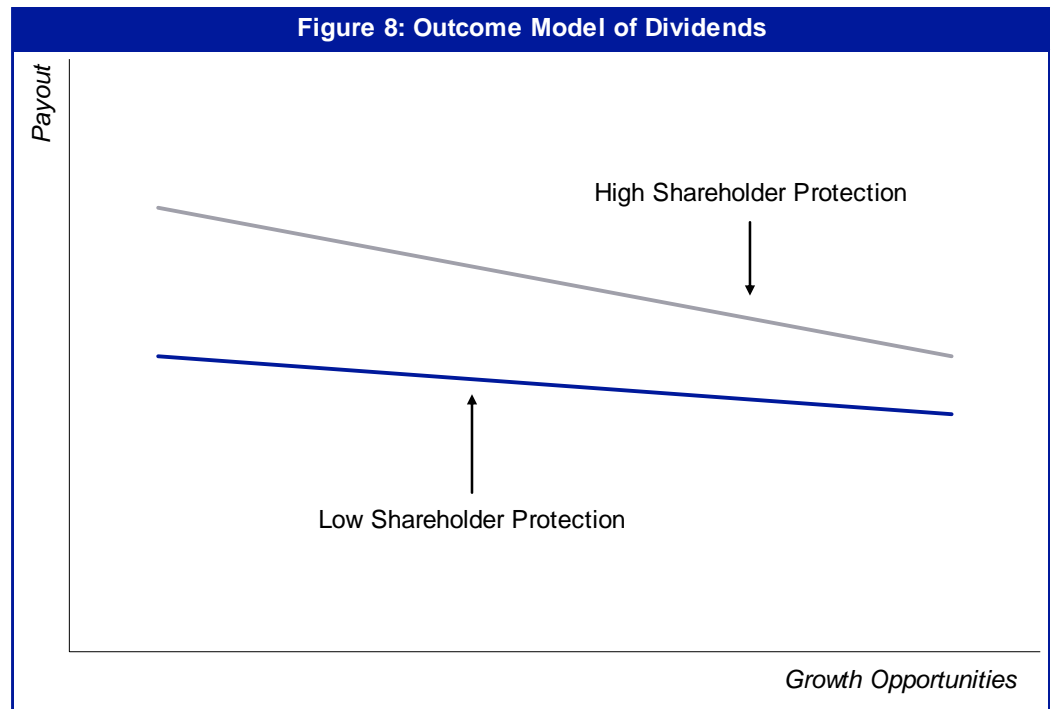
### **Managerial Self-Interest and Shareholder Rights**

An argument related to managerial self-interest deals with shareholder rights across countries. This argument has been proposed and developed by LaPorta et al. (2000).

If the legal system in a country does not give shareholders means to control the firm and its managers, these shareholders may be unsure that they will earn a proper return on their investment. We would expect payouts to be higher in countries where shareholders are better protected. Moreover, when shareholders are better protected, they are willing for firms to keep funds for reinvestment, because the shareholders know that they can get their money out at a later time, when the returns on the investment have been realized. This negative relationship between payout and investment opportunities does not necessarily hold in countries with poor investor protection, because shareholders may prefer to be paid before insiders get a chance to dissipate the funds.

The following figure illustrates the relationship between payout and growth opportunities in countries with different legal regimes, based on this argument.

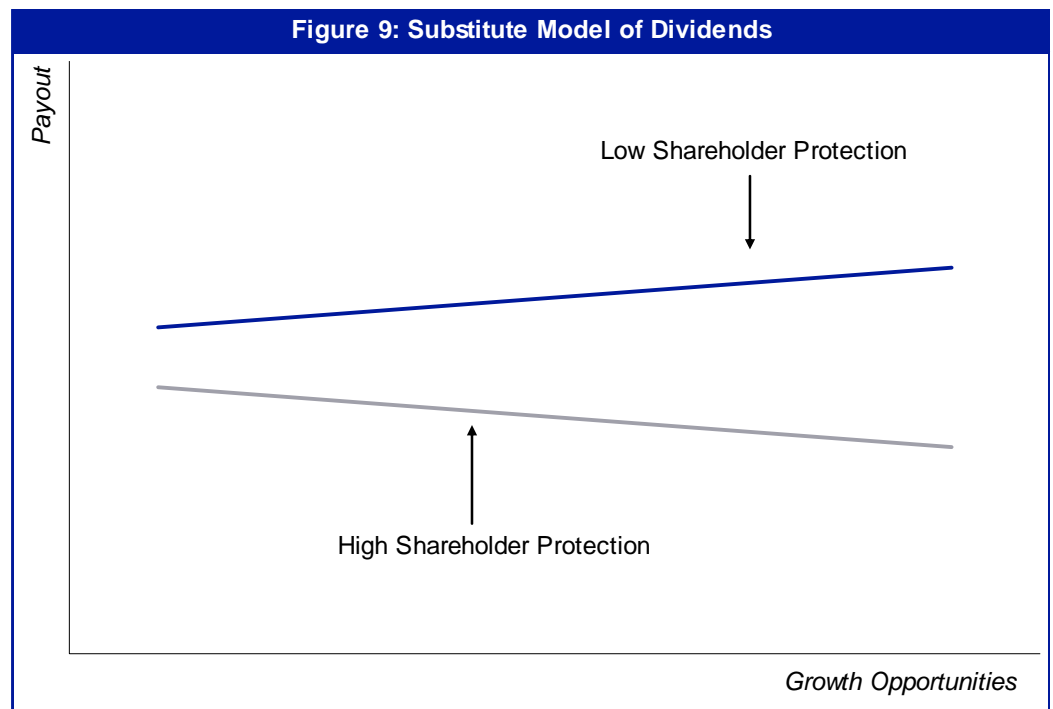




LaPorta et al. (2000) call this argument the Outcome Model of Dividends.

Using the same structure, another relationship is also possible. This alternative relationship assumes that payouts act as a substitute for shareholder protection. That is, in countries where shareholders have few rights, insiders use payout policy to bond themselves to their minority shareholders (this is essentially the same argument as was made in the previous section). Why would insiders do this? They would only do this if they may need minority shareholders in the future for additional financing. Thus, firms with lots of investment opportunities may actually have higher payouts because they want to establish a reputation for returning funds to shareholders. Firms with few opportunities do not need to access capital markets and, consequently, have no need to establish a reputation. This hypothesized relationship should not hold in countries where shareholders are well-protected because managers do not need to establish a reputation for concern for minority shareholders.

The following figure illustrates the relationship between payout and growth opportunities in countries with different legal regimes, based on this argument.



LaPorta et al. (2000) call this the Substitute Model of Dividends.

Using data for 4,103 companies from 33 countries, LaPorta et al. (2000) find support for the outcome model of dividend policy. Firms in countries with good shareholder protection pay out more in dividends than firms in countries with poor shareholder protection. Moreover, the relationship between dividend payout and growth opportunities is negative in countries with good shareholder protection, but not in countries with poor shareholder protection.

## Investor Preferences

According to various “investor preference” arguments, investors favour one payout form over another for unknown reasons. It can thus be called a behavioural argument because there is no economic rationale behind these preferences. Companies cater to these preferences by choosing the payout method currently favoured by investors [see Baker and Wurgler (2004)].

For this argument to work, it must be the case that share prices of firms that cater to investor preferences are higher than share prices of firms that do not (or managers believe this to be the case). Otherwise, there is no reason for a firm to adjust its payout policy. Given that the price differential is based on investor irrationality, this argument also relies on limits to relative value investing. If not, a relative value investor would simply sell short the shares of the firms that cater to investor demand and purchase shares of firms that do not. The price difference between the two sets of firms would be the profit for the relative value investor.

## Monitoring and Dividend Clienteles

Suppose that investors generally prefer returns in the form of capital gains, whether this is for tax reasons or not. However, suppose that a subset of investors prefer dividend income. Would it ever make sense for firms to cater to this small subset? Allen et al. (2000) argue that it could make sense if these investors are more skilled at monitoring

the firm and its managers than other investors. In other words, firms cater to particular investors because these investors are better at assessing the performance of the company and taking action if necessary.

Managers might cater to these investors for at least two reasons:

- It may be a way for high quality managers to bond themselves and indicate that they are not afraid of being closely monitored
- The monitors may actually provide valuable advice to management, which enhances the value of the firm

Note that causality is different in the two explanations. The first explanation suggests that high quality firms are signalling quality by agreeing to be monitored. The second suggests that monitoring itself may enhance the value of the firm.

## Managing EPS

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Conducting a share repurchase right before the end of the firm's fiscal year is likely to have little effect on the overall earnings of the firm. However, the reduction in the number of shares outstanding will have an immediate impact on Earnings Per Share. If investors do not see through this, then the firm could, at least in the short run, increase its share price. Executives may also engage in this practice because their compensation contracts target certain levels or growth rates in EPS. Over time, the ability to repurchase shares strategically may allow the firm to deliver a pattern of EPS that is smoother (less volatile) than it would be otherwise. If the market values this reduction in volatility, value is created.

It is important to establish that the arguments presented above are only valid if investors are not fully rational. Rational investors should not care about the volatility of individual shares because this volatility matters little in a portfolio context. They should also see through the fact that the increase in EPS achieved through a share repurchase is also temporary. The following example illustrates the second point.

**Example 5:**

Suppose that a firm has two assets:

- Productive assets of €80, earning a rate of return of 20%
- Cash of €20, earning a rate of return of 5%

Assume also that:

- Earnings on these two sets of assets are all paid out as dividends and so there is no growth
- The firm has 100 shares outstanding, so each share is trading for €1

Earnings of the firm are €17 [=  $80 \times 20\% + 20 \times 5\%$ ], or €0.17 on a per share basis. Thus, the shares of this firm are trading at a P/E ratio of 5.88 [=  $1/0.17$ ].

If the firm employs all of its cash holdings, right before the end of the year to repurchase shares, total earnings will not be affected because the repurchase is conducted when virtually all the interest has already been earned. However, the number of shares declines from 100 to 80, thereby increasing EPS from €0.17 to €0.2125.<sup>5</sup> If investors are irrational and apply the same P/E to this level of EPS, the share price will indeed increase to €1.25 [=  $0.2125 \times 5.88$ ].

When investors are rational, however, this repurchase should not have any consequences for the share price. The firm has reduced its asset base by €20 and the value of the firm should therefore decline by €20. Shares should remain at €1 per share.

It is correct to note that the decline in shares is much smaller than the expected decline in profits, now that the cash holdings are no longer earning a rate of return. The number of shares declines by 20% (from 100 to 80), but profits only decline by 5.88% (from 17 to 16). One might argue that, even if investors are rational, this should warrant a price increase. However, that argument would be incorrect. When the firm had assets consisting of some cash, the earnings of the firm were safer, because the returns on the cash were virtually guaranteed. Once the cash is gone, the earnings stream becomes riskier. As a result, investors are only willing to pay €80 for an earnings stream of €16, which implies that the P/E ratio of the firm will decline from 5.88 to 5.00.

The only reason why the ability to smooth or manage EPS through share repurchase may have true economic consequences, is if the firm has entered into contracts that take into account EPS or rely on EPS to draw inferences.

**Stock Option Dilution**

When firms employ stock options to compensate managers and employees, the number of shares outstanding increases as the options are exercised. This has negative consequences for reported EPS. As discussed previously, if managers believe that this EPS effect has an effect on share value, then firms may employ share repurchases to offset the effect of the share issues.

<sup>5</sup> This is a dramatized example. In practice, the denominator of the EPS calculation is harder to manipulate because it is the average number of shares trading over the year. A transaction close to year end would have limited impact. Nevertheless, the EPS impact of a share repurchase does not necessarily mirror the true economic effect so manipulation is sometimes possible and this is an argument that is often heard in practice.

## Changing Capital Structure

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Each time a firm makes a distribution to its shareholders, be it through dividends or share buybacks, it is returning capital to equityholders and hence the value of the firm's equity is reduced. This increases the fraction of the firm financed through debt. If the distribution is small and repeated yearly or even more frequently, the actual changes in the firm's debt-to-equity ratio are small. However, distributions are also a mechanism through which firms can dramatically increase the level of debt financing in the firm.

Suppose that a firm is pleased with its operations (i.e., the asset side of the balance sheet), but comes to the conclusion that it does not employ enough debt financing. The best way to introduce more debt financing to the firm, without affecting its current operations, is to issue the debt and immediately return the proceeds to its shareholders. To decide whether this happens through a repurchase or through a dividend, the firm should consider the items discussed in previous sections of this paper. What is important in this context is that a distribution conducted to change capital structure can be quite substantial.

## Residual Distribution Policy

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A residual distribution policy is one where firms make their investment decisions based on investment opportunities and available funds. If they do not have sufficient funds available to make investments, they consider accessing capital markets. If they have excess funds (and they do not believe they will need the funds in the near future), they return the remainder to shareholders. The exact method employed does not really matter, but the firm could take into account some of the previous arguments, such as taxes, or the ability to manage EPS.

If firms follow a residual policy, their total payout is as volatile as the excess cash flows generated by the firm. There is no attempt to smooth payouts, whether they are in the form of dividends or repurchases. Under this scenario, payouts do not convey information to the market, albeit that the amount of payout may still be employed by market participants to gauge how much is being invested. In other words, even if the firm does not employ payout policy to convey information, the firm cannot prevent investors from using the payout to try and infer how the firm is performing.

