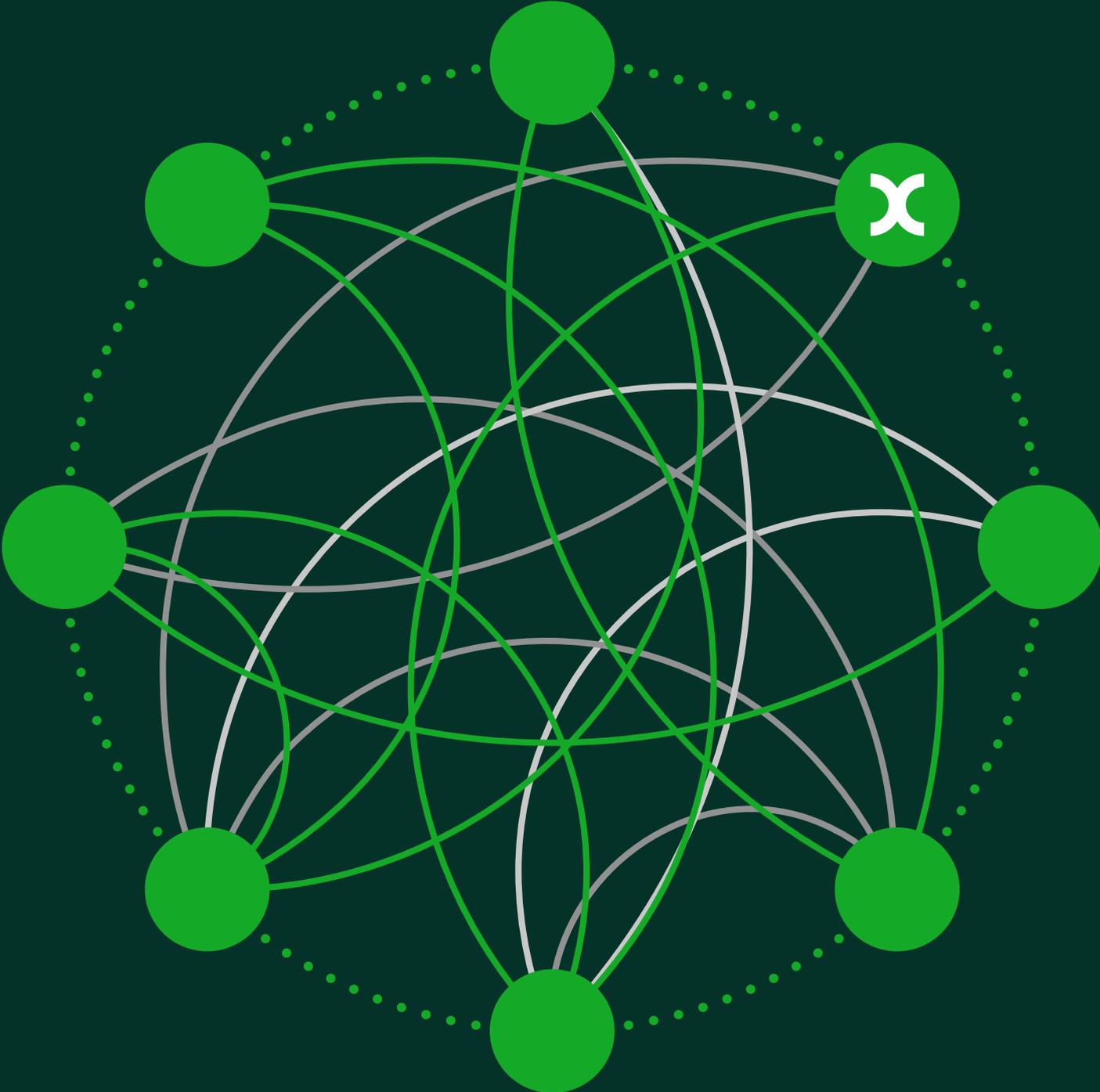


DPP4 financeability consultation cross-  
submission—dividend yields



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Prepared for Vector Limited

28 March 2024



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# 1 Introduction and summary

On 22 February 2024, the New Zealand Commerce Commission (NZCC) issued a consultation on financeability of electricity distribution businesses (EDBs) in the fourth default price-quality path (DPP4) (the consultation),<sup>1</sup> in response to which Oxera prepared two submissions.

- One was on behalf of the 'Big Six' EBDs, i.e. Aurora, Orion, Powerco, Unison, Vector, and Wellington Electricity, covering such topics as the concept of investability, importance of dividend payments to shareholders in utility businesses, risks of revenue referrals, as well as other responses to the consultation.<sup>2</sup>
- The other one was on behalf of Vector and focused on financeability modelling.<sup>3</sup>

Given the importance of equity financeability, which the NZCC and a few respondents to the consultation highlight in their representations,<sup>4</sup> Vector has asked us to undertake additional analysis of the importance of dividend payments for utilities.

In particular, in our response to the consultation, we have highlighted the following.

