Cash Distributions to Shareholders (2005-2014) and Corporate Executive Pay (2006-2014)

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STOCK BUYBACKS AND EXECUTIVE PAY
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The information contained in this document updates data relevant to the analysis in:

- **William Lazonick, "Profits Without Prosperity,"*Harvard Business Review*, September 2014.**
  http://hbr.org/2014/09/profits-without-prosperity/ar/1

Further evidence and analysis can be found in:

- **William Lazonick, "Taking Stock: Why Executive Pay Results in an Unstable and Inequitable Economy," Roosevelt Institute White Paper, June 5, 2014.**
  http://www.theairnet.org/v3/backbone/uploads/2014/08/Lazonick_Executive_Pay_White_Paper_Roosevelt_Institute.pdf

- **William Lazonick, "Labor in the Twenty-First Century: The Top 0.1% and the Disappearing Middle Class," Institute for New Economic Thinking Working Paper, February 2015.**
  http://ineteconomics.org/community/experts/wlazonick

- **William Lazonick, "Stock Buybacks: From Retain-and-Reinvest to Downsize-and-Distribute," Brookings Institution Center for Effective Corporate Governance, April 17, 2015.**
  http://www.brookings.edu/research/papers/2015/04/17-stock-buybacks-lazonick

- **William Lazonick, "Buybacks: From Basics to Politics," Special Report, The Academic-Industry Research Network, August 5, 2015.**
  www.theAIRnet.org

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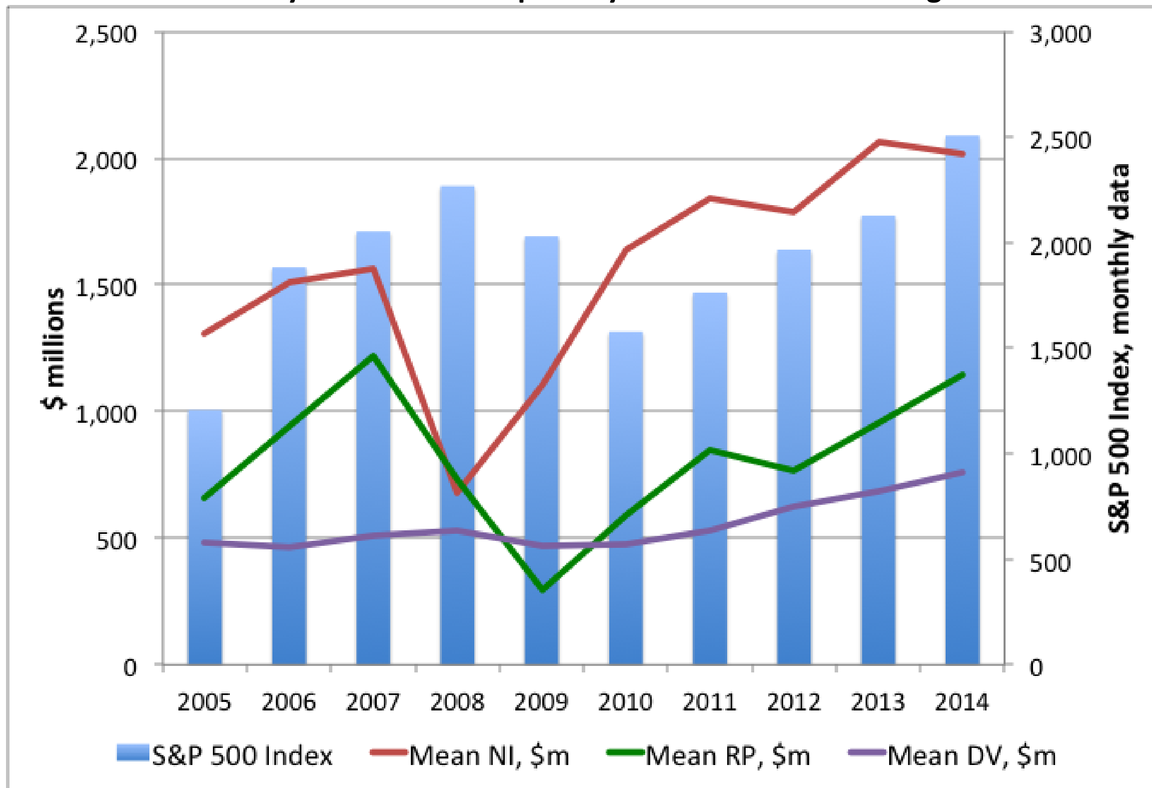
for more research and related information.