## Summary

- The table below lists the factors that are important in the choice between dividends and repurchases as a payout mechanism

Factor	Dominating Payout Form
Taxes	Depends
Conveying information	Depends on time horizon
Management bonding	Dividends
Shareholder rights	Depends on other factors
Investor preferences	Depends on preferences
Attracting monitors	Depends on other factors
Managing EPS	Repurchases
Changing capital structure	Depends on other factors
Residual policy	Depends on other factors

## Survey Results

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In this section we present the results of the survey pertaining to corporate dividend and share repurchase policy but first discuss the questions we asked.

### Survey Questions

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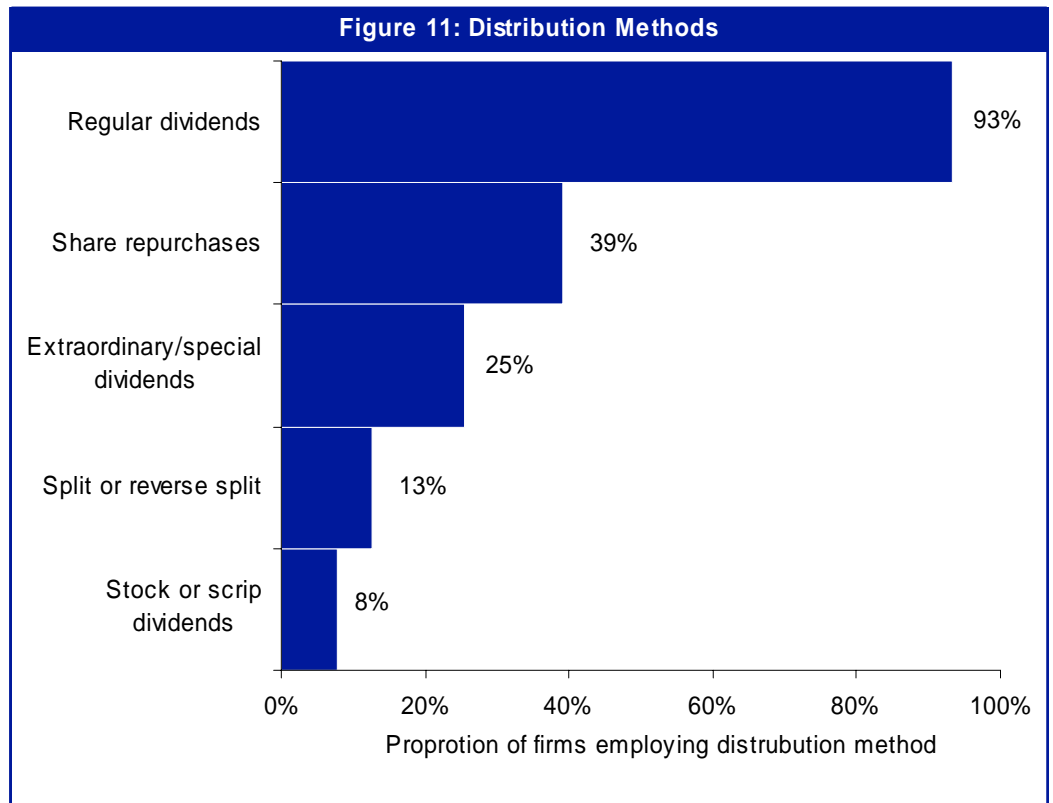
The survey is designed to shed light on the practical relevance of various theoretical considerations discussed in the previous section. In particular, we have asked questions to study the following issues:

- How do firms choose between dividends and share repurchases?
- Did they pay a special dividend or a stock dividend over the last 5 years?
- What dividend policy do firms follow, and what items do they target in their policy (payout, yield, dividend level, dividend growth)?
- How much have firms paid out and in what form over the last 5 years?
- How important is maintaining the dividend and which actions would firms take before they would consider cutting the dividend?
- Why have firms decided to pay a special dividend, if they did so?
- What factors have firms considered when deciding to repurchase shares?

### Preferred Distribution Method

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We started by asking companies which distribution methods they had employed over the last five years. Respondents could select more than one option. Figure 11 provides an overview of the responses for those firms that employed at least one of the methods.



Q5.1: "Over the last five years, have you done any of the following?" N=205.

Regular cash dividends are clearly the preferred distribution mechanism, employed by 93% of all respondents, followed by share repurchases which have been employed by 39% of all firms. A quarter of all firms have paid a special dividend. For completeness, we also asked whether companies split their stock or paid a stock dividend.<sup>6</sup> Both happen rather infrequently: 13% of the firms have split their stock and only 8% have paid a stock dividend.

There are important differences in distribution methods across the world. Regular cash dividends are most important in every region. However, special dividends are more important than buybacks in Asia (excluding Japan), Australia and New Zealand, Germany, and Latin America. In North America, share repurchases are almost as important as regular dividends, with 95% of the respondents paying regular dividends and 85% of the respondents buying back shares.

### How the Choice of Distribution Mechanism is Made

In this section, we investigate which factors firms take into account when deciding on the choice among regular dividends, special dividends, and share repurchases, based on the theoretical discussion in the previous section. In this part of the survey, we only ask those companies who have distributed funds through at least one of the three distribution mechanism. Figure 12 lists the five factors we proposed, together with the number of respondents ranking these factors as important or very important, corresponding to a 4 or 5 on a scale ranging from 0 to 5.

<sup>6</sup> Note that neither of these actions actually distributes any cash to shareholders.



**Figure 12: Factors Determining the Method of Distribution**

Factors	%4 or 5	N
Signalling	39%	152
Flexibility in changing level of distribution	36%	151
Tax efficiency of the alternatives	31%	156
Attractiveness to different investors	30%	149
Accounting implications	29%	154

Q5.3: "How important are the following factors in your choice between paying Regular Dividends, paying Special Dividends and Repurchasing Shares?" Scale is Not Important (0) to Very Important (5).

None of the factors receive overwhelming support, but they all receive moderate support. The signal sent to capital markets is considered to be important by 39% of the survey participants, followed by the flexibility, which is listed as being important by 36% of the participants. Tax efficiency, attractiveness to investors, and accounting implications follow with 31%, 30% and 29% of the firms ranking these factors at the high end of the scale.

Figure 13 shows the relative importance of these factors across different regions.

**Figure 13: Factors Determining the Method of Distribution - Regional Ranking**

	Asia excluding Japan	Australia & New Zealand	Germany	Japan	Latin America	North America	Western Europe excluding Germany
Signalling	2	1	1	4	1	1	2
Flexibility in changing level of distribution	5	3	3	2	2	1	3
Tax efficiency of the alternatives	3	5	2	5	3	4	1
Attractiveness to different investors	1	3	5	1	4	5	4
Accounting implications	4	1	4	3	4	3	5

Q5.3: "How important are the following factors in your choice between paying Regular Dividends, paying Special Dividends and Repurchasing Shares?" Table shows relative ranking of factors by firms in different regions. See Appendix III for N by region.

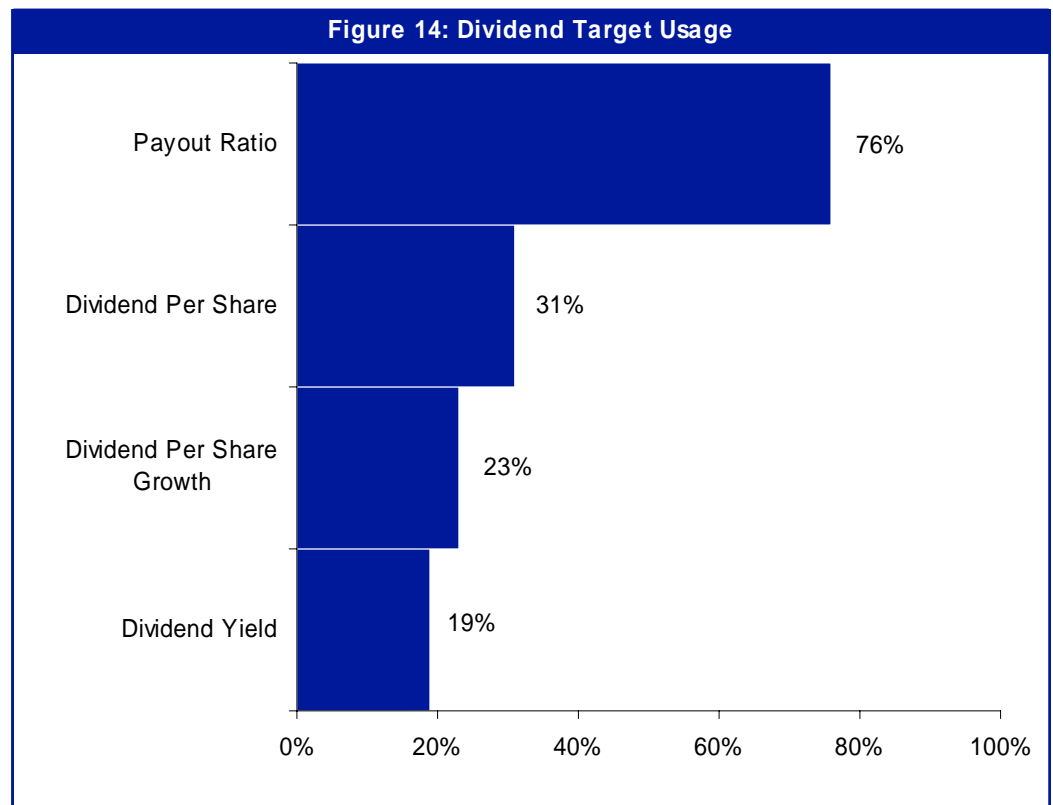
The signal sent to capital markets is one of the top two answers in all regions, except for Japan. This is perhaps the case because dividends are generally small in Japan and have relatively little signalling power as a result.

## Understanding Regular Dividends

In this section, we document how firms set dividend policy.

### Targets

We first ask how firms set their dividend targets, allowing firms to select multiple targets. Figure 14 shows the results:



Q5.6: "For which of the following do you have target ranges and what are those ranges?" N=106.

By far the largest fraction of firms (76%) have a dividend payout ratio target in mind; dividend per share targets are second-most popular, chosen by 31% of firms. Dividends likely increase as the firm grows, and we suspect that these companies set dividend per share targets in the short-run, while setting other types of targets in the long-run. 23% of all respondents have targets for dividend per share growth, while 19% of the firms have specific targets on dividend yield.

The primary target is the dividend payout ratio in all regions of the world, except for Japan where 50% of the companies have a payout ratio target, but 80% have a dividend per share target. Dividends in Japan are fairly low; moreover they have grown relatively little over time as the economy has grown slowly or not at all. This may explain why Japanese firms have focused on the dividend level, instead of a payout ratio. Two other interesting differences emerge. First, North American firms also have a payout ratio as the most common target, as listed by 64% of the respondents. However, a substantial fraction of North American firms (45%) have a Dividend Per Share growth target. Second, 41% of Asian (ex-Japan) firms have a dividend yield target; this is a higher fraction than anywhere else in the world.

### Dividend Patterns

While the majority of the firms worldwide have a target payout ratio, this does not mean that they will always stick to the ratio—the target may be a soft target, rather than a hard target, a target they have in mind, but a target from which they are willing to deviate in some circumstances. For example, if firms believe in dividend signalling, they may prefer to have a smooth pattern in dividends per share, rather than a stable payout ratio. We asked survey participants about the importance of these different objectives. Figure 15 illustrates the importance of different objectives in setting dividend per share levels. It

lists the fraction of firms that rank each objective as a 4 or 5 on a scale going from 0 (Not Important) to 5 (Very Important).

**Figure 15: Factors Determining Dividend Levels**

Factors	%4 or 5	N
Avoid cutting the Dividend per Share	61%	153
Maintain stable Dividend per Share	48%	156
Increase Dividend per Share	41%	157
Maintain stable Dividend Payout Ratio	39%	156
Set Dividend in line with cashflows	38%	135
Increase Dividend Payout Ratio	21%	147
Increase Dividend Yield	18%	144
Maintain stable Dividend Yield	17%	143

Q5.7: "How important are the following objectives?" Scale is Not Important (0) to Very Important (5).

The primary objective firms have in mind when they set the dividend is to avoid cutting it in the future: 61% of all firms consider this to be important. This is followed by the desire to keep the dividend per share stable and to increase it; 48% of all firms believe that it is important to keep the dividend stable and 41% indicate that increasing the dividend is an important objective. The three highest ranked objectives all have to do with the dividend per share and not the payout ratio, nor the dividend yield. Thus, while most firms have a dividend payout ratio target, this does not mean that they apply this target rigidly. Instead, consistent with the dividend signalling arguments, firms try to keep the dividend stable, and avoid setting it too high today so that it may have to be cut tomorrow.

The next two objectives in terms of importance are keeping the dividend payout ratio stable (important for 39% of the firms) and setting dividends in line with the firm's cash flows (important for 38% of the firms). 21% of the firms would like to increase their payout ratio. Maintaining a stable dividend yield or increasing the yield are important for less than 20% of the companies.

Figure 16 ranks the factors in order of importance across different regions.

