

Equity Payouts

There are two main ways to pay equity-holders: dividends and buy-backs. Both reduce the market capitalisation of equity (E).

The market capitalisation of equity equals the number of shares times share price:

$$E = n_{shares} \cdot P_{share}$$

Equity also has a residual claim on the firm's assets, so:

$$E = V - D$$

Dividends (Payout)

Dividends reduce E because when a stock pays a dividend, the stock price falls ($\downarrow P_{share}$).

Regular dividends are usually paid twice a year in Australia, and they're called the interim and final dividends. In the US, they're usually paid quarterly. According to a survey of US managers by Lintner in the 1950's, most companies try to avoid decreasing their regular dividend because that would signal to shareholders that the company's future profitability has fallen, hence why they had to cut the dividend which they couldn't afford. So companies try to keep their dividend constant, or slowly increase it at sustainable levels.

Special dividends are dividends that are paid as a one-off. Share holders do not expect them to continue. Other than that, there's nothing special about them.

Share Buy-backs or Repurchases (Payout)

Buy-backs reduce E because the number of stocks fall ($\downarrow n_{shares}$).

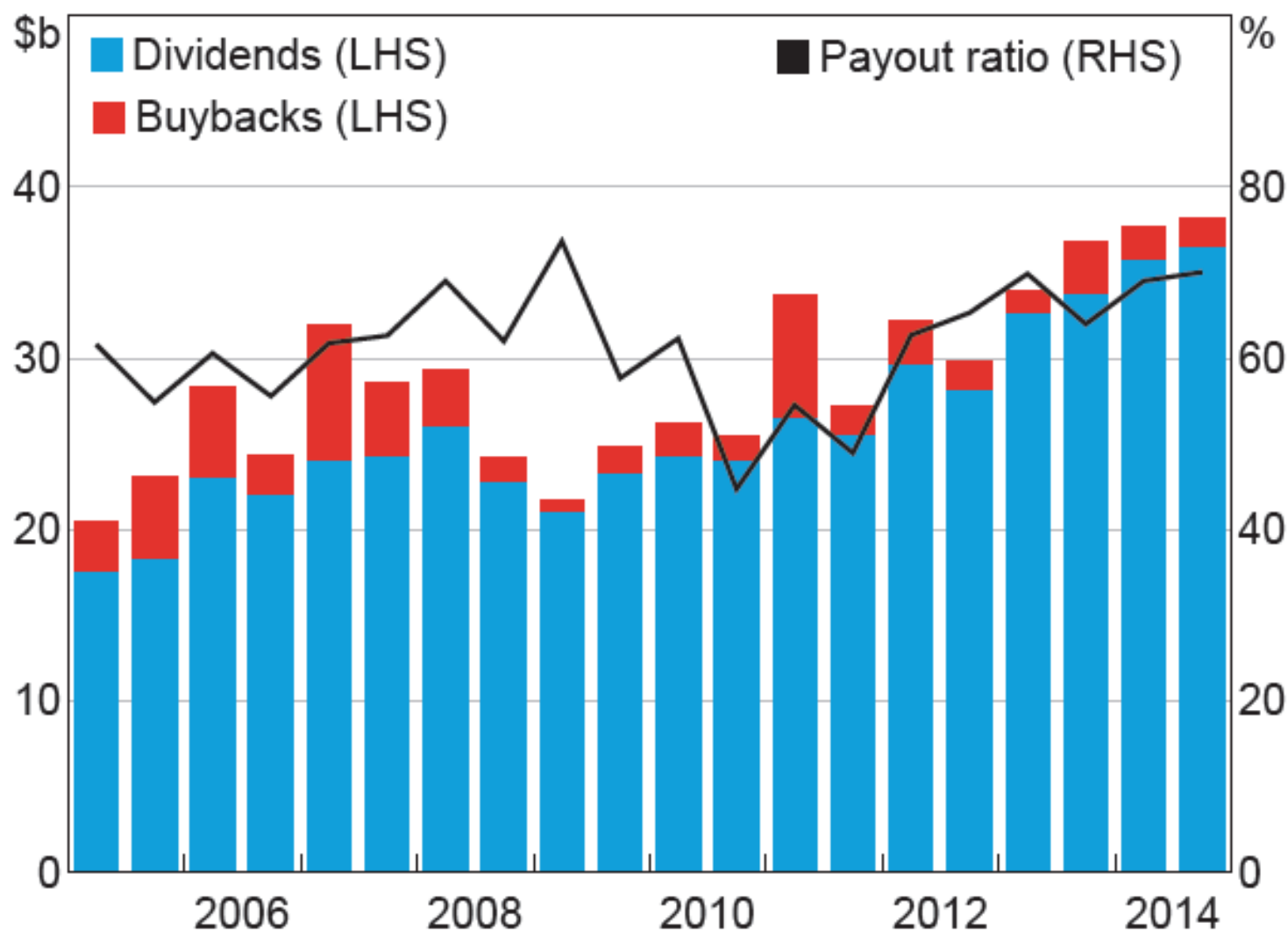
Buy-backs, also known as repurchases, occur when a company buys back its shares from shareholders who choose to participate, and the company then cancels these shares, so the number of shares is reduced ($\downarrow n_{shares}$). There are two types of buy-backs.

An **on-market** repurchase is where the company buys shares on the exchange, just like an investor would.

The other type is an **off-market buy-back**, where a letter is sent to shareholders offering to buy a proportion of their

shares back for a price that is usually slightly more than the current market price.

ASX 200 Shareholder Distributions*



* Shareholder dividends are attributed to the reporting period in which they are accounted for rather than the period in which they are paid

Sources: ASX; Morningstar; RBA