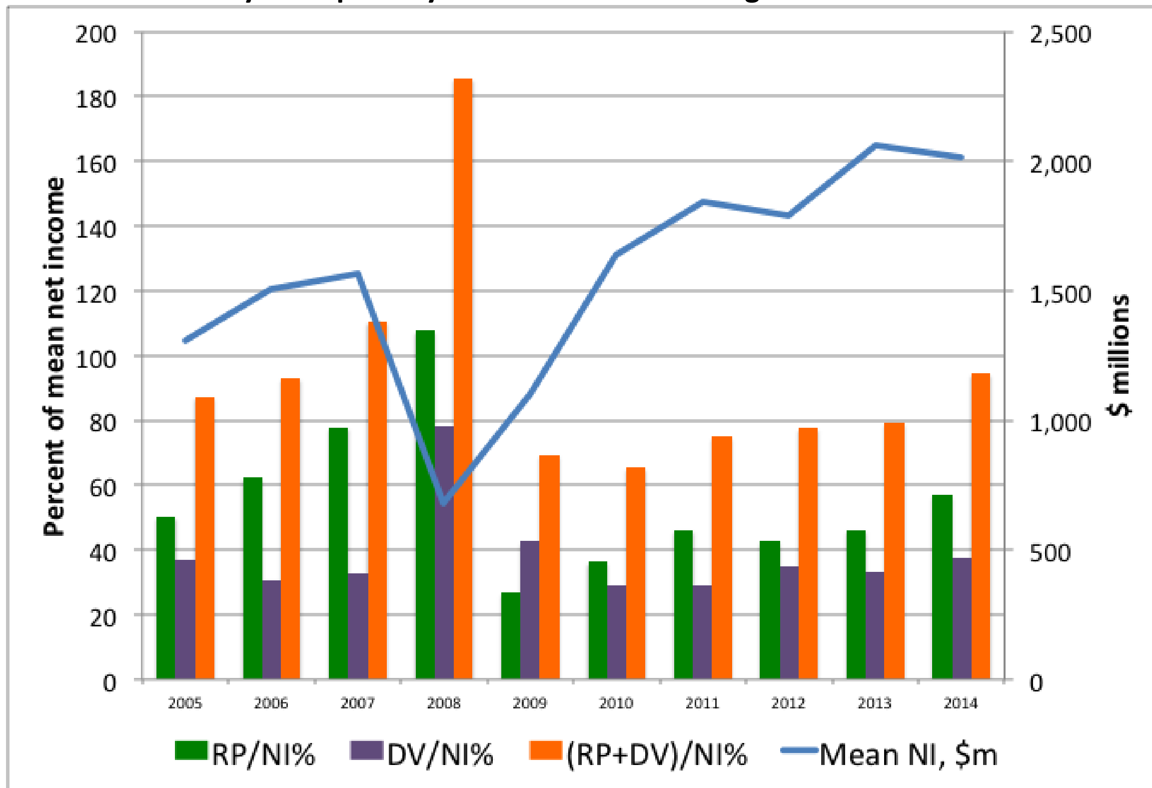
Figure 1. Mean net income (NI), mean stock repurchases (RP), and mean cash dividends (DV), 2005-2014, for 458 companies in the S&P 500 Index in February 2015 that were publicly listed from 2005 through 2014



Source: Standard and Poor's Compustat database, corrected from company 10-K filings by Mustafa Erdem Sakinç, The Academic-Industry Research Network.