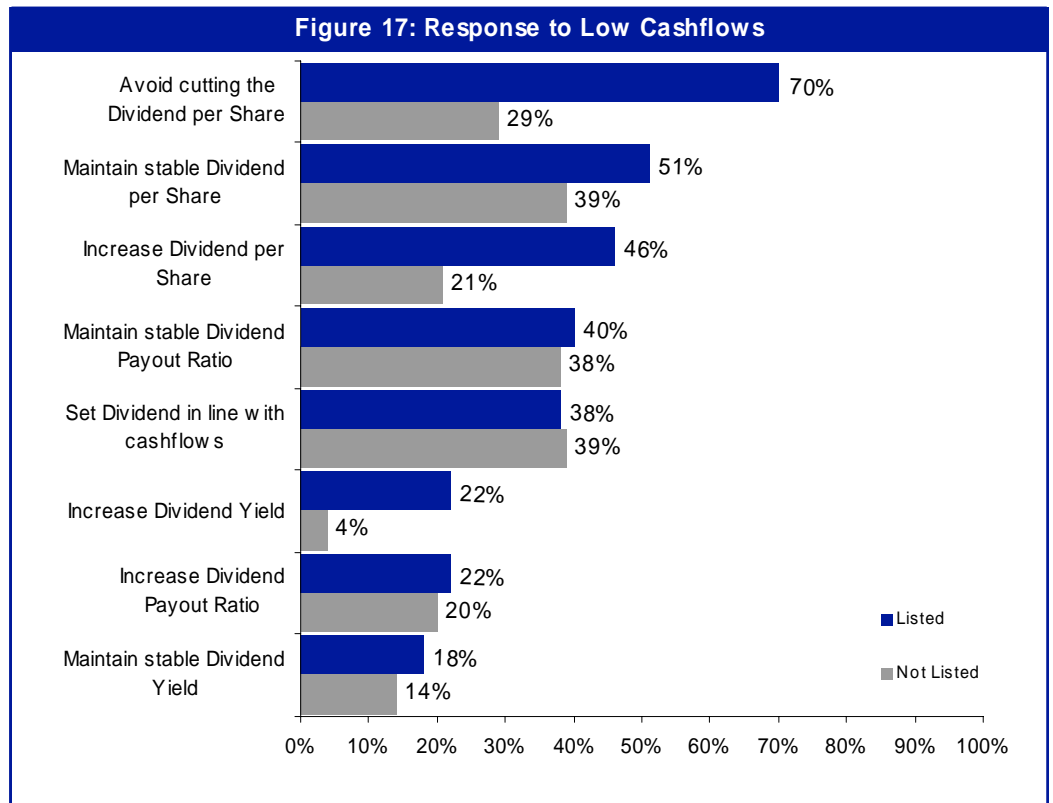
**Figure 16: Factors Determining Dividend Levels - Regional Ranking**

	All	Asia excluding Japan	Australia & New Zealand	Germany	Japan	Latin America	North America	Western Europe excluding Germany
Avoid cutting the Dividend per Share	1	1	2	1	3	4	1	1
Maintain stable Dividend per Share	2	2	3	2	1	3	3	2
Increase Dividend per Share	3	6	3	5	2	6	2	3
Maintain stable Dividend Payout Ratio	4	3	5	4	6	1	4	5
Set Dividend in line with cashflows	5	4	1	3	5	2	5	4
Increase Dividend Payout Ratio	6	8	6	6	4	5	7	7
Increase Dividend Yield	7	5	8	6	7	7	5	8
Maintain stable Dividend Yield	8	7	7	8	8	7	7	6

Q5.7: "How important are the following objectives?" Scale is Not Important (0) to Very Important (5). See Appendix III for N by region.

Avoiding dividend cuts is the first or second response for all regions, except for Japan, where it ranks third, and Latin America, where it ranks fourth. In Latin America, the main objective of firms is to keep the dividend payout ratio stable. This is a substantial difference from the other regions, because keeping the payout ratio stable does imply some variability in the level of the dividend. This also suggests that firms in these regions will be more willing to cut the dividend level. Japanese firms' primary objective is to keep the dividend per share stable.

Not surprisingly, the choice of objectives when setting the dividend per share differs between listed and unlisted companies, as illustrated in Figure 17.



Q5.7: "How important are the following objectives?" Scale is Not Important (0) to Very Important (5).

The overall findings described earlier apply mainly to listed companies, for whom dividend signalling is important. These firms therefore prefer a stable dividend and will avoid cutting the dividend if possible. Firms that are not listed, on the other hand, are less concerned with the information gap between the firm and its investors. As such, they are less concerned with the signalling power of dividends. The primary objective of these firms is to set the dividend in line with cash flows. Avoiding cutting the dividend per share is only fourth in the list of objectives for these firms, after the desire to maintain a stable dividend per share.

### Responding to Low Cashflow

The results for the overall sample indicate that firms attempt to set their dividend so that they do not have to cut it. This assumes that companies will use enough foresight so that dividends are not increased today if this increase cannot be maintained in the future. It is not possible, however, to anticipate all possible events, and there may come a time when companies do not have sufficient cash flows available to continue investing and maintaining the dividend at the same time. We asked companies what actions they would take if they faced such a situation.<sup>7</sup>

More specifically, we listed a number of possible actions and asked companies how likely they would be to take each of these actions, on a six-point scale, where a zero is never and a 5 is very likely. Figure 18 shows the responses.

<sup>7</sup> Some of these findings are also discussed in the companion article CFO Views on the Importance and Execution of the Finance Function.

**Figure 18: What to Do When You Do Not Have Enough Funds to Pay Dividends**

Factors	%4 or 5	N
Cut dividends	41%	162
Cut deferrable investment	27%	157
Borrow up to the limit of the credit rating	26%	159
Sell assets at their fair value	14%	153
Cut strategic investment	14%	157
Raise new equity	5%	153
Borrow and allow the credit rating to fall	4%	156
Sell assets at a discount to their fair value	2%	157

Q5.8: "Suppose that your operating cashflows were weak and you had insufficient liquid resources to pay Regular Dividends at the most recent level. How likely would you be to take each of these actions?" Scale is Never (0) to Very Likely (5).

The action companies are most likely to take is to cut the dividend. It receives an average score of 2.9 and 41% of all firms believe that this is a likely outcome. In light of existing research and the fact that companies want to avoid cutting the dividend, it seems quite surprising that firms would not consider any other action first. However, it does suggest that firms are not willing to take actions that might not be in the long-term interest of the firm, just to maintain a dividend policy that is no longer in line with available cash flows. The second most likely action is to cut deferrable investment, with an average score of 2.4; 27% of the respondents consider this a likely response to the shortage of funds. 26% of the firms are likely to borrow money up to their credit rating limit to maintain the dividend. All other actions are much less likely: 14% of the firms would cut strategic investment and the same fraction would sell assets at fair value; only 5% of the firms would raise equity, 4% would borrow funds and allow their credit rating to decline and only 2% would sell assets below fair value. It is striking that there is a substantial difference between the fraction of firms that would sell assets below fair value and the fraction that would cut strategic investment. Both fractions are relatively low, but it is interesting that firms would much rather cut strategic investment than sell existing assets at a discount.

There are a number of differences in the response across regions. Firms in Australia and New Zealand would rather raise new equity than cut the dividends. This is perhaps the case because both countries have imputation tax systems that allow investors to offset their own tax bills by the corporate taxes paid by the firm, but only on the profits paid out as dividends. Cutting the dividend would therefore reduce this offset. Cutting the dividend is second in line though. Firms in Japan and North America would rather cut deferrable investment first in order to pay the dividend. If that is not sufficient, Japanese firms would cut the dividend too. North American firms would not—they prefer to take several other actions first. After cutting deferrable investment, North American firms would borrow money to pay the dividend, as long as they do not lose their credit rating. Next, they would sell assets at fair value and cut strategic investment. Only if all these actions are insufficient, would they resort to a dividend cut. The preferences of North American firms are thus very much at odds with those of firms elsewhere. One could argue that the first choice of North American firms, which is to cut deferrable investment, may be sensible. But this conclusion is not necessarily the right one. Even if an investment can be deferred, deferral is not free. North American firms are willing to pay this cost, presumably because they feel that the negative signal associated with the

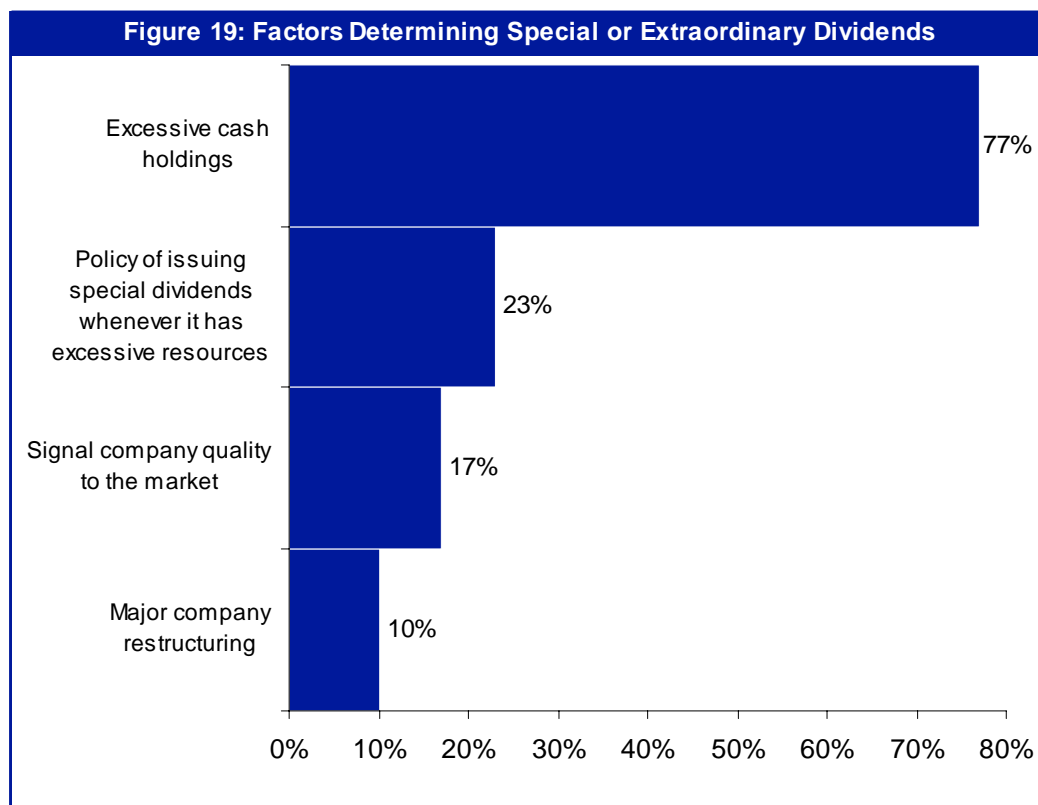
dividend cut outweighs the cost of deferral. It is more surprising, however, that North American firms would actually cut strategic investments rather than cut the dividend. That said, distorting investment to signal quality to the market is one of the costs of signalling identified in the Theoretical Considerations section of this paper. It appears that this theory works particularly well in North America.

Could it be that North American firms attach too much weight to maintaining the dividend? This is plausible, but certainly not the only explanation. The quality of the signal sent through dividends is obviously higher for firms that have a longer track record of paying a stable or increasing dividend. If North American firms have a better track record of stable dividend payments than firms elsewhere, then their greater reluctance to cut the dividend is certainly warranted. This clearly requires further investigation.

When we look at the response for listed versus unlisted firms, we find that both groups would rather cut their dividend than do anything else. There is a difference between investment-grade and non-investment grade firms, however. Investment grade firms' first option is to cut deferrable investment rather than to cut the dividend. For non-investment grade firms and firms that are not rated, the dividend cut remains the number one choice, possibly because these firms have not built up as much of a track record in terms of dividends, resulting in less of a reluctance to cut the dividend. In addition, the cost of deferring investments may be too large for these firms.

### Understanding Special Dividends

Only 25% of the firms in our survey have paid a special dividend. We asked companies why, allowing them to provide multiple answers. Figure 19 contains the responses.



Q5.9: "Why did you pay the Special or Extraordinary Dividend?" N=30.

77% of the firms paid a special dividend to distribute excess cash holdings, and another 23% actually have a policy of paying special dividends to distribute excess cash on a regular basis. 17% use special dividends to signal their quality to capital markets but only 10% pay the special dividend as a result of a major company restructuring. A number of companies provide other reasons (not shown in the figure), although a careful reading of the exact motives for these companies indicates that most of these can be classified as related to a restructuring as well.

Overall, special dividends mainly occur because firms have excess cash that they want to distribute, whether they have a policy of doing so or not.

## Understanding Share Repurchases

As discussed in the section on the Preferred Distribution Method, 39% of the respondents who distributed funds in the last five years used share repurchases for some or all of the distribution. The following figure lists the factors that were important in the decision to repurchase shares, based on a six-point scale, ranging from 0 to 5. Firms that mark a factor with a 4 or 5 are assumed to be firms that believe a factor is important. We also list the average score for each of the factors.

**Figure 20: Factors Determining Share Repurchases**

Factors	%4 or 5	Average	N
Return excess capital to shareholders	46%	2.94	72
Increase the leverage of the Company	32%	2.23	69
Exploit temporary mispricing	27%	1.99	70
Increase EPS	26%	2.38	68
Tax efficient distribution	23%	2.20	70
Mitigate dilution from employee schemes	23%	2.03	69
Exploit persistent mispricing	13%	1.58	67
Concentrate equity holdings	9%	1.15	68
Manage EPS volatility	6%	1.18	67
Reduce the amount of capital	6%	1.04	67

Q5.11: "How important were the following factors in your decision to repurchase shares?" Scale is Not Important (0) to Very Important (5).