- The Modigliani-Miller dividend irrelevance theorem—which suggests that investors are indifferent between receiving a dividend as a cash flow or reinvesting it in the business—is based on assumptions that may not hold in the real world. Therefore, in practice, investors do not tend to be indifferent between receiving a dividend and reinvesting in the company.
- There is a catering theory of dividend policy that supports that investors in utilities may have a specific preference for stable and high dividends due to institutional, clientele and behavioural explanations, and therefore a reduction in dividends may cause investors to reduce their holdings in utilities.

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<sup>1</sup> NZCC (2024), 'DPP4 reset – Financeability of electricity distribution services in the default price-quality path', 22 February.

<sup>2</sup> Oxera (2024), 'Response to the New Zealand Commerce Commission consultation on the financeability of electricity distribution services in the fourth default price-quality path (DPP4). Prepared for New Zealand Electricity Distribution Businesses', 15 March.

<sup>3</sup> Oxera (2024), 'DPP4 financeability consultation response—financeability modelling analysis. Prepared for Vector Limited', 15 March.

<sup>4</sup> NZCC (2024), 'DPP4 reset – Financeability of electricity distribution services in the default price-quality path', 22 February, para. X4 and PowerNet Limited (2024), 'On DPP4 reset – Financeability of electricity distribution services in the default price-quality path issues paper', 15 March, para. 13.

- Finally, we find that, across geographies, dividend yields for utilities are generally higher than those for the broader stock market indices.

To come to our conclusion mentioned in the last bullet point above, i.e. that dividend yields for utilities are generally higher than those for the wider economy, we relied, in our response to the consultation, on two types of metrics:

- dividend yields;
- a combination of dividend yields and share buybacks.

The results are consistent when the analysis is undertaken based on the dividend yield, i.e. dividend yields are consistently higher for utilities across geographies than broader stock market indices, supporting the conclusion that investors in utilities expect relatively high and stable dividends in line with the academic findings. However, we observed that the results are more mixed when we allow for analysis of share buybacks together with dividend yields. In particular, the result holds for all markets that we assessed except for the USA (we assessed the USA, the UK, Australia and New Zealand).

In this report, we evaluate similarities and differences between dividends and share buybacks, to understand whether one of the metrics that we relied on in our analysis, described above, would be preferable to the other in this specific context.

The key findings of our analysis in this report are that:

- buybacks are typically linked to non-recurring earnings, such that distribution of returns in the form of buybacks tends to be more volatile than dividends;
- investors with a long-term investment horizon may prefer dividends to buybacks so as to achieve their income needs without having to liquidate their holdings;
- in addition, we have shown that while these would differ between jurisdictions, there are a number of other factors (i.e. tax treatment, transaction costs, implications for composition of ownership and behavioural biases) which evidence the non-substitutability of dividends and buybacks as means of distributing returns to shareholders.

These observations suggest that the relatively high share buyback levels that we observe for the US broad equity market (via the S&P 500 companies) have different characteristics from the payouts that would

be most relevant to utilities investors, i.e. stable dividend flows. This makes us put greater weight on the finding that the most relevant payouts for utilities, i.e. dividend yields, are higher for S&P 500 Utilities than for the broader S&P 500 index—thereby supporting that investors may choose to invest in utilities to receive those stable and high dividend flows.

Overall, the analysis in this report confirms the robustness of our conclusion in the response to the NZCC's financeability consultation, in which we showed that it is important for the NZCC to enable networks to pay out stable levels of dividends to avoid disincentivising investments.

In the rest of this report:

- we explain the concepts of dividends and share buybacks (**section 2**);
- we provide an overview of the academic literature, showing the similarities and differences between the characteristics of dividend payments and share buybacks (**section 3**);
- we undertake additional empirical analysis of distributions by a sample of S&P 500 index companies, comparing the volatility of dividend payments with that of buybacks (**section 4**);
- we conclude by commenting on the implications of the findings of the analysis provided in this report on our overall observations about the importance of dividends for utilities (**section 5**).

## 2 Introduction to dividends and share buybacks

Dividends and share buybacks represent the two main forms by which companies pay out their cash to shareholders. However, the underlying mechanisms of dividend and buyback payments are different.

- Dividends, which is the more commonly used payout method, refers to companies paying a specified per-share amount to their shareholders.
- Share buybacks refer to the situation where companies buy back their outstanding shares, most commonly through an open-market repurchase at a premium to the market price. Investors can volunteer to sell their shares—the shares are then either retired or held as treasury stock by the company.

While dividends have long been the primary method for paying out to shareholders, buybacks have gained prominence in recent years, with some evidence that their aggregate dollar-value had surpassed that of dividends in the USA by 2020.<sup>5</sup>

In the following section, we provide an overview of the academic literature that highlights both the similarities and differences between dividends and share buybacks, to understand whether one of the metrics (i.e. dividends only, or dividends and share buybacks cumulatively) that we relied on in our analysis would be preferable to the other, in this specific context of informing the NZCC's approach to equity financeability.

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<sup>5</sup> Chen, A. and Obizhaeva, O. A. (2022), *Stock Buyback Motivation and Consequences: A Literature Review*, CFA Research Institute Research Foundation, <https://rpc.cfainstitute.org/-/media/documents/book/rf-lit-review/2022/rflr-stock-buybacks.pdf>, last accessed 26 March 2024.