- These 458 companies account for more than 70% of the market capitalization of all corporations in the United States.
- In 2005-2014, these 458 companies expended $3.7 trillion on buybacks (52.5% of net income) and another $2.5 trillion on dividends (35.7% of net income).
- From 2004 to 2007, with profits rising and the stock market booming, these companies tripled the value of their buybacks, reaching a per company average of $1.221 billion in 2007. In the financial crisis of 2008-2009 buybacks plunged, although in 2009 they were still $295 million per company. Since then, with corporate profits soaring to record levels, buybacks have been generally on the rise (there was a small dip in 2012, mirroring a dip in profits), and in 2014 averaged $1.145 billion per company, just shy of the record level of 2007.
- Meanwhile, through boom and bust, dividends were stable, and on the rise from 2009. In 2005 mean dividends were $484 million; in 2014 they were 57% higher at $759 million.
- In aggregate, these companies' buybacks were generally much larger than dividends, the traditional mode of giving shareholders a yield on their stock-market portfolios. Companies have tended to do buybacks when stock prices are high, contradicting the oft-heard claim from corporate executives that their companies do buybacks when the stock market undervalues their shares.

Figure 2. Mean stock repurchases (RP) and mean cash dividends (DV) as percent of net income (NI), 2005-2014, for 458 companies in the S&P 500 Index in February 2015 publicly listed from 2005 through 2014



Source: Standard and Poor's Compustat database, corrected from company 10-K filings by Mustafa Erdem Sakinç, The Academic-Industry Research Network.

- Figure 2 translates the absolute dollar data in Figure 1 into ratios of buybacks and divdends to net income – or what are generally called payout ratios.
- For the decade 2005-2014, the buyback payout ratio ranged from 27% in 2009 to 108% in 2008, while the dividend payout ratio ranged from 29% in 2010 and 2011 to 78% in 2008.
- When profits plunge, payout ratios may soar, as was the case in 2008, unless distributions to shareholders are cut substantially.
- Soaring profits in recent years dampened the increase in payout ratios, even though, as seen in Figure 1, both buybacks and dividends rose markedly.
- Much of the corporate profits retained (11.8% of net income over the decade) were not available for investment in productive capabilities in the United States because, through a corporate tax loophole that dates back to 1960, the U.S. government encourages U.S. corporations to make profits abroad and keep them there. In 2014, holdings of cumulated earnings abroad by S&P 500 companies were $2.1 trillion, with about one-third of that amount in cash. As a result, cash-rich companies often borrow to do buybacks and pay dividends in the United States.

Table 1. Top 25 stock repurchasers, 2005-2014, with percentages of net income (NI) spent on repurchases (RP) and dividends (DV)

BUYBACK RANK		RP, $b.	RP/NI %	DV/NI %	(DV+RP)/ NI% %
1	EXXON MOBIL	220.4	60	24	84
2	IBM	122.6	95	23	117
3	MICROSOFT	117.3	67	49	116
4	PROCTER & GAMBLE	72.9	70	49	118
5	CISCO SYSTEMS	72.7	100	13	112
6	APPLE COMPUTER	68.2	39	14	53
7	HEWLETT-PACKARD	64.0	142	20	162
8	INTEL	61.4	71	39	110
9	PFIZER	60.8	67	73	140
10	WAL-MART STORES	60.2	41	30	70
11	GENERAL ELECTRIC	57.3	36	55	90
12	GOLDMAN SACHS	52.4	66	17	83
13	ORACLE	48.9	65	12	77
14	AT&T	48.4	46	82	128
15	HOME DEPOT	46.4	105	38	143
16	CHEVRON	43.2	22	29	51
17	TIME WARNER	42.6	255	55	309
18	DISNEY	42.1	86	17	103
19	JOHNSON & JOHNSON	38.8	32	47	79
20	JPMORGAN CHASE	38.6	26	32	57
21	CONOCOPHILLIPS	38.2	49	38	87
22	WELLS FARGO	35.6	27	34	61
23	AMGEN	34.7	84	12	95
24	PEPSICO	33.7	57	47	104
25	UNITEDHEALTH GROUP	31.8	70	10	80

Source: Standard and Poor's Compustat database, corrected from company 10-K filings by Mustafa Erdem Sakinç, The Academic-Industry Research Network.