Only one factor receives substantial support: 46% of all participants indicate that the return of excess capital to shareholders is an important factor in their decision to buy back shares. Close to one third of the firms, 32%, mention that they bought shares back to increase the leverage of the company, while 27% bought shares back to take advantage of temporary mispricing in their companies' shares. All of these factors support the theoretical arguments discussed earlier.

26% of all respondents indicate that they bought shares back to increase reported EPS. Moreover, this factor receives an average score of 2.4, which is higher than the average score for leverage increases or exploiting mispricing. As indicated in the previous section, there is no theoretical reason to believe that an increase in EPS accomplished through a share buybacks actually creates economic value. The only exception to this is if firms have written specific contracts based on the level of EPS. We believe it is



unlikely, however, that this is the reason why firms want to increase reported EPS. There are two other possible underlying motivations which we believe are more likely:

- Firms want to increase EPS because shareholders and capital markets in general do not fully understand the mechanism through which this increase has been accomplished; as such, shareholders do ascribe value to the EPS increase
- Executives want to report increased EPS for other reasons; one possibility is that executive compensation contracts have been written based on EPS

Close to one quarter of the firms, 23%, indicate that they bought shares back to neutralize the dilution associated with employee stock option plans. Thus, firms are concerned with the implications of stock option plans on reported EPS and buy shares back offset this effect. Again, we are not sure that this concern is fully warranted. About the same fraction of firms buy shares back because they believe that this is more efficient from a tax perspective than alternative distribution forms.

The other factors receive much less support. Exploiting persistent mispricing, managing EPS volatility, concentrating equity holdings, or reducing the amount of capital available to the firm are not important in the decision to repurchase shares.

In sum, many of the factors that are important from a theoretical perspective also receive practical support. The one exception is the use of repurchases to increase EPS, which appears to be very important from a practical perspective.

## Summary

- Dividends continue to be the most important distribution mechanism: 94% of all firms pay dividends, compared to 39% of the firms buying back shares
- When firms decide on the choice of distribution mechanism, they assign roughly equal weights to five factors:
  - The signal it sends to capital markets
  - The flexibility afforded by the distribution mechanism
  - The accounting implications
  - The tax efficiency of the alternatives
  - The attractiveness to different investors
- All of the above factors, except for the accounting implications, have strong theoretical support
- More than three quarters of the firms that pay dividends have a dividend payout ratio target. However, they are willing to deviate from that target when they set the level of the dividend. Firms set the dividend level so that they do not have to cut it; in addition it is important for companies to keep the dividend per share level stable or growing
- When firms are faced with insufficient cash flows to maintain the dividend, their first response is to cut the dividend, followed by cutting deferrable investment and borrowing up to the credit rating limit. The willingness of firms to cut the dividend when cash flows are insufficient reduces the relative signalling power of dividends over share repurchases

- A notable exception is the North American region where cutting dividends is only considered after several other options have been exhausted
- Firms pay special dividends as a return of excess funds to shareholders
- Firms repurchase shares to return excess funds to shareholders, to increase leverage, and to take advantage of temporary mispricing of their shares. Increasing reported EPS and mitigating dilution from employee stock option schemes also affect repurchase decisions, although less strongly

# Appendices

## Appendix I: References

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## Appendix II: Formula Derivations

### The Value of a perpetual cashflow

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We follow the logic outlined by Brealey and Myers (2005).

Start with the general formula for the present value of a cashflow:

$$V = \sum_{i=1}^{\infty} \frac{C}{1+r} = \frac{C}{1+r} + \frac{C}{(1+r)^2} + \frac{C}{(1+r)^3} + \dots$$

Define:  $x := \frac{1}{1+r}$  and  $a := Cx$  to give (1)  $V = a(1+x+x^2+x^3+\dots)$ . Multiply both sides by  $x$  to give (2)  $Vx = a(x+x^2+x^3+\dots)$ . Subtract (2) from (1) to give  $V(1-x) = a$  which expands to:

$$V\left(1 - \frac{1}{1+r}\right) = \frac{C}{1+r}$$

Multiply both sides by  $1+r$  and rearrange to give:

$$V = \frac{C}{r}$$

### Value of a growing perpetual cashflow

---

We again follow Brealey and Myers (2005). In this case:

$$V = a(1+x+x^2+\dots)$$

where  $a = C_1/(1+r)$  and  $x = (1+g)/(1+r)$ . From above we see that:

$$V = \frac{a}{1-x} = \frac{C_1 / (1+r)}{1 - (1+g)/(1+r)} = \frac{C_1}{r-g}$$

## Appendix III: Detailed Results

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In this Appendix we present the results of the questions asked in the Dividend section, plus other relevant questions and full segmental breakdowns.

As before, the symbol  $\bar{x}$  denotes the mean of a dataset, while  $\tilde{x}$  denotes the median.  $N$  denotes the size of the dataset. All questions in the survey were optional and some questions were not asked directly, depending on the answers to previous questions. Therefore, the number of responses,  $N$ , to different questions varies and is shown for each question.

This was an anonymous survey and to further protect the confidentiality of participants, results are shown on an aggregated basis and the statistics are only displayed if there are at least 5 datapoints in the sub-sample. Sub-samples without five datapoints are marked "<5" and the statistics are shown as "na".

## 5.1: Use of Different Distribution Mechanisms by Region, Ratings and Listing

Question: Over the last five years, have you done any of the following?

Question 5.1: Use of Different Distribution Mechanisms by Region, Ratings and Listing						
	Regular dividends	Extraordinary/ special dividends	Share repurchases	Stock or scrip dividends	Split or reverse split	N
All	93%	25%	39%	8%	13%	205
<b>Region</b>						
Asia excluding Japan	90%	33%	30%	33%	7%	30
Australia & New Zealand	100%	40%	20%	0%	20%	5
Eastern Europe, Middle East and Germany	na	na	na	na	na	<5
Germany	95%	33%	25%	3%	15%	40
Japan	100%	32%	56%	4%	4%	25
Latin America	100%	44%	11%	0%	0%	9
North America	90%	0%	85%	0%	25%	20
Western Europe excluding Germany	90%	18%	35%	4%	15%	71
Undisclosed	na	na	na	na	na	<5
<b>Ratings</b>						
Investment Grade	97%	17%	50%	1%	9%	76
Non-investment Grade	84%	11%	37%	11%	21%	19
Not Rated	na	na	na	na	na	<5
Undisclosed	92%	34%	31%	10%	13%	106
<b>Listing</b>						
Listed	95%	19%	48%	9%	15%	151
Not Listed	88%	42%	12%	4%	6%	52
Undisclosed	na	na	na	na	na	<5

## 5.1: Use of Different Distribution Mechanisms by Industry

Question: Over the last five years, have you done any of the following?

Results of Question 5.1: Use of Different Distribution Mechanisms by Industry						
	Regular dividends	Extraordinary/ special dividends	Share repurchases	Stock or scrip dividends	Split or reverse split	N
All	93%	25%	39%	8%	13%	205
<b>Industry</b>						
Automobiles	100%	29%	43%	0%	0%	7
Business Services	na	na	na	na	na	<5
Chemicals	100%	38%	38%	8%	8%	13
Consumer	91%	32%	32%	6%	12%	34
Consumer Finance	100%	57%	43%	14%	14%	7
Diversified & Conglomerates	83%	83%	50%	33%	17%	6
Health Care & Pharmaceuticals	90%	20%	60%	0%	30%	10
Industrials and Materials	97%	14%	43%	5%	16%	37
Media	100%	50%	50%	0%	13%	8
Metals & Mining	100%	25%	13%	0%	0%	8
Oil & Gas	100%	18%	27%	0%	0%	11
Technology	67%	7%	53%	13%	33%	15
Telecommunications	80%	60%	40%	40%	0%	5
Transportation Services	87%	13%	33%	7%	13%	15
Utilities	100%	27%	18%	0%	0%	11
Undisclosed & Other	100%	7%	43%	21%	14%	14



## 5.2: Proportion of Cash Distributed by Different Distribution Mechanisms

Question: What proportion of the cash paid to shareholders over the last five years was distributed via:

Results of Question 5.2: Proportion of Cash Distributed by Different Distribution Mechanisms													
	1% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	51% - 60%	61% - 70%	71% - 80%	81% - 90%	91% - 100%	$\bar{x}$	$\tilde{x}$	$N$
Regular dividends	15%	4%	8%	9%	11%	4%	4%	6%	4%	36%	57.9%	55.0%	161
Extraordinary or special dividends	42%	21%	13%	5%	8%	5%	0%	0%	0%	5%	21.8%	15.0%	38
Share repurchases	23%	11%	10%	10%	11%	11%	8%	3%	2%	10%	38.8%	35.0%	61

## 5.2: Proportion of Cash Distributed by Different Distribution Mechanisms by Region

Question: What proportion of the cash paid to shareholders over the last five years was distributed via:

Results of Question 5.2: Proportion of Cash Distributed by Different Distribution Mechanisms by Region																														
	All			Asia excluding Japan			Australia & New Zealand			Eastern Europe, Middle East & Africa			Germany			Japan			Latin America			North America			Western Europe excluding Germany			Undisclosed		
	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>			
Regular dividends	57.9	55.0	161	53.2	45.0	22	69.0	65.0	5	na	na	<5	71.1	90.0	28	0.3	0.3	21	63.8	70.0	8	0.5	0.6	16	62.9	75.0	56	na	na	<5
Extraordinary or special dividends	21.8	15.0	38	21.3	15.0	8	na	na	<5	na	na	<5	18.6	15.0	11	na	na	<5	na	na	<5	na	na	<5	21.7	25.0	9	na	na	<5
Share repurchases	38.8	35.0	61	25.0	15.0	5	na	na	<5	na	na	<5	32.1	45.0	7	0.2	0.2	11	na	na	<5	56.9	55.0	16	38.7	35.0	19	na	na	<5

Means and Medians in Percent

## 5.2: Proportion of Cash Distributed by Different Distribution Mechanisms by Industry

Question: What proportion of the cash paid to shareholders over the last five years was distributed via:

Results of Question 5.2: Proportion of Cash Distributed by Different Distribution Mechanisms by Industry																																																						
	All			Automobiles			Business Services			Chemicals			Consumer			Consumer Finance			Diversified/Conglomerates			Health Care & Pharmaceuticals			Industrials and Materials			Media			Metals and Mining			Oil and Gas			Technology			Telecommunications			Transportation Services			Utilities			Undisclosed & Other					
	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N															
Regular dividends	57.9	55.0	161	60.0	70.0	6	na	na	<5	64.1	75.0	11	58.6	65.0	28	na	na	<5	na	na	<5	43.8	35.0	8	62.4	75.0	31	45.0	45.0	7	53.6	45.0	7	63.0	85.0	10	66.3	80.0	8	na	na	<5	60.0	60.0	10	60.0	50.0	10	62.0	60.0	10			
Extraordinary or special dividends	21.8	15.0	38	na	na	<5	na	na	<5	na	na	<5	30.0	20.0	10	na	na	<5	23.0	15.0	5	0.0	0.0	<5	0.0	0.0	<5	na	na	<5	na	na	<5	na	na	<5	na	na	<5	na	na	<5	na	na	<5	na	na	<5	na	na	<5			
Share repurchases	38.8	35.0	61	na	na	<5	na	na	<5	na	na	<5	42.1	25.0	7	na	na	<5	na	na	<5	58.3	65.0	6	29.2	15.0	12	na	na	<5	na	na	<5	na	na	<5	41.7	40.0	6	na	na	<5	na	na	<5	na	na	<5	na	na	<5	na	na	<5

Means and Medians in Percent

## 5.2: Proportion of Cash Distributed by Different Distribution Mechanisms by Ratings and Listing

Question: What proportion of the cash paid to shareholders over the last five years was distributed via:

Question 5.2: Proportion of Cash Distributed by Different Distribution Mechanisms by Ratings and Listing																								
		Ratings												Listing										
		Investment Grade			Non-investment Grade			Not Rated			Undisclosed			Listed		Not Listed		Undisclosed						
		$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>		
Regular dividends	57.9	55.0	161	58.2	55.0	63	37.7	15.0	15	na	na	<5	61.3	75.0	80	58.6	60.0	122	57.1	60.0	38	na	na	<5
Extraordinary or special dividends	21.8	15.0	38	13.0	5.0	10	na	na	<5	na	na	<5	26.6	15.0	25	22.6	15.0	21	21.9	15.0	16	na	na	<5
Share repurchases	38.8	35.0	61	44.4	45.0	32	46.7	40.0	6	na	na	<5	29.5	20.0	22	38.7	35.0	57	na	na	<5	na	na	<5

Means and Medians in Percent

### 5.3: Factors Affecting Distribution Choice

Question: How important are the following factors in your choice between paying Regular dividends, paying Special Dividends and Repurchasing Shares?

Results of Question 5.3: Factors Affecting Distribution Choice										
	Not Important					Very Important		$\bar{x}$	$\tilde{x}$	<i>N</i>
	0	1	2	3	4	5				
Tax efficiency of the alternatives	20%	17%	10%	22%	20%	12%	2.4	3.0	156	
Accounting implications e.g., EPS impact	22%	10%	10%	29%	21%	8%	2.4	3.0	154	
Signalling	15%	12%	9%	25%	27%	12%	2.7	3.0	152	
Flexibility in changing level of distribution	18%	7%	16%	24%	21%	15%	2.7	3.0	151	
Attractiveness to different investors	21%	15%	11%	22%	23%	7%	2.3	3.0	149	

### 5.3: Factors Affecting Distribution Choice by Region

Question: How important are the following factors in your choice between paying Regular Dividends, paying Special Dividends and Repurchasing Shares?

