

Chapter 13 - Dividends

- Returns from price change and dividends
- Issues: payout ratio, dividend stability considering reinvestment opportunities and shareholder preferences
- Payout ratio = $\frac{\text{Dividends per Share}}{\text{Earnings per Share}}$
- Currently 35%; historically about 50%

What to Do With The Money?

- **Corporate cash holdings growing rapidly**
- **Choices: Reinvest in new products?**
- **Pay dividends?**
- **Make acquisitions?**
- **Do stock buybacks?**

Dividend/Retention Trade-off

Given the firm's investment decisions and debt-equity mix, then it's a

choice between

Large dividend

Low profit retention

Heavy external equity financing

or

Small dividend

High profit retention

Negligible external equity financing