## 3 Similarities and differences in dividends and share buybacks

In this section, we assess the similarities (section 3.1) and differences (section 3.2) between dividends and share buybacks, based on academic literature; section 3.3 concludes. This analysis will inform whether we should place more weight on the results of our comparative analysis of distributions for utilities and the wider economy, as based only on the dividend yields or on a combination of dividend yields and buybacks.

### 3.1 Similarities

As described in the preceding section, the use of share buybacks has increased over time, especially in the USA. Several academic studies have assessed the use of dividends and share buybacks as potential substitutes. The key findings are that:

- Companies may gradually substitute dividends for share buybacks, with an increase in share buybacks being financed by funds that could potentially be used for dividends.<sup>6</sup>
- Companies may use dividend payments alongside share buybacks when their earnings are volatile, with buybacks allowing companies to deviate from their dividend payment policies, which do not change frequently.<sup>7</sup>

Despite some evidence supporting the substitutability of dividends and share buybacks, as described above, there is also evidence against it. We explore the differences between the two payout methods in the next sub-section.

### 3.2 Differences

As briefly mentioned above, while dividends and share buybacks have been assessed as substitutes in some contexts, they differ significantly in several aspects. In particular, having assessed the academic literature on this topic, we observe that dividends and share buybacks differ in flexibility, and in relation to their ability to meet investor requirements and expectations—these factors are relevant in our

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<sup>6</sup> Grullon, G. and Michaely, R. (2002), 'Dividends, share repurchases, and the substitution hypothesis', *The Journal of Finance*, **57**:4, pp. 1649–84.

<sup>7</sup> Skinner, D.J. (2008), 'The evolving relation between earnings, dividends, and stock repurchases', *Journal of Financial Economics*, **87**:3, pp. 582–609; Chen, A. and Obizhaeva, O.A. (2022), op. cit.

analysis, to inform the NZCC's approach. We outline these, and a few other differences between dividends and share buybacks, below.

### 3.2.1 Difference in flexibility of distributions to shareholders via dividends and share buybacks

A fundamental difference between dividends and share buybacks is that dividends are found to be a less flexible way to pay out to shareholders than share buybacks, because of signalling properties of the two instruments of distribution—the former reflect an implicit commitment from companies to continuously pay out to their shareholders.<sup>8</sup>

From our review of the academic literature, we noted the following points supporting this overall observation of the difference in the flexibility of using dividends and/or buybacks.<sup>9</sup>

- Dividends typically grow smoothly over time while share buybacks are volatile and vary considerably with earnings and the business cycle.
- The use of dividend distribution appears to be generally preferred by companies with higher and more stable cash flows from operations, while share buybacks are preferred by companies with more variable cash flows which are often non-recurring.
- Changes in dividends occur only at times of relatively permanent (expected) changes in cash flows, while share buybacks may be initiated based on temporary changes in cash flows.

Such a difference is closely related to the signalling and market timing implications associated with dividends and share buybacks, as recognised in related literature and highlighted by John Graham, the President of the American Finance Association in 2022.<sup>10</sup>

Specifically:

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<sup>8</sup> Jagannathan, M., Stephens, C. and Weisbach, M. (2000), 'Financial flexibility and the choice between dividends and stock repurchases', *Journal of Financial Economics*, 57:3, pp.355–384

<sup>9</sup> Ibid.; Guay, W. and Harford, J. (2000), op. cit.; Lee, B. and Rui, O. (2007), 'Time-series behaviour of share repurchases and dividends', *The Journal of Financial and Quantitative Analysis*, 42:1, pp. 119–142.

<sup>10</sup> Graham, J. (2022), 'Presidential address: corporate finance and reality', *The Journal of Finance*, 77:4, pp. 1975–2049; Linter, J. (1956), 'Distribution of income of corporations among dividends, retained earnings, and taxes', *The American Economic Review*, 46:2, pp. 97–113; Brav, A., Graham, J., Harvey, C. and Michaely, R. (2003), 'Payout policy in the 21st century', *National Bureau of Economic Research*, working paper 9657.

- Companies are reluctant to reduce dividends as it is associated with negative market reactions. Consequently, they are also hesitant to increase dividends if it is anticipated that such an increase may need to be reversed subsequently. However, they are less concerned with reducing share buybacks as that would tend to not be perceived as a negative signal about the company's performance, and therefore would be free of market penalty.
- Companies are more inclined to initiate share buybacks when shares are perceived as undervalued and thus a good investment by management, in contrast to the relatively more scheduled nature of dividends.

Finally, there is evidence that investors are fully aware of this difference; it is observed in the literature that the market reacts to changes in dividends, irrespective of the share buyback activity.<sup>11</sup> In particular, literature, including Bhattacharya (1979) and Bar-Yosef and Huffman (1986), asserts that such a relationship exists when investors have imperfect information about firm profitability and use changes in dividends as a signal to the market for changes in expected cash flow. Consequently, investors associate increases or decreases in dividends with improvements or deterioration in a firm's profitability.<sup>12</sup>

Overall, it appears that dividends and share buybacks differ as regards their signalling properties in relation to the permanence of their underlying cash flows, and consequently in their flexibility as means of distributing returns to shareholders. Additionally, investors are aware of this difference, and managers are aware of the difference in investor perceptions of dividends and buybacks and use them accordingly.