Results of Question 5.3: Factors Affecting Distribution Choice by Region																														
	All			Asia excluding Japan			Australia & New Zealand			Eastern Europe, Middle East & Africa			Germany			Japan			Latin America			North America			Western Europe excluding Germany			Undisclosed		
	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N			
Tax efficiency of the alternatives	2.4	3.0	156	3.2	3.0	25	na	na	<5	na	na	<5	1.9	1.5	26	1.6	1.5	20	1.8	1.0	8	3.0	3.0	19	2.5	3.0	49	na	na	<5
Accounting implications e.g., EPS impact	2.4	3.0	154	3.0	3.0	25	na	na	<5	na	na	<5	1.5	1.0	25	2.8	3.0	19	1.6	1.5	8	3.5	4.0	19	2.1	3.0	49	na	na	<5
Signalling	2.7	3.0	152	3.3	4.0	24	na	na	<5	na	na	<5	1.9	1.0	25	2.2	3.0	19	2.8	3.0	8	4.0	4.0	19	2.5	3.0	48	na	na	<5
Flexibility in changing level of distribution	2.7	3.0	151	3.0	3.0	24	na	na	<5	na	na	<5	1.7	1.0	25	2.8	3.0	20	2.3	2.0	7	4.1	4.0	19	2.4	3.0	47	na	na	<5
Attractiveness to different investors	2.3	3.0	149	3.6	4.0	23	na	na	<5	na	na	<5	1.4	1.0	24	2.8	3.0	20	1.3	0.5	8	3.2	3.0	19	1.9	1.5	46	na	na	<5

Means and Medians in Percent

### 5.3: Factors Affecting Distribution Choice by Industry

Question: How important are the following factors in your choice between paying Regular Dividends, paying Special Dividends and Repurchasing Shares?

Results of Question 5.3: Factors Affecting Distribution Choice by Industry																																																			
	All			Automobiles			Business Services			Chemicals			Consumer			Consumer Finance			Diversified/Conglomerates			Health Care & Pharmaceuticals			Industrials and Materials			Media			Metals and Mining			Oil and Gas			Technology			Telecommunications			Transportation Services			Utilities			Undisclosed & Other		
	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N	$\bar{x}$	$\hat{x}$	N															
Tax efficiency of the alternatives	2.4	3.0	156	1.4	1.0	5	na	na	<5	1.8	1.5	10	2.2	2.5	26	na	na	<5	3.2	4.0	5	1.5	1.0	10	2.5	2.0	31	3.3	4.0	7	3.2	3.5	6	3.1	3.0	10	2.9	3.0	9	na	na	<5	2.7	3.0	10	2.0	2.0	8	1.7	1.5	10
Accounting implications e.g., EPS impact	2.4	3.0	154	1.6	1.0	5	na	na	<5	2.5	3.0	10	2.2	2.0	25	na	na	<5	2.2	3.0	5	2.6	3.0	10	2.6	3.0	30	1.6	1.0	7	2.8	3.5	6	2.6	3.0	10	3.2	3.0	9	na	na	<5	2.5	2.5	10	2.4	3.0	8	1.4	0.5	10
Signalling	2.7	3.0	152	2.6	4.0	5	na	na	<5	3.0	3.0	10	2.5	3.0	26	na	na	<5	3.0	3.0	5	2.3	3.0	9	2.7	3.0	29	2.3	3.0	7	2.7	3.0	6	2.9	3.0	10	3.2	4.0	9	na	na	<5	3.1	3.0	9	2.8	3.0	8	2.3	2.5	10
Flexibility in changing level of distribution	2.7	3.0	151	2.0	1.0	5	na	na	<5	3.1	3.0	9	2.9	3.0	26	na	na	<5	1.4	0.0	5	2.5	3.0	10	2.4	3.0	28	2.1	2.0	7	2.7	3.0	6	3.0	3.0	10	3.7	5.0	9	na	na	<5	3.1	3.0	9	1.9	2.0	8	2.2	2.0	10
Attractiveness to different investors	2.3	3.0	149	2.0	1.0	5	na	na	<5	2.0	2.0	9	1.6	1.0	26	na	na	<5	na	na	<5	2.6	3.0	9	2.4	3.0	28	1.9	1.0	7	2.7	3.0	6	2.6	3.0	10	3.2	3.0	9	na	na	<5	2.4	3.0	9	2.4	2.5	8	2.6	3.0	10

Means and Medians in Percent

### 5.3: Factors Affecting Distribution Choice by Ratings and Listing

Question: How important are the following factors in your choice between paying regular Dividends, paying Special Dividends and Repurchasing Shares?

Results of Question 5.3: Factors Affecting Distribution Choice by Ratings and Listing																								
	Ratings									Listing														
	All			Investment Grade			Non-investment Grade			Not Rated			Undisclosed			Listed			Not Listed			Undisclosed		
	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>
Tax efficiency of the alternatives	2.4	3.0	156	2.3	2.5	62	2.4	2.0	16	na	na	<5	2.5	3.0	76	2.4	3.0	121	2.3	2.5	34	na	na	<5
Accounting implications e.g., EPS impact	2.4	3.0	154	2.6	3.0	61	3.1	3.0	16	na	na	<5	2.1	2.0	75	2.8	3.0	120	1.1	0.0	33	na	na	<5
Signalling	2.7	3.0	152	3.2	4.0	61	3.4	4.0	16	na	na	<5	2.2	2.0	73	3.2	3.0	118	0.9	1.0	33	na	na	<5
Flexibility in changing level of distribution	2.7	3.0	151	3.1	3.0	61	2.9	3.0	16	na	na	<5	2.2	2.5	72	3.1	3.0	118	1.2	0.0	32	na	na	<5
Attractiveness to different investors	2.3	3.0	149	2.5	3.0	61	3.0	3.5	16	na	na	<5	2.0	2.0	70	2.7	3.0	116	0.9	0.0	32	na	na	<5

Means and Medians in Percent



## 5.4: Dividend Payout Ratio by Region, Ratings and Listing

Question: What has been your average Dividend Payout Ratio over the last five years?

Results of Question 5.4: Dividend Payout Ratio by Region, Ratings and Listing															
Range offered	0	1% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	51% - 60%	61% - 70%	71% - 80%	81% - 90%	91% - 100%	Over 100%			
<i>Midpoint used for mean &amp; median</i>	<i>0%</i>	<i>5%</i>	<i>15%</i>	<i>25%</i>	<i>35%</i>	<i>45%</i>	<i>55%</i>	<i>65%</i>	<i>75%</i>	<i>85%</i>	<i>95%</i>	<i>100%</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>
All	2%	14%	13%	21%	21%	9%	8%	3%	3%	2%	3%	1%	34%	35%	175
<b>Region</b>															
Asia excluding Japan	0%	12%	19%	23%	19%	12%	4%	8%	0%	0%	0%	4%	32%	25%	26
Australia & New Zealand	0%	0%	0%	20%	20%	0%	20%	20%	0%	0%	20%	0%	55%	55%	5
Eastern Europe, Middle East & Africa	na	na	na	na	na	na	na	na	na	na	na	na	na	na	<5
Germany	0%	17%	3%	11%	31%	6%	11%	3%	8%	3%	8%	0%	42%	35%	36
Japan	0%	26%	22%	22%	13%	9%	4%	0%	4%	0%	0%	0%	24%	25%	23
Latin America	0%	0%	11%	33%	22%	11%	11%	0%	0%	0%	11%	0%	39%	35%	9
North America	13%	6%	31%	13%	25%	6%	6%	0%	0%	0%	0%	0%	23%	20%	16
Western Europe excluding Germany	2%	13%	9%	29%	15%	13%	7%	4%	4%	5%	0%	0%	34%	25%	55
Undisclosed	na	na	na	na	na	na	na	na	na	na	na	na	na	na	<5
<b>Ratings</b>															
Investment Grade	4%	6%	13%	26%	23%	10%	10%	4%	1%	1%	1%	0%	33%	35%	70
Non-investment Grade	0%	21%	21%	29%	7%	14%	0%	0%	7%	0%	0%	0%	26%	25%	14
Not Rated	na	na	na	na	na	na	na	na	na	na	na	na	na	na	<5
Undisclosed	0%	18%	13%	17%	21%	8%	7%	2%	5%	3%	5%	1%	35%	35%	87
<b>Listing</b>															
Listed	2%	8%	14%	23%	20%	11%	9%	5%	4%	2%	1%	1%	35%	35%	132
Not Listed	0%	31%	10%	17%	21%	2%	5%	0%	2%	2%	10%	0%	31%	25%	42
Undisclosed	na	na	na	na	na	na	na	na	na	na	na	na	na	na	<5

## 5.4: Dividend Payout Ratio by Industry

Question: What has been your average Dividend Payout Ratio over the last five years?

Results of Question 5.4: Dividend Payout Ratio by Industry															
Range offered	0	1% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	51% - 60%	61% - 70%	71% - 80%	81% - 90%	91% - 100%	Over 100%			
<i>Midpoint used for mean &amp; median</i>	<i>0%</i>	<i>5%</i>	<i>15%</i>	<i>25%</i>	<i>35%</i>	<i>45%</i>	<i>55%</i>	<i>65%</i>	<i>75%</i>	<i>85%</i>	<i>95%</i>	<i>100%</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>
All	2%	14%	13%	21%	21%	9%	8%	3%	3%	2%	3%	1%	34%	35%	175
<b>Industry</b>															
Automobiles	0%	50%	33%	17%	0%	0%	0%	0%	0%	0%	0%	0%	12%	10%	6
Business Services	na	na	na	na	na	na	na	na	na	na	na	na	na	na	<5
Chemicals	0%	8%	15%	23%	31%	0%	15%	8%	0%	0%	0%	0%	33%	35%	13
Consumer	4%	15%	7%	7%	33%	11%	4%	4%	4%	4%	7%	0%	38%	35%	27
Consumer Finance	0%	43%	14%	43%	0%	0%	0%	0%	0%	0%	0%	0%	15%	15%	7
Diversified & Conglomerates	0%	40%	0%	20%	40%	0%	0%	0%	0%	0%	0%	0%	21%	25%	5
Health Care & Pharmaceuticals	0%	13%	13%	38%	0%	13%	13%	13%	0%	0%	0%	0%	33%	25%	8
Industrials and Materials	0%	19%	3%	19%	19%	16%	13%	3%	3%	3%	0%	0%	35%	35%	31
Media	0%	0%	13%	25%	38%	0%	0%	0%	25%	0%	0%	0%	40%	35%	8
Metals & Mining	0%	17%	0%	17%	17%	0%	33%	0%	17%	0%	0%	0%	42%	45%	6
Oil & Gas	10%	10%	30%	20%	10%	10%	0%	0%	0%	0%	10%	0%	28%	20%	10
Technology	10%	10%	60%	10%	0%	10%	0%	0%	0%	0%	0%	0%	17%	15%	10
Telecommunications	na	na	na	na	na	na	na	na	na	na	na	na	na	na	<5
Transportation Services	0%	0%	8%	23%	31%	8%	15%	8%	0%	8%	0%	0%	41%	35%	13
Utilities	0%	0%	8%	23%	31%	8%	15%	8%	0%	8%	0%	0%	41%	35%	13
Undisclosed & Other	0%	0%	8%	15%	31%	8%	0%	15%	0%	8%	8%	8%	51%	35%	13

## 5.5: Dividend Yield by Region, Ratings and Listing

Question: What has been your average Dividend Payout Yield over the last five years?

Results of Question 5.5: Dividend Yield by Region, Ratings and Listing												
Range offered	0% - 1%	1.1% - 3%	3.1% - 5%	5.1% - 7%	7.1% - 9%	9.1% - 11%	11.1% - 13%	13.1% - 15%	Over 15%			
<i>Midpoint used for mean &amp; median</i>	0%	2%	4%	6%	8%	10%	12%	14%	16%	$\bar{x}$	$\tilde{x}$	<i>N</i>
All	20%	46%	26%	4%	2%	1%	0%	0%	0%	3%	2%	139
<b>Region</b>												
Asia excluding Japan	15%	35%	45%	0%	0%	5%	0%	0%	0%	3%	3%	20
Australia & New Zealand	na	na	na	na	na	na	na	na	na	na	na	<5
Eastern Europe, Middle East & Africa	na	na	na	na	na	na	na	na	na	na	na	<5
Germany	5%	50%	40%	5%	0%	0%	0%	0%	0%	3%	2%	20
Japan	42%	58%	0%	0%	0%	0%	0%	0%	0%	1%	2%	24
Latin America	na	na	na		na	na	na	na	na	na	na	<5
North America	41%	59%	0%	0%	0%	0%	0%	0%	0%	1%	2%	17
Western Europe excluding Germany	13%	43%	33%	9%	2%	0%	0%	0%	0%	3%	2%	46
Undisclosed	na	na	na	na	na	na	na	na	na	na	na	<5
<b>Ratings</b>												
Investment Grade	25%	42%	28%	2%	2%	2%	0%	0%	0%	2%	2%	64
Non-investment Grade	21%	57%	7%	7%	0%	7%	0%	0%	0%	3%	2%	14
Not Rated	na	na	na	na	na	na	na	na	na	na	na	<5
Undisclosed	14%	47%	28%	7%	4%	0%	0%	0%	0%	3%	2%	57
<b>Listing</b>												
Listed	21%	45%	26%	5%	2%	2%	0%	0%	0%	3%	2%	131
Not Listed	17%	50%	33%	0%	0%	0%	0%	0%	0%	2%	2%	6
Undisclosed	na	na	na	na	na	na	na	na	na	na	na	<5

## 5.5: Dividend Yield by Industry

Question: What has been your average Dividend Payout Yield over the last five years?

