



Boardroom Fundamentals 201

Module 6: Dividends, Share Repurchases and Stock Splits

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Equity Capital

What are the components of equity capital?

- Stock
 - Common shares—represent ownership in company, voting rights, profit participation via dividends (if declared), paid last in the event of liquidation event
 - Preferred shares—rights determined by instrument, fixed dividend, paid ahead of common shares in the event of liquidation
- Retained earnings (amounts earned through income and not distributed to shareholders as dividends)



Equity Capital



Dividends on Common Shares

- Return capital to shareholders and can increase shareholder returns
- Paid out of retained earnings at the discretion of the Board of Directors
- May be paid in cash or shares
- By resolution, boards establish the record date for shareholders entitled to receive the dividend, the payment date and the amount of the dividend
- State laws vary on the amount that may be paid as dividends and often impose personal liability on directors for payment of dividends in excess of the amount set by the statutory formula
- Dividends are publicly announced

Equity Capital

Share Repurchases

- Another method to increase shareholder returns
- Boards must approve share repurchase programs, usually placing a cap on the number of shares that may be repurchased
- Share repurchases decrease the number of shares outstanding, thus increasing earnings per share and potentially drive the share price higher over time
- Purchases are made in the open market after a public announcement

Equity Capital

Stock Splits

- Boards can approve stock splits to increase liquidity in company shares or reverse stock splits to increase share price
- In a 2-for-1 stock split, for example, each existing shareholder will receive two shares for every share owned; in a 2-for-1 reverse stock split, shares owned by each holder will be reduced by half
- While number of shares outstanding changes, total value to shareholders does not change
- Lower prices due to a stock split enable more people to buy shares, which can increase demand and share price over time
- Higher prices due to a reverse stock split may enable a company to meet the minimum price requirements of a stock exchange



Questions?

Contact Linda via email → lindaiannone35@gmail.com

End of Module 6



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