In the next sub-section, we explore the difference in the profile of investors that may prefer dividends relative to buybacks.

### 3.2.2 Difference in investor expectations and investment horizon in informing preference for dividends relative to share buybacks

As noted in our earlier report, academic and empirical research suggests that a large subset of investors are likely to invest in utilities with an expectation of consistent and relatively high dividend yield

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<sup>11</sup> Kulchania, M. (2013), 'Catering driven substitution in corporate payouts', *Journal of Corporate Finance*, **21**, pp. 180–195.

<sup>12</sup> Bhattacharya, S. (1979), 'Imperfect information, dividend policy, and "the bird in the hand" fallacy', *The Bell Journal of Economics*, **10**:1, pp. 259–270; Bar-Yosef, S. and Huffman, L. (1986), 'The information content of dividends: a signalling approach', *The Journal of Financial and Quantitative Analysis*, **21**:1, pp. 47–58.

policies.<sup>13</sup> We had also noted that Armitage (2012) found that there is an investor demand for dividends due to institutional, clientele and behavioural explanations, with utility companies satisfying such requirements given the nature of the cash flows they generate for their investors.<sup>14</sup>

The catering theory thus suggests that a reduction in the dividend yield may cause these investors to reduce their holdings in utilities.<sup>15</sup> The pool of equity capital available to fund utility networks may be more limited if dividends are paid later (i.e. are lower in the current period) than what those investors are used to, consistent with the catering theory. As a result, utilities may adjust their dividend policies in order to attract and cater for their equity investors who are seeking stable and consistent income streams.

The catering theory of dividend policy thereby provides a contextual underpinning to assess differences between dividends and share buybacks. One relevant consideration is that the academic literature highlights that investors with longer investment horizons prefer dividends to share buybacks.<sup>16</sup> Specifically, we summarise below specific considerations by Derrien, Kecskés and Thesmar (2013), Gaspar et al. (2005) and Gaspar et al. (2012).<sup>17</sup>

- Investors with longer investment horizons tend to prefer dividends, as these offer income without requiring the investors to liquidate their holdings and realise their long-term capital gains—which would be the case for investors participating in a buyback process (i.e. selling their shares).
- Conversely, investors with shorter investment horizons tend to prefer share buybacks. This is because their selling pressure when liquidating their positions will be buffered by the buy orders of the underlying company, which is typically done at a premium to the market price.

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<sup>13</sup> Oxera (2024), 'Response to the New Zealand Commerce Commission consultation on the financeability of electricity distribution services in the fourth default price-quality path (DPP4). Prepared for New Zealand Electricity Distribution Businesses', 15 March, p. 24.

<sup>14</sup> Armitage, S. (2012), 'Demand for dividends: the case of UK water companies', *Journal of Business Finance & Accounting*, **39**:3–4, pp. 464–499.

<sup>15</sup> *Ibid.*, section 3.7.

<sup>16</sup> Gaspar, J., Massa, M., Matos, P. and Patgiri, R. (2005), 'Can buybacks be a product of shorter shareholder horizons', *AFA 2005 Philadelphia meetings paper, EFA 2005 Moscow meetings paper*; Gaspar, J., Massa, M., Matos, P., Patgiri, R. and Rehman, Z. (2012), 'Payout policy choices and shareholder investment horizons', *Review of Finance*, **17**, pp. 261–320.

<sup>17</sup> *Ibid.*; Derrien, F., Kecskés, A. and Thesmar, D. (2013), 'Investor Horizons and Corporate Policies', *The Journal of Financial and Quantitative Analysis*, **48**:6, pp. 1755–80.

Accordingly, with reference to the literature described above, it appears that a relevant consideration as regards investors' preferences for dividends or buybacks as a means of distributing returns is dependent on the investment horizon. Specifically, long-term investors who do not want to liquidate their holdings to generate income, will tend to have a preference for dividends relative to buybacks. This supports the conclusions of our earlier report that dividends are a relevant metric for the NZCC to focus on in ensuring equity financeability for networks.

### 3.2.3 Other differences between dividends and share buybacks

The list of differences discussed above is not exhaustive and more is observed in the literature. We list a few additional differences below.

- Dividends and share buybacks can differ in their **tax implications**—a key deviation from the perfectly efficient capital markets assumption—with dividends taxed as income while share buybacks are taxed as capital gains.<sup>18</sup>
- Dividends and share buybacks can differ in their **transaction costs**—another deviation from the perfectly efficient capital markets assumption.<sup>19</sup>
- Unlike dividends, share buybacks can systematically alter the **composition of ownership** and cause **wealth transfers** between selling and non-selling shareholders or informed and non-informed shareholders depending on the transaction price.<sup>20</sup>
- Investors can perceive dividends and share buybacks differently due to **behavioural biases** including mental accounting or life cycle preferences, thereby having preferences for one over the other.<sup>21</sup>

A priori, it is not clear whether dividends or buybacks would be preferred by utility investors on the basis of the differences in the list above, as factors such as taxation and transaction costs would differ across jurisdiction, while our analysis was undertaken across multiple jurisdictions (i.e. the UK, New Zealand, the USA and Australia). However, we observe that these differences show the non-substitutability of dividends and buybacks as means of distributing returns to

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<sup>18</sup> Black, F. and Scholes, M. (1976), 'Taxes and the pricing of options', *The Journal of Finance*, **31**:2, pp. 319–32.