Results of Question 5.5: Dividend Yield by Industry												
Range offered	0% - 1%	1.1% - 3%	3.1% - 5%	5.1% - 7%	7.1% - 9%	9.1% - 11%	11.1% - 13%	13.1% - 15%	Over 15%			
<i>Midpoint used for mean &amp; median</i>	0%	2%	4%	6%	8%	10%	12%	14%	16%	$\bar{x}$	$\tilde{x}$	<i>N</i>
All	20%	46%	26%	4%	2%	1%	0%	0%	0%	3%	2%	139
<b>Industry</b>												
Automobiles	na	na	na	na	na	na	na	na	na	na	na	<5
Business Services	na	na	na	na	na	na	na	na	na	na	na	<5
Chemicals	11%	44%	44%	0%	0%	0%	0%	0%	0%	3%	2%	9
Consumer	14%	33%	43%		5%	5%	0%	0%	0%	3%	4%	21
Consumer Finance	80%	20%	0%	0%	0%	0%	0%	0%	0%	0%	0%	5
Diversified & Conglomerates	na	na	na	na	na	na	na	na	na	na	na	<5
Health Care & Pharmaceuticals	11%	78%	11%	0%	0%	0%	0%	0%	0%	2%	2%	9
Industrials and Materials	15%	62%	12%	8%	4%	0%	0%	0%	0%	2%	2%	26
Media	60%	0%	20%	20%	0%	0%	0%	0%	0%	2%	0%	5
Metals & Mining	0%	20%	40%	40%	0%	0%	0%	0%	0%	4%	4%	5
Oil & Gas	25%	38%	38%	0%	0%	0%	0%	0%	0%	2%	2%	8
Technology	44%	44%	0%	0%	0%	11%	0%	0%	0%	2%	2%	9
Telecommunications	na	na	na	na	na	na	na	na	na	na	na	<5
Transportation Services	0%	44%	56%	0%	0%	0%	0%	0%	0%	3%	4%	9
Utilities	9%	36%	36%	9%	9%	0%	0%	0%	0%	3%	4%	11
Undisclosed & Other	13%	75%	13%	0%	0%	0%	0%	0%	0%	2%	2%	8

## 5.6: Targets by Region, Ratings and Listing

Question: For which of the following do you have target ranges and what are those targets?

5.6: Targets by Region, Ratings and Listing					
	Regular Dividend Per Share	Dividend Per Share Growth	Payout Ratio	Dividend Yield	N
All	31%	23%	76%	19%	106
<b>Region</b>					
Asia excluding Japan	30%	20%	50%	23%	30
Australia & New Zealand	0%	0%	17%	0%	24
Eastern Europe, Middle East and Germany	0%	0%	9%	0%	22
Germany	6%	6%	46%	9%	35
Japan	30%	3%	17%	3%	30
Latin America	4%	4%	25%	0%	28
North America	4%	18%	25%	11%	28
Western Europe excluding Germany	21%	19%	50%	13%	48
Undisclosed	5%	0%	5%	0%	21
<b>Ratings</b>					
Investment Grade	16%	20%	64%	13%	61
Non-investment Grade	12%	12%	23%	8%	26
Not Rated	9%	5%	9%	5%	22
Undisclosed	32%	14%	60%	16%	57
<b>Listing</b>					
Listed	31%	26%	74%	22%	86
Not Listed	15%	5%	43%	3%	40
Undisclosed	0%	0%	0%	0%	20

## 5.6: Targets by Region, Ratings and Listing

Question: For which of the following do you have target ranges and what are those targets?

5.6: Targets by Region, Ratings and Listing					
	Regular Dividend Per Share	Dividend Per Share Growth	Payout Ratio	Dividend Yield	N
All	31%	23%	76%	19%	106
<b>Industry</b>					
Automobiles	0%	0%	5%	0%	21
Business Services	0%	5%	5%	0%	22
Chemicals	10%	6%	26%	0%	31
Consumer	21%	12%	41%	12%	34
Consumer Finance	4%	0%	9%	0%	23
Diversified & Conglomerates	5%	0%	5%	0%	22
Health Care & Pharmaceuticals	8%	4%	12%	4%	25
Industrials and Materials	22%	22%	42%	8%	36
Media	0%	0%	13%	0%	23
Metals & Mining	0%	0%	10%	10%	20
Oil & Gas	4%	0%	13%	0%	24
Technology	5%	10%	10%	20%	20
Telecommunications	0%	0%	9%	0%	22
Transportation Services	7%	0%	29%	4%	28
Utilities	14%	18%	32%	11%	28
Undisclosed & Other	11%	4%	26%	7%	27

## 5.7: Dividend Objectives

Question: How important are the following objectives?

Results of Question 5.7: Dividend Objectives										
	Not Important					Very Important		$\bar{x}$	$\tilde{x}$	<i>N</i>
	0	1	2	3	4	5				
Maintain stable Dividend per Share	15%	10%	10%	18%	27%	21%	3.0	3.0	156	
Maintain stable Dividend Payout Ratio	12%	13%	12%	23%	24%	15%	2.8	3.0	156	
Maintain stable Dividend Yield	20%	22%	18%	22%	10%	6%	2.0	2.0	143	
Increase Dividend per Share	14%	7%	13%	25%	27%	14%	2.9	3.0	157	
Increase Dividend Payout Ratio	18%	20%	24%	16%	14%	7%	2.1	2.0	147	
Increase Dividend Yield	25%	22%	18%	17%	14%	4%	1.9	2.0	144	
Avoid cutting the Dividend per Share	11%	6%	7%	15%	22%	39%	3.5	4.0	153	
Set Dividend in line with cashflows	6%	13%	20%	23%	24%	13%	2.9	3.0	135	

## 5.7: Dividend Objectives by Region

Question: How important are the following objectives?

Results of Question 5.7: Dividend Objectives by Region																														
	All			Asia excluding Japan			Australia & New Zealand			Eastern Europe, Middle East & Africa			Germany			Japan			Latin America			North America			Western Europe excluding Germany			Undisclosed		
	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N			
Maintain stable Dividend per Share	3.0	3.0	156	3.7	4.0	22	na	na	<5	na	na	<5	2.9	3.0	30	3.4	4.0	22	1.6	0.5	8	3.0	3.0	15	2.7	3.0	50	na	na	<5
Maintain stable Dividend Payout Ratio	2.8	3.0	156	3.8	4.0	24	2.4	2.0	5	na	na	<5	2.5	3.0	31	2.5	3.0	21	3.0	3.5	8	2.7	3.0	15	2.6	3.0	47	na	na	<5
Maintain stable Dividend Yield	2.0	2.0	143	3.3	3.0	20	na	na	<5	na	na	<5	1.4	1.0	29	1.8	1.0	21	1.3	1.0	8	2.4	2.5	14	1.9	2.0	42	na	na	<5
Increase Dividend per Share	2.9	3.0	157	3.3	3.0	22	na	na	<5	na	na	<5	2.7	3.0	30	3.1	3.5	22	1.6	1.0	9	3.4	4.0	14	2.7	3.0	51	na	na	<5
Increase Dividend Payout Ratio	2.1	2.0	147	2.9	3.0	23	na	na	<5	na	na	<5	1.6	1.5	28	2.6	2.5	22	1.6	1.5	8	1.7	2.0	14	1.8	2.0	44	na	na	<5
Increase Dividend Yield	1.9	2.0	144	3.2	3.5	22	na	na	<5	na	na	<5	1.2	1.0	28	2.4	3.0	22	1.1	1.0	7	1.8	2.0	14	1.5	1.0	43	na	na	<5
Avoid cutting the Dividend per Share	3.5	4.0	153	3.7	4.0	21	na	na	<5	na	na	<5	3.1	4.0	30	3.1	3.0	21	1.9	2.0	8	4.9	5.0	14	3.6	4.0	50	na	na	<5
Set Dividend in line with cashflows	2.9	3.0	135	3.5	4.0	22	na	na	<5	na	na	<5	3.1	3.0	26	2.6	3.0	20	3.2	3.0	5	1.9	1.5	14	2.8	3.0	41	na	na	<5

Means and Medians in Percent



## 5.7: Dividend Objectives by Industry

Question: How important are the following objectives?

Results of Question 5.7: Dividend Objectives by Industry																																																			
	All			Automobiles			Business Services			Chemicals			Consumer			Consumer Finance			Diversified/Conglomerates			Health Care & Pharmaceuticals			Industrials and Materials			Media			Metals and Mining			Oil and Gas			Technology			Telecommunications			Transportation Services			Utilities			Undisclosed & Other		
	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N												
Maintain stable Dividend per Share	3.0	3.0	156	na	na	<5	na	na	<5	2.4	3.0	12	na	na	<5	2.8	3.0	24	4.0	4.0	5	3.6	4.0	8	2.7	3.0	31	2.3	2.0	6	4.0	4.0	7	3.4	4.0	8	3.1	3.5	8	na	na	<5	2.7	3.0	12	3.6	4.0	10	2.9	4.0	11
Maintain stable Dividend Payout Ratio	2.8	3.0	156	na	na	<5	na	na	<5	2.4	2.0	13	na	na	<5	2.9	3.0	24	2.6	3.0	5	2.3	3.0	8	2.7	3.0	31	3.0	3.0	7	2.6	3.0	5	2.4	2.5	8	2.2	2.0	9	na	na	<5	3.5	4.0	12	3.2	3.0	9	3.3	4.0	11
Maintain stable Dividend Yield	2.0	2.0	143	na	na	<5	na	na	<5	1.7	2.0	11	na	na	<5	2.0	2.0	23	2.0	1.0	5	2.0	1.5	8	1.8	1.5	28	1.8	2.0	6	1.8	1.0	5	1.8	2.0	8	2.6	3.0	9	na	na	<5	2.4	2.5	10	2.6	2.5	8	2.1	1.5	10
Increase Dividend per Share	2.9	3.0	157	3.4	3.0	5	na	na	<5	3.2	3.5	12	3.4	3.0	5	2.5	2.5	24	3.2	3.0	5	3.3	4.0	9	2.6	3.0	30	3.0	4.0	6	3.3	3.0	7	2.4	2.0	9	2.5	3.0	8	na	na	<5	2.7	3.0	12	3.0	3.0	8	3.0	3.0	11
Increase Dividend Payout Ratio	2.1	2.0	147	1.8	1.0	5	na	na	<5	2.4	2.5	12	na	na	<5	2.0	2.0	22	1.6	1.0	5	2.1	1.5	8	1.8	2.0	29	2.2	2.0	5	1.8	2.0	5	1.8	1.5	8	1.8	1.5	8	na	na	<5	2.4	2.0	11	3.1	3.5	8	2.2	2.0	11
Increase Dividend Yield	1.9	2.0	144	2.0	1.0	5	na	na	<5	1.6	1.0	10	na	na	<5	1.8	1.0	22	1.6	1.0	5	2.3	1.5	8	1.9	2.0	29	1.7	2.0	6	1.4	1.0	5	1.3	1.0	8	2.1	2.0	8	na	na	<5	2.2	2.0	11	2.6	3.0	8	1.4	0.5	10
Avoid cutting the Dividend per Share	3.5	4.0	153	na	na	<5	na	na	<5	3.8	5.0	11	na	na	<5	3.6	4.0	23	3.8	4.0	5	3.8	5.0	8	3.2	4.0	30	3.2	4.0	6	3.7	5.0	7	3.3	4.0	8	3.4	4.0	8	na	na	<5	3.3	3.5	12	4.0	5.0	9	3.5	4.0	11
Set Dividend in line with cashflows	2.9	3.0	135	na	na	<5	na	na	<5	2.1	2.5	10	na	na	<5	3.2	3.0	21	3.0	4.0	5	2.0	2.0	6	2.9	3.0	28	2.5	2.5	6	na	na	<5	2.6	3.0	8	2.9	2.0	7	na	na	<5	3.0	3.0	10	3.2	3.5	6	3.2	3.0	12

Means and Medians in Percent

## 5.7: Dividend Objectives by Ratings and Listing

Question: How important are the following objectives?

Results of Question 5.7: Dividend Objectives by Ratings and Listing																								
	Ratings									Listing														
	All			Investment Grade			Non-investment Grade			Not Rated			Undisclosed			Listed			Not Listed			Undisclosed		
	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>
Maintain stable Dividend per Share	3.0	3.0	156	2.9	3.0	65	3.4	4.0	15	na	na	<5	2.9	3.0	72	3.2	4.0	124	2.1	2.0	31	na	na	<5
Maintain stable Dividend Payout Ratio	2.8	3.0	156	2.7	3.0	62	3.2	3.0	15	na	na	<5	2.8	3.0	75	2.9	3.0	121	2.4	2.0	34	na	na	<5
Maintain stable Dividend Yield	2.0	2.0	143	1.9	2.0	56	2.1	2.0	15	na	na	<5	2.0	2.0	69	2.2	2.0	113	1.2	0.0	29	na	na	<5
Increase Dividend per Share	2.9	3.0	157	3.1	3.0	65	2.9	4.0	15	na	na	<5	2.6	3.0	73	3.1	3.0	123	1.8	2.0	33	na	na	<5
Increase Dividend Payout Ratio	2.1	2.0	147	2.0	2.0	56	2.5	3.0	15	na	na	<5	2.0	2.0	72	2.2	2.0	116	1.7	1.0	30	na	na	<5
Increase Dividend Yield	1.9	2.0	144	1.9	2.0	55	2.1	2.0	15	na	na	<5	1.8	2.0	70	2.1	2.0	115	0.8	0.0	28	na	na	<5
Avoid cutting the Dividend per Share	3.5	4.0	153	3.8	4.0	63	3.8	4.0	15	na	na	<5	3.2	4.0	71	3.9	4.0	121	2.0	1.0	31	na	na	<5
Set Dividend in line with cashflows	2.9	3.0	135	2.6	3.0	52	3.3	3.5	14	na	na	<5	2.9	3.0	65	2.9	3.0	106	3.0	3.0	28	na	na	<5

Means and Medians in Percent

## 5.8: Reaction to Weak Cashflows

Question: Suppose that your operating cashflows were weak and you had insufficient liquid resources to pay Regular Dividends at the most recent level. How likely would you be to take each of these actions?

