

0 Dividends: Dividend Policy

- Objective
 - To assess whether a firm's decision to pay dividends alters firm value.
- Dividends
 - Cash dividends
 - Stock dividends and splits
 - Stock repurchases
- Does Dividend Policy Matter?
 - WACC versus growth
 - Factors Favoring a Low Payout
 - Factors Favoring a High Payout
- Resolution of Real-World Factors
 - How can we explain what actually happens?
- Dividend policies in practice
- Stock Repurchase: An Alternative to Cash Dividends
- Stock Dividends and Stock Splits

– Note: some data obtained from A. Damordan.

1 Cash Dividends

Dividends –

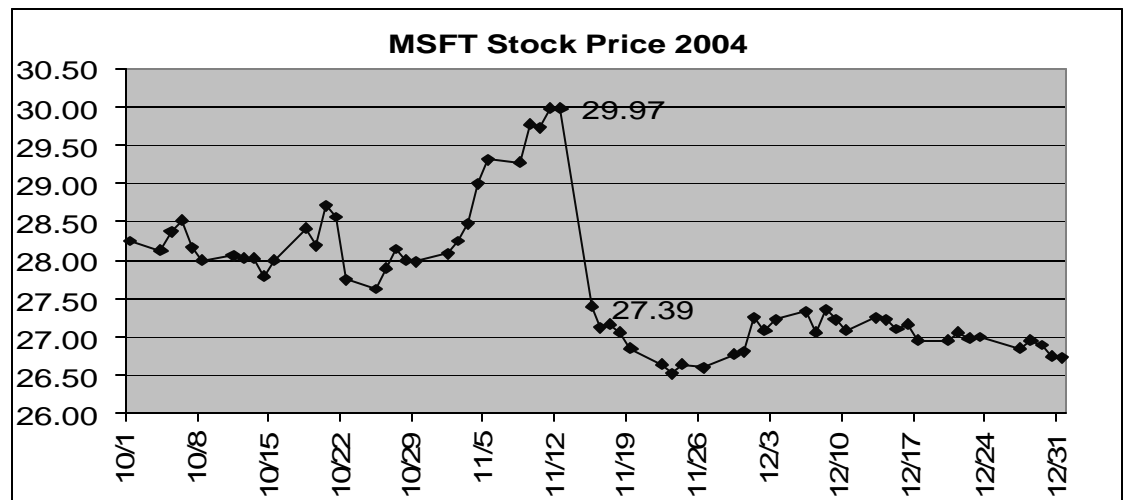
- Regular cash div – cash payment to stockholders.
- Extra cash div – extra amount that may not be repeated.
- Special cash div –
- Liquidating div –

- Declaration Date – Board declares dividend and it becomes liability of firm. Microsoft paid special dividend of \$3.00/sh to shareholders of record on 11/17/04, payable 12/2/04, with an ex-dividend date of 11/15/04.

Date of Record – firm closes transfer books and determines holders of record.

- Ex-div date –

- Dividend Capture trade –
 - Buy on 11/14 at \$29.97.
 - Sell on 11/15 at \$27.39.
 - Declare income of \$3.00.
 - Capital loss of \$2.58. ??



6 Survey: What do CFOs and Treasurers Think?

- Survey of 384 CFOs and Treasurers of large publicly traded companies.
- Brav, Graham, Harvey, Michaely (2003), Payout Policy in the 21st Century, JFE.

Fig. 1A: Revenues(\$ millions)

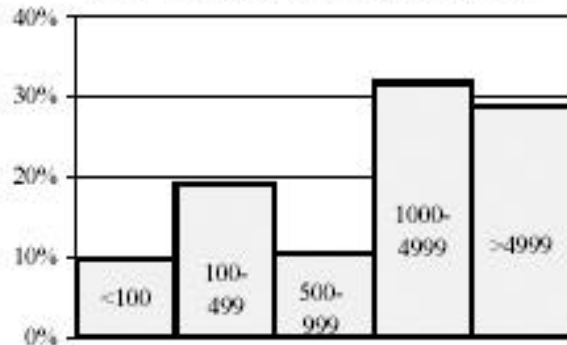


Fig. 1B: Industry

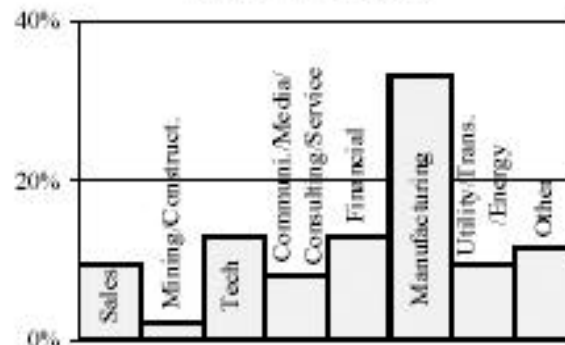


Fig. 1N: Insider holdings

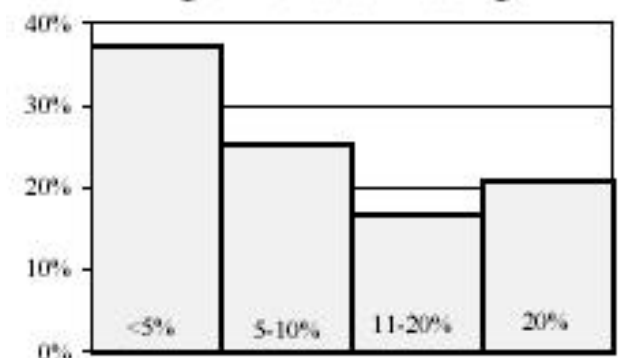


Fig. 1C: Credit Rating

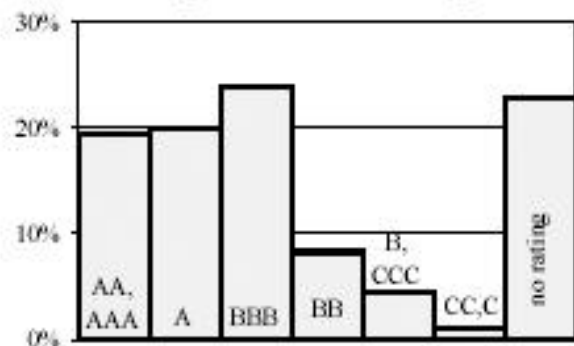


Fig. 1D: Debt/Assets Ratio (%)

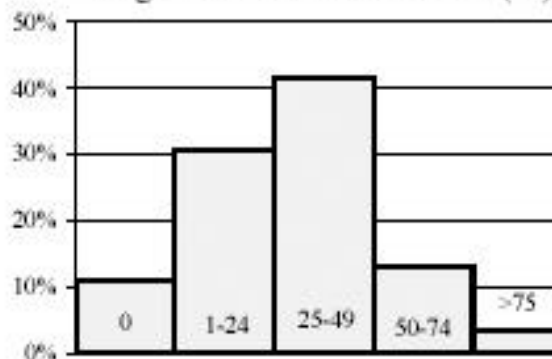


Fig. 1P: Pay Divs / Repur. shares