<sup>19</sup> Elton, E. and Gruber, M. (1968), 'The effect of share repurchase on the value of the firm', *The Journal of Finance*, **23**:1, pp. 135–49.

<sup>20</sup> Bagwell, L. and Shoven, J. (1989), 'Cash distribution to shareholders', *Journal of Economic Perspective*, **3**:3, pp. 129–40; Gaspar, J., Massa, M., Matos, P., Patgiri, R. and Rehman, Z. (2012), op. cit.; Brennan, M. and Thakor, A. (1990), 'Shareholder preferences and dividend policy', *The Journal of Finance*, **45**:4, pp. 993–1018.

<sup>21</sup> Kulchania, M. (2013), op. cit.

shareholders. Also, as we have already shown, with reference to signalling properties of dividends, as well as clientele effects—for utilities as an asset class, dividends appear to be the focal means of distributions to shareholders.

### 3.3 Conclusions

In this section, we provided an overview of academic literature showing similarities and differences between dividends and share buybacks.

While the two are fundamentally similar in that they represent forms of companies' payouts to shareholders, the literature also observes important differences between them. Among those, we highlight the following.

- The difference in the volatility of cash flows, from which dividends and buybacks are paid and the associated signalling implications. In particular, dividends tend to be paid out of stable operating cash flows, while buybacks are associated with non-recurring earnings. The implication is that any changes in the level of dividends signals to investors that the company expects a permanent change in its cash flows. The same does not stand for buybacks—they are relatively volatile and therefore do not tend to be interpreted in this way.
- The catering theory of dividend policy provides a contextual underpinning to assess further differences between dividends and share buybacks. Investors with a long-term investment horizon tend to prefer dividends over buybacks, as they can achieve their income needs without having to liquidate their holdings.
- Furthermore, we have evidenced that while these would differ between jurisdictions, there are a number of other factors (i.e. tax treatment, transaction costs, implications for composition of ownership and behavioural biases) which evidence the non-substitutability of dividends and buybacks as means of distributing returns to shareholders.

## 4 Volatility of dividends and share buybacks—empirical analysis

In this section, we assess the volatility of dividends and share buybacks for a sample of S&P 500 companies. Within the jurisdictions that we analysed (i.e. the UK, the USA, New Zealand and Australia), we focus this analysis on the US market because that was the only market where the evidence was 'mixed'—i.e. on the basis of dividends alone, returns were higher and more stable for the utilities index than for the broad market index, but allowing for buybacks, this conclusion did not hold.<sup>22</sup>

In all other markets, with or without adding buybacks, the distributions were higher for utility investors than for investors in the broader stock market. Accordingly, to examine whether dividends alone, or dividends and buybacks are the relevant focal metric in assessing equity financeability, we have undertaken this further empirical analysis of the S&P 500. Specifically, with the analysis in this section, we test the findings from the academic literature (see section 3.2.1) that dividends tend to be more stable than buybacks.

In the figures below, we show the total value of dividends and share buybacks for two sets of companies.<sup>23</sup>

- 1 The five constituents of the S&P 500 index with the highest market capitalisation as of March 2024.
- 2 The five constituents of the S&P 500 Buyback index with the highest market capitalisation as of March 2024 (the S&P 500 Buyback index includes the 100 constituents of the S&P 500 with the highest buyback ratios, where a buyback ratio is defined as the total value of a buyback divided by market capitalisation).

The figures show that the level of buybacks for the considered sample of companies are more volatile than the level of dividends, with the