Results of Question 5.8: Reaction to Weak Cashflows									
	Never 0	Slightly Likely 1	2	3	4	Very Likely 5	$\bar{x}$	$\tilde{x}$	<i>N</i>
Borrow up to the limit of the credit rating	26%	22%	11%	15%	20%	6%	2.0	2.0	159
Borrow and allow the credit rating to fall	48%	26%	12%	10%	4%	0%	1.0	1.0	156
Cut deferrable investment	10%	27%	15%	20%	17%	10%	2.4	2.0	157
Cut strategic investment	29%	30%	18%	9%	11%	3%	1.5	1.0	157
Sell assets at their fair value	25%	31%	12%	16%	12%	2%	1.6	1.0	153
Sell assets at a discount to their fair value	59%	23%	12%	4%	2%	0%	0.7	0.0	157
Raise new equity	48%	31%	8%	8%	5%	0%	0.9	1.0	153
Cut dividends	9%	14%	17%	20%	22%	19%	2.9	3.0	162

## 5.8: Reaction to Weak Cashflows by Region

Question: Suppose that your operating cashflows were weak and you had insufficient liquid resources to pay Regular Dividends at the most recent level. How likely would you be to take each of these actions?

Results of Question 5.8: Reaction to Weak Cashflows by Region																														
	All			Asia excluding Japan			Australia & New Zealand			Eastern Europe, Middle East & Africa			Germany			Japan			Latin America			North America			Western Europe excluding Germany			Undisclosed		
	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N			
Borrow up to the limit of the credit rating	2.0	2.0	159	1.8	1.0	24	na	na	<5	na	na	<5	1.6	1.0	34	1.6	1.0	21	2.6	3.0	9	3.2	4.0	14	2.0	2.0	50	na	na	<5
Borrow and allow the credit rating to fall	1.0	1.0	156	1.1	1.0	24	na	na	<5	na	na	<5	0.7	0.0	34	1.0	1.0	21	0.8	0.0	9	1.8	2.0	13	0.8	0.0	49	na	na	<5
Cut deferrable investment	2.4	2.0	157	2.5	2.5	24	na	na	<5	na	na	<5	1.9	1.0	34	2.3	2.0	21	2.0	1.0	9	3.8	4.0	13	2.3	2.0	50	na	na	<5
Cut strategic investment	1.5	1.0	157	1.7	2.0	24	na	na	<5	na	na	<5	1.2	1.0	34	1.8	2.0	21	0.4	0.0	9	2.5	2.0	13	1.5	1.0	49	na	na	<5
Sell assets at their fair value	1.6	1.0	153	1.7	1.0	24	na	na	<5	na	na	<5	1.3	1.0	32	2.1	2.0	21	1.1	1.0	9	2.7	3.0	13	1.6	1.0	48	na	na	<5
Sell assets at a discount to their fair value	0.7	0.0	157	0.8	0.0	24	na	na	<5	na	na	<5	0.4	0.0	33	1.2	1.0	21	0.4	0.0	9	1.2	1.0	13	0.5	0.0	50	na	na	<5
Raise new equity	0.9	1.0	153	1.3	1.0	24	na	na	<5	na	na	<5	0.7	0.0	32	0.9	1.0	21	0.3	0.0	7	0.8	1.0	13	0.9	1.0	48	na	na	<5
Cut dividends	2.9	3.0	162	3.2	3.0	24	na	na	<5	na	na	<5	3.5	4.0	34	2.1	2.0	21	3.0	4.0	9	2.2	2.0	14	2.8	3.0	53	na	na	<5

Means and Medians in Percent

## 5.8: Reaction to Weak Cashflows by Industry

Question: Suppose that your operating cashflows were weak and you had insufficient liquid resources to pay Regular Dividends at the most recent level. How likely would you be to take each of these actions?

Results of Question 5.8: Reaction to Weak Cashflows by Industry																																																			
	All			Automobiles			Business Services			Chemicals			Consumer			Consumer Finance			Diversified/Conglomerates			Health Care & Pharmaceuticals			Industrials and Materials			Media			Metals and Mining			Oil and Gas			Technology			Telecommunications			Transportation Services			Utilities			Undisclosed & Other		
	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N												
Borrow up to the limit of the credit rating	2.0	2.0	159	1.2	0.5	6	na	na	<5	2.7	2.5	10	2.0	1.5	26	na	na	<5	na	na	<5	2.1	2.0	9	2.1	2.5	28	2.4	3.0	7	1.0	1.0	7	2.9	3.5	10	2.1	2.0	8	na	na	<5	1.5	1.0	13	1.8	1.0	8	1.6	1.0	13
Borrow and allow the credit rating to fall	1.0	1.0	156	0.0	0.0	6	na	na	<5	1.1	0.5	10	1.1	1.0	25	na	na	<5	na	na	<5	1.2	1.0	9	1.0	0.5	28	1.3	1.0	7	0.8	0.5	6	1.0	0.5	10	1.3	1.0	8	na	na	<5	0.3	0.0	12	1.0	0.5	8	0.7	0.0	13
Cut deferrable investment	2.4	2.0	157	1.3	1.0	6	na	na	<5	3.0	3.5	10	2.1	2.0	25	na	na	<5	1.4	1.0	5	2.7	2.0	9	2.9	3.0	28	2.5	2.5	6	1.7	1.0	6	1.8	1.0	10	2.5	2.5	8	na	na	<5	2.0	1.5	12	2.4	2.5	8	2.8	3.0	13
Cut strategic investment	1.5	1.0	157	0.8	1.0	6	na	na	<5	1.9	1.5	10	1.4	1.0	25	na	na	<5	0.8	1.0	5	2.0	2.0	9	2.0	2.0	28	1.3	1.0	6	1.4	1.0	7	0.8	0.0	9	1.6	1.0	8	na	na	<5	1.4	1.0	12	1.1	1.0	8	1.6	1.0	13
Sell assets at their fair value	1.6	1.0	153	1.8	2.0	6	na	na	<5	1.0	1.0	9	2.2	2.0	24	na	na	<5	1.0	1.0	5	2.0	1.5	8	1.9	1.5	28	1.6	1.0	5	1.0	1.0	7	1.2	1.0	10	2.0	1.0	8	na	na	<5	1.5	1.0	11	1.5	1.5	8	1.5	1.0	13
Sell assets at a discount to their fair value	0.7	0.0	157	0.3	0.0	6	na	na	<5	0.3	0.0	10	0.9	1.0	25	na	na	<5	0.0	0.0	5	1.0	1.0	9	0.9	0.5	28	0.3	0.0	6	0.6	0.0	7	0.6	0.0	10	1.0	1.0	8	na	na	<5	0.4	0.0	11	0.5	0.0	8	0.5	0.0	13
Raise new equity	0.9	1.0	153	0.3	0.0	6	na	na	<5	0.2	0.0	10	1.2	1.0	26	na	na	<5	0.2	0.0	5	1.0	1.0	9	1.1	1.0	27	0.3	0.0	6	0.6	0.0	7	0.6	0.0	8	2.0	2.0	8	na	na	<5	0.8	1.0	10	1.4	1.0	8	0.8	0.5	12
Cut dividends	2.9	3.0	162	3.2	4.0	6	na	na	<5	2.1	2.0	10	3.5	4.0	26	na	na	<5	3.4	3.0	5	2.7	3.0	9	3.0	3.5	28	2.3	2.0	6	3.0	3.0	7	2.9	3.0	10	3.1	3.5	8	na	na	<5	2.7	3.0	13	3.5	4.5	10	2.5	3.0	13

Means and Medians in Percent

## 5.8: Reaction to Weak Cashflows by Ratings and Listing

Question: Suppose that your operating cashflows were weak and you had insufficient liquid resources to pay Regular Dividends at the most recent level. How likely would you be to take each of these actions?

Results of Question 5.8: Reaction to Weak Cashflows by Ratings and Listing																								
	Ratings									Listing														
	All			Investment Grade			Non-investment Grade			Not Rated			Undisclosed			Listed			Not Listed			Undisclosed		
	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>
Borrow up to the limit of the credit rating	2.0	2.0	159	2.4	2.0	64	2.9	3.0	15	na	na	<5	1.6	1.0	76	2.2	2.0	120	1.4	1.0	39	na	na	<5
Borrow and allow the credit rating to fall	1.0	1.0	156	1.1	1.0	64	1.5	1.0	15	na	na	<5	0.7	0.0	73	1.1	1.0	117	0.5	0.0	39	na	na	<5
Cut deferrable investment	2.4	2.0	157	2.7	3.0	64	2.7	3.0	15	na	na	<5	2.0	2.0	74	2.6	3.0	119	1.7	1.0	38	na	na	<5
Cut strategic investment	1.5	1.0	157	1.5	1.0	64	2.2	3.0	15	na	na	<5	1.4	1.0	74	1.7	1.0	119	0.9	1.0	38	na	na	<5
Sell assets at their fair value	1.6	1.0	153	1.9	2.0	61	2.1	2.0	15	na	na	<5	1.3	1.0	73	1.9	1.5	116	0.9	1.0	37	na	na	<5
Sell assets at a discount to their fair value	0.7	0.0	157	0.7	0.0	63	1.3	1.0	15	na	na	<5	0.5	0.0	75	0.8	0.0	119	0.3	0.0	38	na	na	<5
Raise new equity	0.9	1.0	153	0.7	0.0	60	1.5	1.0	15	na	na	<5	1.0	1.0	74	1.0	1.0	117	0.8	0.0	36	na	na	<5
Cut dividends	2.9	3.0	162	2.4	2.0	67	3.6	4.0	15	na	na	<5	3.2	3.0	76	2.8	3.0	124	3.2	3.5	38	na	na	<5

Means and Medians in Percent

## 5.9: Reasons for Special Dividend by Region, Ratings and Listing

Question: Why did you pay the Special or Extraordinary Dividend?

5.9: Reasons for Special Dividend by Region, Ratings and Listing					
	Excessive cash holdings	Major company restructuring	Policy of issuing special dividends whenever it has excessive resources	Signal company quality to the market	N
All	77%	10%	23%	17%	30
<b>Region</b>					
Asia excluding Japan	na	na	na	na	<5
Australia & New Zealand	na	na	na	na	<5
Eastern Europe, Middle East and Germany	na	na	na	na	<5
Germany	86%	14%	14%	29%	7
Japan	na	na	na	na	<5
Latin America	na	na	na	na	<5
North America	na	na	na	na	<5
Western Europe excluding Germany	67%	11%	33%	0%	9
Undisclosed	na	na	na	na	<5
<b>Ratings</b>					
Investment Grade	60%	20%	0%	40%	5
Non-investment Grade	na	na	na	na	<5
Not Rated	na	na	na	na	<5
Undisclosed	82%	9%	32%	9%	22
<b>Listing</b>					
Listed	80%	7%	0%	33%	15
Not Listed	73%	13%	47%	0%	15
Undisclosed	na	na	na	na	<5

## 5.9: Reasons for Special Dividend by Industry

Question: Why did you pay the Special or Extraordinary Dividend?

Results of Question 5.9: Reasons for Special Dividend by Industry					
	Excessive cash holdings	Major company restructuring	Policy of issuing special dividends whenever it has excessive resources	Signal company quality to the market	N
All	77%	10%	23%	17%	30
<b>Industry</b>					
Automobiles	na	na	na	na	<5
Business Services	na	na	na	na	<5
Chemicals	na	na	na	na	<5
Consumer	63%	25%	13%	0%	8
Consumer Finance	na	na	na	na	<5
Diversified & Conglomerates	na	na	na	na	<5
Health Care & Pharmaceuticals	na	na	na	na	<5
Industrials and Materials	na	na	na	na	<5
Media	na	na	na	na	<5
Metals and Mining	na	na	na	na	<5
Oil and Gas	na	na	na	na	<5
Technology	na	na	na	na	<5
Telecommunications	na	na	na	na	<5
Transportation Services	na	na	na	na	<5
Utilities	na	na	na	na	<5
Undisclosed & Other	na	na	na	na	<5



## 5.10: Net Share Repurchases

Question: What proportion of your shares has your company repurchased (net of issuance) over the last five years?

Results of Question 5.10												
	0% - 1%	1.1% - 3%	3.1% - 5%	5.1% - 7%	7.1% - 9%	9.1% - 11%	11.1% - 13%	13.1% - 15%	Over 15%	$\bar{x}$	$\tilde{x}$	$N$
% of Net Shares Repurchased	13%	13%	20%	9%	2%	20%	7%	4%	13%	7.2%	6.0%	46
% of Net Shares Issued	21%	31%	17%	3%	7%	3%	3%	3%	10%	5.1%	2.0%	29

## 5.10: Net Share Repurchases by Region

Question: What proportion of your shares has your company repurchased (net of issuance) over the last five years?