- For 13 of the companies in Table 1, distributions to shareholders over the decade 2005-2014 were 100% or more of net income. The combined payout ratios for petroleum-refining and financial companies under 100%, despite huge payouts, because their profits were so high.
- The top 25 repurchasers were in a wide range of industries, including nine in information-and-communication technology, three in pharmaceutical drugs, and three in petroluem refining.
- Lazonick's papers, cited above, contain analyses of the damage that buybacks do to the U.S. economy, with examples drawn from different industries and different companies.

Table 2. Mean total direct compensation of the 500 highest-paid executives named in U.S. corporate proxy statements, and the components of total direct compensation, 2006-2014

			Percentage shares of components of total direct compensation						
	Total Direct Comp. $m.	Total Direct Comp. 2014 $m.	Salary	Bonus	Non-Equity Incentive Plan	All Other Comp.	Deferred Earnings	Gains from Stock Option	Gains from Stock Awards
2006	27.6	31.5	3.3	7.2	7.1	6.1	1.2	60.4	14.7
2007	30.0	33.4	3.0	4.1	6.9	7.5	0.1	58.9	19.6
2008	20.2	22.1	4.7	4.8	10.0	4.6	0.1	49.8	26.2
2009	14.4	15.6	7.0	4.9	15.0	7.3	0.1	39.7	26.0
2010	18.5	19.7	5.6	4.9	15.1	6.1	0.1	40.2	28.0
2011	19.5	20.5	5.5	3.9	12.2	4.2	0.2	41.3	32.8
2012	30.2	31.1	3.6	2.7	8.2	3.1	0.1	42.1	40.2
2013	26.1	26.5	4.0	2.2	9.4	3.3	0.1	45.4	35.5
2014	16.7	16.7	5.7	1.6	12.6	2.4	0.1	37.6	40.0

Total remuneration of outliers omitted from calculations:
For 2008, Austin M. Beutner (Evercore Partners), $1.4 billion
For 2012, Mark Zuckerberg (Facebook), $2.3 billion; Richard Kinder, (Kinder Morgan), $1.1 billion
For 2013, Mark Zuckerberg (Facebook), $3.2 billion

Source: Standard and Poor's ExecuComp database, with calculations by Matt Hopkins, The Academic-Industry Research Network

- In 2012, mean total direct compensation of the 500 highest paid executives named on company proxy statements was $30.2 million, more than 600 times the pay of a worker with annual earnings of $50,000.
- By far the largest components of total executive remuneration were realized gains from stock-based pay in the forms of stock-option grants and stock awards. In 2013 the combined gains from exercising stock options and from the vesting of stock awards totaled 80.9% of the total compensation of the 500 highest-paid executives,and in 2014 these two components were 77.6% of the total.
- In recent years, along with stock-option grants, stock awards, typically with quarterly earnings per share targets, have become popular as a form of executive pay.
- Executive compensation is set by the company's board of directors, whose dominant members, alongside the company's own CEO, are CEOs of other companies. On the board, there is a community of interest in raising top-executive pay levels.
- For recommended pay packages, companies employ compensation consultants to benchmark the pay of other companies' CEOs. Consultants typically rate "their" CEOs at around the 75th percentile in terms of performance, and therefore top executive pay ratchets up over time.
- Given the importance of stock-based pay in compensation packages, a booming stock market boosts executive pay. Companies can use open-market repurchases to give manipulative support to rising stock prices, or to try to prevent their fall.
- But even when a company's stock price falls, U.S. style stock based pay can enable executives to gain. In a stock-market downturn, the board stuffs even more stock options and stock awards into top-executive pay packages to make sure that senior executives will be amply incentivized to do whatever is necessary to boost the company's stock price back up. And to engineer this stock-price manipulation, they can turn to massive stock buybacks

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THE LETHAL COMBO OF STOCK-BASED PAY AND STOCK BUYBACKS
IS A PRIME SOURCE OF INSTABILITY AND INEQUITY
IN THE U.S. ECONOMY.