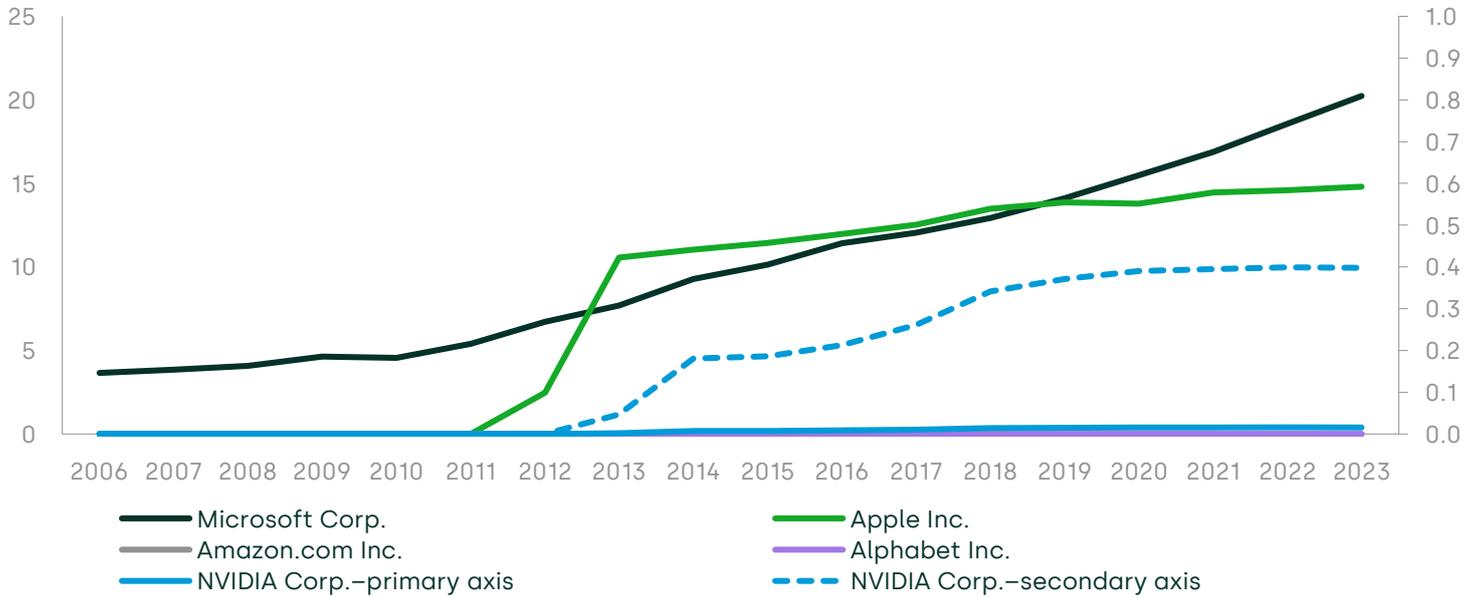
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<sup>22</sup> Oxera (2024), 'Response to the New Zealand Commerce Commission consultation on the financeability of electricity distribution services in the fourth default price-quality path (DPP4). Prepared for New Zealand Electricity Distribution Businesses', 15 March, p. 26.

<sup>23</sup> Due to the large 'universe' of 500 companies within the S&P 500, to undertake this analysis within the short working period that has been available for consultation responses, we have constructed a sample. While any sample cannot be guaranteed to be representative of the entire index, these two samples have been selected in a mechanistic way, as described, so that there is no built-in bias in the selection process. Moreover, we assume that companies with large amounts of buybacks (i.e. sample 2) are more likely to pay regular buybacks than any other companies. Therefore, we consider that working with this sample is likely to be conservative. In other words, if buyback payouts are volatile even for these companies, they are likely to be volatile for other companies as well.

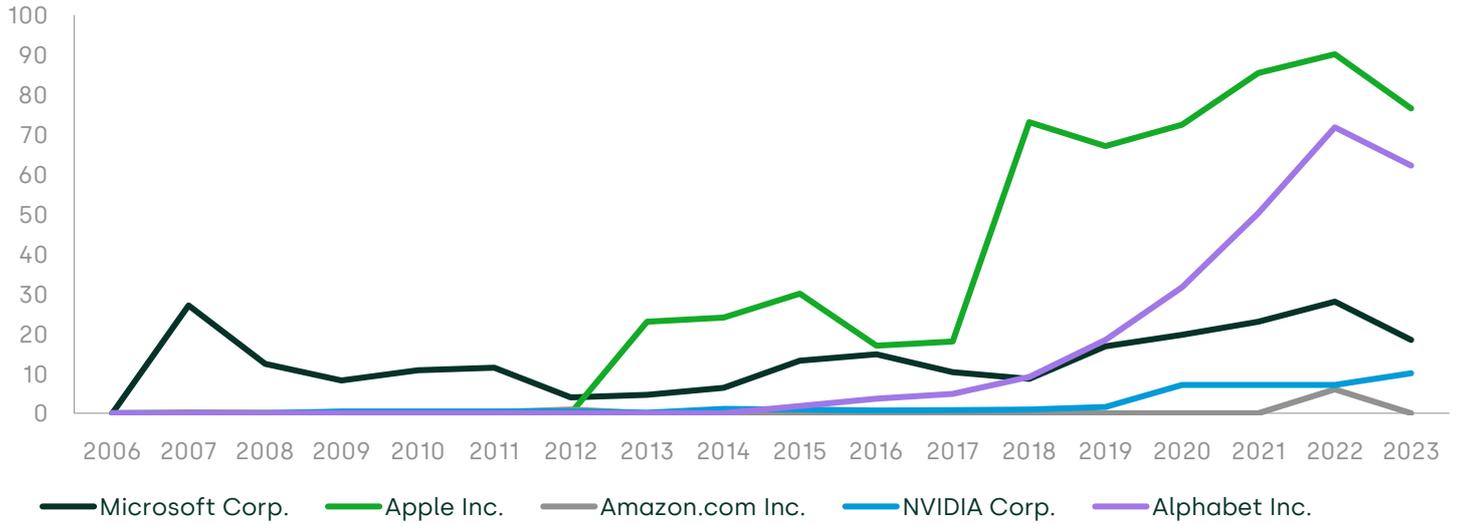
latter tending to grow steadily over time. This finding is consistent with the academic literature review in the preceding section.