Results of Question 5.10: Net Share Repurchases by Region																														
	All			Asia excluding Japan			Australia & New Zealand			Eastern Europe, Middle East & Africa			Germany			Japan			Latin America			North America			Western Europe excluding Germany			Undisclosed		
	$\bar{x}$	$\bar{x}$	<i>N</i>	$\bar{x}$	$\bar{x}$	<i>N</i>	$\bar{x}$	$\bar{x}$	<i>N</i>	$\bar{x}$	$\bar{x}$	<i>N</i>	$\bar{x}$	$\bar{x}$	<i>N</i>	$\bar{x}$	$\bar{x}$	<i>N</i>	$\bar{x}$	$\bar{x}$	<i>N</i>	$\bar{x}$	$\bar{x}$	<i>N</i>	$\bar{x}$	$\bar{x}$	<i>N</i>			
% of Net Shares Repurchased	7.2	6.0	46	na	na	<5	na	na	<5	na	na	<5	na	na	<5	na	na	<5	7.7	6.0	13	7.1	6.0	19	na	na	<5			
% of Net Shares Issued	5.1	2.0	29	na	na	<5	na	na	<5	na	na	<5	4.3	4.0	6	4.1	2.0	11	na	na	<5	na	na	<5	na	na	<5			

Means and Medians in Percent



## 5.10: Net Share Repurchases by Ratings and Listing

Question: What proportion of your shares has your company repurchased (net of issuance) over the last five years?

Results of Question 5.10: Net Share Repurchases by Ratings and Listing																								
	Ratings									Listing														
	All			Investment Grade			Non-investment Grade			Not Rated			Undisclosed			Listed			Not Listed			Undisclosed		
	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>	$\bar{x}$	$\tilde{x}$	<i>N</i>
% of Net Shares Repurchased	7.2	6.0	46	8.0	10.0	23	na	na	<5	na	na	<5	6.3	4.0	19	6.8	6.0	41	10.5	10.0	5	na	na	<5
% of Net Shares Issued	5.1	2.0	29	4.0	2.0	15	na	na	<5	na	na	<5	4.4	2.0	10	5.2	3.0	28	na	na	<5	na	na	<5

Means and Medians in Percent

## 5.11: Factors Affecting Decision to Repurchase Shares

Question: How important were the following factors in your decision to repurchase shares?

Results of Question 5.11: Factors Affecting Decision to Repurchase Shares									
	Not Important					Very Important			
	0	1	2	3	4	5	$\bar{x}$	$\tilde{x}$	<i>N</i>
Increase the leverage of the Company	26%	13%	14%	14%	22%	10%	2.2	2.0	69
Concentrate equity holdings	50%	18%	16%	7%	1%	7%	1.1	0.5	68
Exploit temporary mispricing	23%	27%	10%	13%	23%	4%	2.0	1.5	70
Exploit persistent mispricing	31%	28%	9%	18%	9%	4%	1.6	1.0	67
Mitigate dilution from employee schemes	29%	16%	13%	19%	12%	12%	2.0	2.0	69
Return excess capital to shareholders	18%	7%	8%	21%	21%	25%	2.9	3.0	72
Tax efficient distribution	21%	16%	17%	23%	13%	10%	2.2	2.0	70
Increase EPS	19%	12%	16%	26%	18%	9%	2.4	3.0	68
Manage EPS volatility	39%	28%	16%	10%	4%	1%	1.2	1.0	67
Reduce the amount of capital	49%	22%	12%	10%	3%	3%	1.0	1.0	67

Means and Medians in Percent

## 5.11: Factors Affecting Decision to Repurchase Shares by Region

Question: How important were the following factors in your decision to repurchase shares?

Results of Question 5.11: Factors Affecting Decision to Repurchase Shares by Region																														
	All			Asia excluding Japan			Australia & New Zealand			Eastern Europe, Middle East & Africa			Germany			Japan			Latin America			North America			Western Europe excluding Germany			Undisclosed		
	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N			
Increase the leverage of the Company	2.2	2.0	69	3.0	3.5	8	na	na	<5	na	na	<5	1.7	1.5	10	2.4	3.0	11	na	na	<5	1.8	2.0	14	2.3	2.0	21	na	na	<5
Concentrate equity holdings	1.1	0.5	68	3.0	2.5	8	na	na	<5	na	na	<5	0.6	0.0	10	1.5	1.0	11	na	na	<5	0.9	0.5	14	0.8	0.0	21	na	na	<5
Exploit temporary mispricing	2.0	1.5	70	3.4	4.0	8	na	na	<5	na	na	<5	1.1	1.0	10	2.0	2.0	11	na	na	<5	2.2	2.0	14	1.6	1.0	22	na	na	<5
Exploit persistent mispricing	1.6	1.0	67	3.4	4.0	8	na	na	<5	na	na	<5	0.8	0.0	9	1.5	1.0	11	na	na	<5	1.8	1.0	15	1.2	1.0	20	na	na	<5
Mitigate dilution from employee schemes	2.0	2.0	69	2.1	2.0	8	na	na	<5	na	na	<5	1.5	0.0	10	2.4	3.0	11	na	na	<5	3.0	3.5	14	1.3	1.0	22	na	na	<5
Return excess capital to shareholders	2.9	3.0	72	3.3	4.0	9	na	na	<5	na	na	<5	1.8	1.5	10	2.9	3.0	13	na	na	<5	3.9	4.0	14	2.8	3.0	21	na	na	<5
Tax efficient distribution	2.2	2.0	70	2.4	2.5	8	na	na	<5	na	na	<5	1.4	1.0	10	1.3	1.5	12	na	na	<5	3.6	3.5	14	2.1	2.0	21	na	na	<5
Increase EPS	2.4	3.0	68	3.3	3.0	8	na	na	<5	na	na	<5	1.4	1.0	10	2.3	3.0	11	na	na	<5	3.2	3.0	15	2.2	2.5	20	na	na	<5
Manage EPS volatility	1.2	1.0	67	2.4	2.0	8	na	na	<5	na	na	<5	0.2	0.0	10	1.6	2.0	11	na	na	<5	1.4	1.0	14	0.9	1.0	20	na	na	<5
Reduce the amount of capital	1.0	1.0	67	2.0	2.0	8	na	na	<5	na	na	<5	0.2	0.0	10	1.5	1.0	11	na	na	<5	0.6	0.0	14	0.9	0.5	20	na	na	<5

Means and Medians in Percent

## 5.11: Factors Affecting Decision to Repurchase Shares by Industry

Question: How important were the following factors in your decision to repurchase shares?

Results of Question 5.11: Factors Affecting Decision to Repurchase Shares by Industry																																																			
	All			Automobiles			Business Services			Chemicals			Consumer			Consumer Finance			Diversified/Conglomerates			Health Care & Pharmaceuticals			Industrials and Materials			Media			Metals and Mining			Oil and Gas			Technology			Telecommunications			Transportation Services			Utilities			Undisclosed & Other		
	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N	$\bar{x}$	$\bar{x}$	N												
Increase the leverage of the Company	2.2	2.0	69	na	na	<5	na	na	<5	2.2	1.0	5	2.4	3.0	10	na	na	<5	na	na	<5	2.2	2.0	6	2.5	3.0	13	na	na	<5	na	na	<5	na	na	<5	1.4	0.5	8	na	na	<5	2.2	2.0	5	na	na	<5	na	na	<5
Concentrate equity holdings	1.1	0.5	68	na	na	<5	na	na	<5	0.4	0.0	5	1.2	1.0	9	na	na	<5	na	na	<5	1.0	1.0	6	0.9	0.0	14	na	na	<5	na	na	<5	na	na	<5	1.8	1.0	8	na	na	<5	1.0	0.0	5	na	na	<5	na	na	<5
Exploit temporary mispricing	2.0	1.5	70	na	na	<5	na	na	<5	1.0	1.0	5	2.3	2.0	9	na	na	<5	na	na	<5	3.0	3.5	6	1.9	2.0	14	na	na	<5	na	na	<5	na	na	<5	2.0	1.0	8	na	na	<5	1.6	1.0	5	na	na	<5	na	na	<5
Exploit persistent mispricing	1.6	1.0	67	na	na	<5	na	na	<5	1.6	1.0	5	1.8	1.0	10	na	na	<5	na	na	<5	2.3	2.5	6	1.3	1.0	13	na	na	<5	na	na	<5	na	na	<5	1.9	1.0	7	na	na	<5	1.0	1.0	5	na	na	<5	na	na	<5
Mitigate dilution from employee schemes	2.0	2.0	69	na	na	<5	na	na	<5	na	na	<5	1.3	1.0	10	na	na	<5	na	na	<5	2.8	3.0	6	2.1	2.0	14	na	na	<5	na	na	<5	na	na	<5	3.4	3.5	8	na	na	<5	1.4	0.0	5	na	na	<5	na	na	<5
Return excess capital to shareholders	2.9	3.0	72	na	na	<5	na	na	<5	4.4	5.0	5	1.6	1.0	9	na	na	<5	na	na	<5	2.5	2.5	6	2.8	3.0	14	na	na	<5	na	na	<5	na	na	<5	3.8	4.5	8	na	na	<5	3.0	4.0	5	na	na	<5	3.4	4.0	5
Tax efficient distribution	2.2	2.0	70	na	na	<5	na	na	<5	2.4	3.0	5	0.9	0.0	9	na	na	<5	na	na	<5	2.0	2.0	6	1.9	1.5	14	na	na	<5	na	na	<5	na	na	<5	2.6	2.5	8	na	na	<5	2.8	3.0	5	na	na	<5	na	na	<5
Increase EPS	2.4	3.0	68	na	na	<5	na	na	<5	3.0	3.0	5	2.2	2.0	10	na	na	<5	na	na	<5	2.5	2.5	6	2.8	3.0	13	na	na	<5	na	na	<5	na	na	<5	2.4	3.0	8	na	na	<5	2.8	3.0	5	na	na	<5	na	na	<5
Manage EPS volatility	1.2	1.0	67	na	na	<5	na	na	<5	0.6	0.0	5	0.6	0.0	9	na	na	<5	na	na	<5	1.2	1.0	6	1.3	1.0	13	na	na	<5	na	na	<5	na	na	<5	1.8	1.5	8	na	na	<5	2.4	3.0	5	na	na	<5	na	na	<5
Reduce the amount of capital	1.0	1.0	67	na	na	<5	na	na	<5	1.2	0.0	5	0.8	0.0	8	na	na	<5	na	na	<5	0.7	1.0	6	1.0	0.0	13	na	na	<5	na	na	<5	na	na	<5	1.0	0.0	8	na	na	<5	1.8	1.0	5	na	na	<5	na	na	<5

Means and Medians in Percent

## 5.11: Factors Affecting Decision to Repurchase Shares by Ratings and Listing

Question: How important were the following factors in your decision to repurchase shares?

Results of Question 5.11: Factors Affecting Decision to Repurchase Shares by Ratings and Listing																								
	Ratings									Listing														
	All			Investment Grade			Non-investment Grade			Not Rated			Undisclosed			Listed			Not Listed			Undisclosed		
	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N	$\bar{x}$	$\tilde{x}$	N
Increase the leverage of the Company	2.2	2.0	69	1.9	2.0	34	3.6	4.0	5	na	na	<5	2.3	2.0	28	2.3	2.0	64	na	na	<5	na	na	<5
Concentrate equity holdings	1.1	0.5	68	0.9	0.0	34	2.4	2.0	5	na	na	<5	1.1	0.0	27	1.0	0.0	63	na	na	<5	na	na	<5
Exploit temporary mispricing	2.0	1.5	70	1.5	1.0	34	3.8	4.0	5	na	na	<5	2.1	2.0	29	2.0	2.0	65	na	na	<5	na	na	<5
Exploit persistent mispricing	1.6	1.0	67	1.2	1.0	35	2.8	3.0	5	na	na	<5	1.7	1.0	25	1.6	1.0	62	na	na	<5	na	na	<5
Mitigate dilution from employee schemes	2.0	2.0	69	2.0	2.0	34	2.3	2.0	6	na	na	<5	1.9	2.0	27	2.1	2.0	65	na	na	<5	na	na	<5
Return excess capital to shareholders	2.9	3.0	72	3.4	4.0	35	4.2	4.0	5	na	na	<5	2.2	2.5	30	3.0	3.0	66	1.6	1.0	5	na	na	<5
Tax efficient distribution	2.2	2.0	70	2.7	3.0	35	3.0	3.0	5	na	na	<5	1.5	1.0	28	2.3	2.0	65	na	na	<5	na	na	<5
Increase EPS	2.4	3.0	68	2.5	3.0	35	3.8	4.0	5	na	na	<5	2.0	2.0	26	2.5	3.0	63	na	na	<5	na	na	<5
Manage EPS volatility	1.2	1.0	67	1.1	1.0	34	1.6	1.0	5	na	na	<5	1.1	1.0	26	1.2	1.0	62	na	na	<5	na	na	<5
Reduce the amount of capital	1.0	1.0	67	0.9	0.0	34	2.0	1.0	5	na	na	<5	0.9	1.0	26	1.1	1.0	62	na	na	<5	na	na	<5

Means and Medians in Percent



# Corporate Financial Policies and Practices Series

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