Figure 4.1 Total value of dividends paid per year for the top five companies by market capitalisation in the S&P 500 index (\$bn)



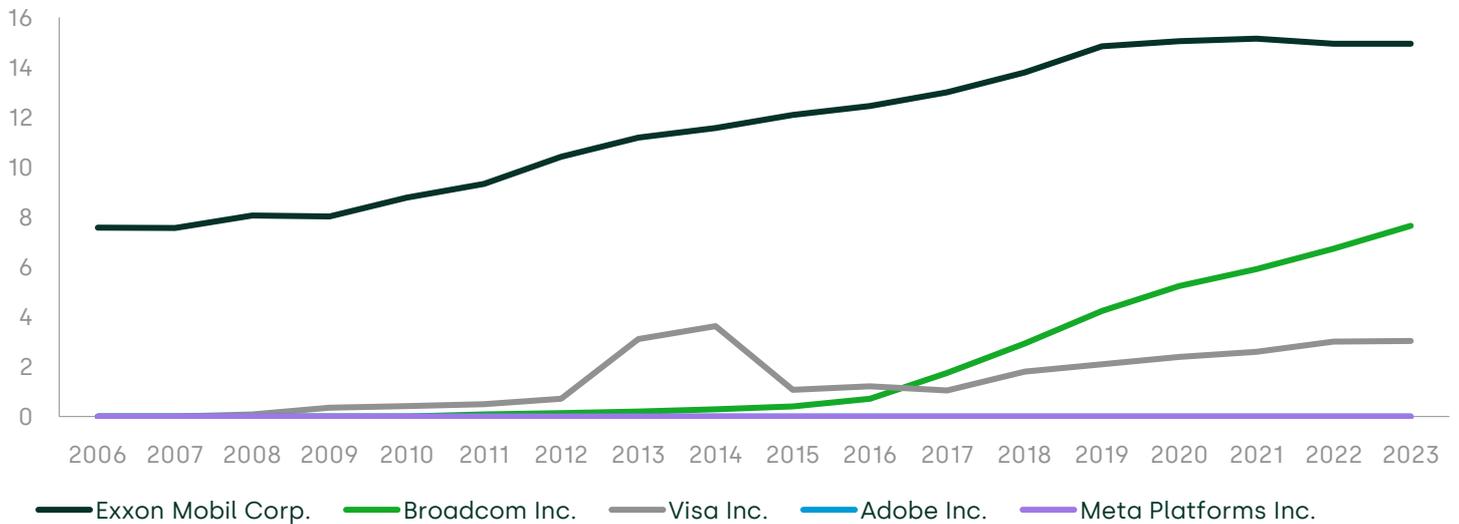
Note: The top five companies in the S&P 500 index by market capitalisation are Microsoft, Apple, Amazon, NVIDIA and Alphabet. The chart above shows all five companies with NVIDIA on both axes to better show scale. Amazon and Alphabet have not paid any dividends in the time period we have considered.  
 Source: Oxera analysis based on Bloomberg data.

Figure 4.2 Total value of buybacks per year for the top five companies by market capitalisation in the S&P 500 index (\$bn)



Source: Oxera analysis based on Bloomberg data.

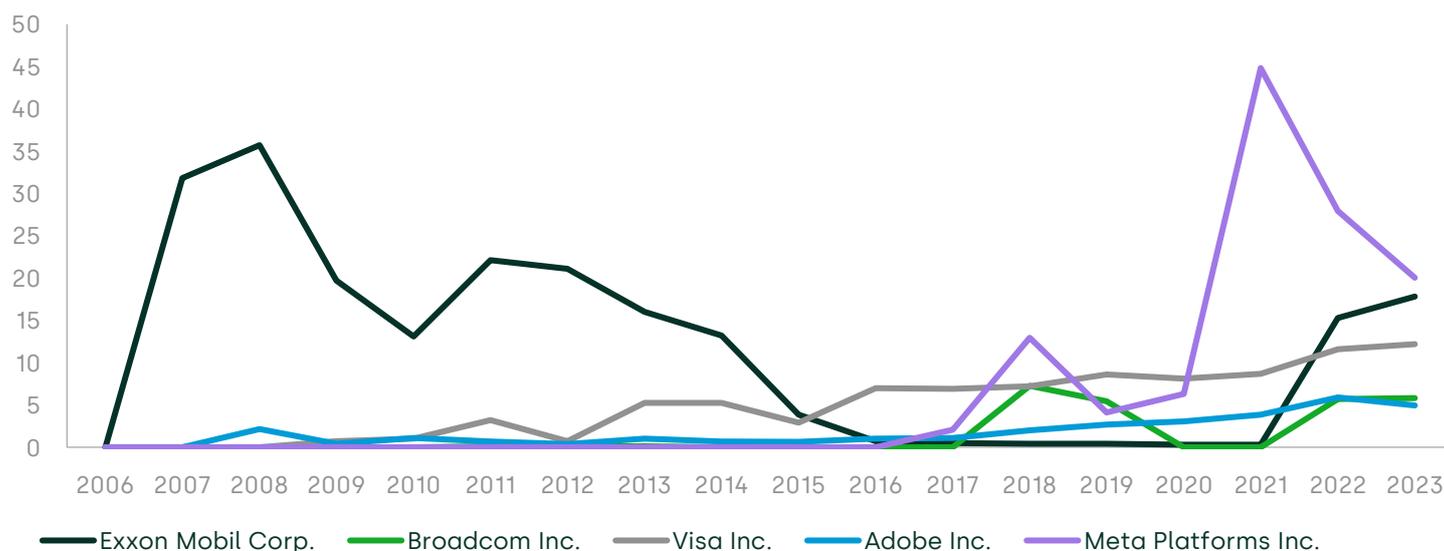
Figure 4.3 Total value of dividends paid per year for the top five companies by market capitalisation in the S&P 500 Buyback index (\$bn)



Note: The top five companies in the S&P 500 Buyback index by market capitalisation are Exxon Mobil, Broadcom, Visa, Adobe, and Meta Platforms. In the period from 2006–2024, only Exxon Mobil, Broadcom, and Visa have paid dividends. Adobe and Meta Platforms have not paid any dividends in that period.

Source: Oxera analysis based on Bloomberg data.

Figure 4.4 Total value of buybacks per year for the top five companies by market capitalisation in the S&P 500 Buyback index (\$bn)



Source: Oxera analysis based on Bloomberg data.

The empirical analysis supports the findings from the literature review in section 3 that there is a distinct difference in the volatility and consistency of the use of share buybacks relative to dividends. Even within the second sample, consisting of companies exhibiting the highest buyback ratios, it is evident that buybacks (see Figure 4.4) display a markedly higher degree of volatility compared with the amount of dividends paid (see Figure 4.3). The analysis shows that companies tend to keep their dividend distribution policies relatively stable, consistent with the academic findings.

The findings of this analysis support that there could be a clientele effect whereby investors who seek stability of income streams would not be able to reliably meet those needs via reliance on buyback policies and would have a preference for the relative stability of dividend distributions. As our literature review suggests, a catering theory of dividend policy suggests that firms cater to investors' expectations if they prefer a consistent income stream—rather than investors having to sell shares to realise returns.

## 5 Conclusions

In this report, we have reviewed academic literature and empirical data on a sample of S&P 500 companies to assess the similarities and differences between dividends and share buybacks.

This assessment was undertaken in the context of the analysis we have done in response to the NZCC's financeability consultation, where we compared levels of distributions to shareholders between utilities and wider stock indices. To run that comparative analysis, we used two metrics to measure payouts:

- dividend yields;
- a combination of dividend yields and share buybacks.

Based on dividend yields alone, we observed that utilities' distributions were consistently higher than those of wider stock indices, across the assessed geographies. This observation supported the conclusion we made in our response to the NZCC's financeability consultation that allowing for a stable level of distributions is important for investors in utilities; that they may self-select to receive this flow of income and they may be disincentivised to keep their capital in networks if the stability of cash flows is interrupted.

The results are slightly more mixed when based on a combination of dividends and buybacks instead of dividends alone—while the observation that distributions are higher for utilities than for the rest of the economy holds for Australia, New Zealand and the UK, it does not hold for the USA. However, we have undertaken further analysis in this report to verify that the mixed result for the USA does not undermine our overall conclusion about the importance of stable dividend yields for utility investors, and the important role of adequate dividend coverage within assessments of equity financeability. Indeed, our research and empirical analysis shows the below.

- Buybacks are typically linked to non-recurring earnings and tend to be more volatile than the level of dividends. Therefore, although S&P 500 companies had a higher level of distributions than S&P 500 Utilities (when taking account of both dividends and buybacks), those distributions contained non-stable income flows which would not be consistent with catering for the demand of utility investors that seek stable income streams.

- The catering theory of dividend policy provides a contextual underpinning to assess further differences between dividends and share buybacks. Investors with a long-term investment horizon tend to prefer dividends over buybacks, as they can achieve their income needs without having to liquidate their holdings.
- Furthermore, we have shown that while these would differ between jurisdictions, there are a number of other factors (i.e. tax treatment, transaction costs, implications for composition of ownership and behavioural biases) which evidence the non-substitutability of dividends and buybacks as means of distributing returns to shareholders.

These observations suggest that the relatively high share buyback levels that we observe for S&P 500 companies have different characteristics to the payouts that would be most relevant to utilities investors, i.e. stable dividend flows. Accordingly, it is relevant to observe that dividend yields were higher, for the S&P 500 Utilities index than the broader S&P 500 index.<sup>24</sup>

Overall, the analysis in this report confirms the robustness of our conclusion in the response to the NZCC's financeability consultation, that it is important that the NZCC enables networks to pay out stable levels of dividends in seeking to ensure equity financeability.

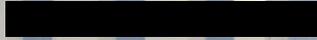
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<sup>24</sup> Oxera (2024), 'Response to the New Zealand Commerce Commission consultation on the financeability of electricity distribution services in the fourth default price-quality path (DPP4). Prepared for New Zealand Electricity Distribution Businesses', 15 March, p. 26, Figure 3.1.



Contact

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A large, stylized, white Oxera logo is mounted on a glass wall. The logo is composed of thick, rounded letters. The background behind the glass shows a lush green plant and a modern office interior with a desk and chair. Three modern, white, teardrop-shaped pendant lights hang from the ceiling in the foreground, partially obscuring the view of the logo.