

Pricing Firms' Responsiveness to Shareholder Tax Incentives

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- Overview
- Related Literature
- What's the story?
- Suggestions
- Conclusion

Overview

- Do investors value firms' responsiveness to investor demand for dividends?
- November and December 2012
 - Increased demand for dividends in advance of increase in dividend tax rate from 15% to 43.4%
- Examine market reaction to firms that
 - Pay a special dividend ("payers")
 - Accelerate regular 2013 dividends to 2012 ("accelerators")
 - Take no dividend action ("non-payers")
 - Top decile from prediction model

Overview

- Results
 - Market returns are larger than can be explained by tax savings alone
 - Positive abnormal returns for payers and accelerators
 - Negative abnormal returns for non-payers
 - Investors seem to place a premium on firms that cater to investor demand for dividends

Related Literature

- Hanlon and Hoopes (2012)
 - 2010 expiration of tax cuts
 - Examine special dividends and accelerated dividends
 - Do not look at market reaction
 - Insider ownership

Related Literature

- Hanlon and Hoopes (2012)
 - Results
 - Find evidence of firms accelerating regular dividends from January 2011 to December 2010
 - Increase in special dividends is concentrated in firms with high insider ownership

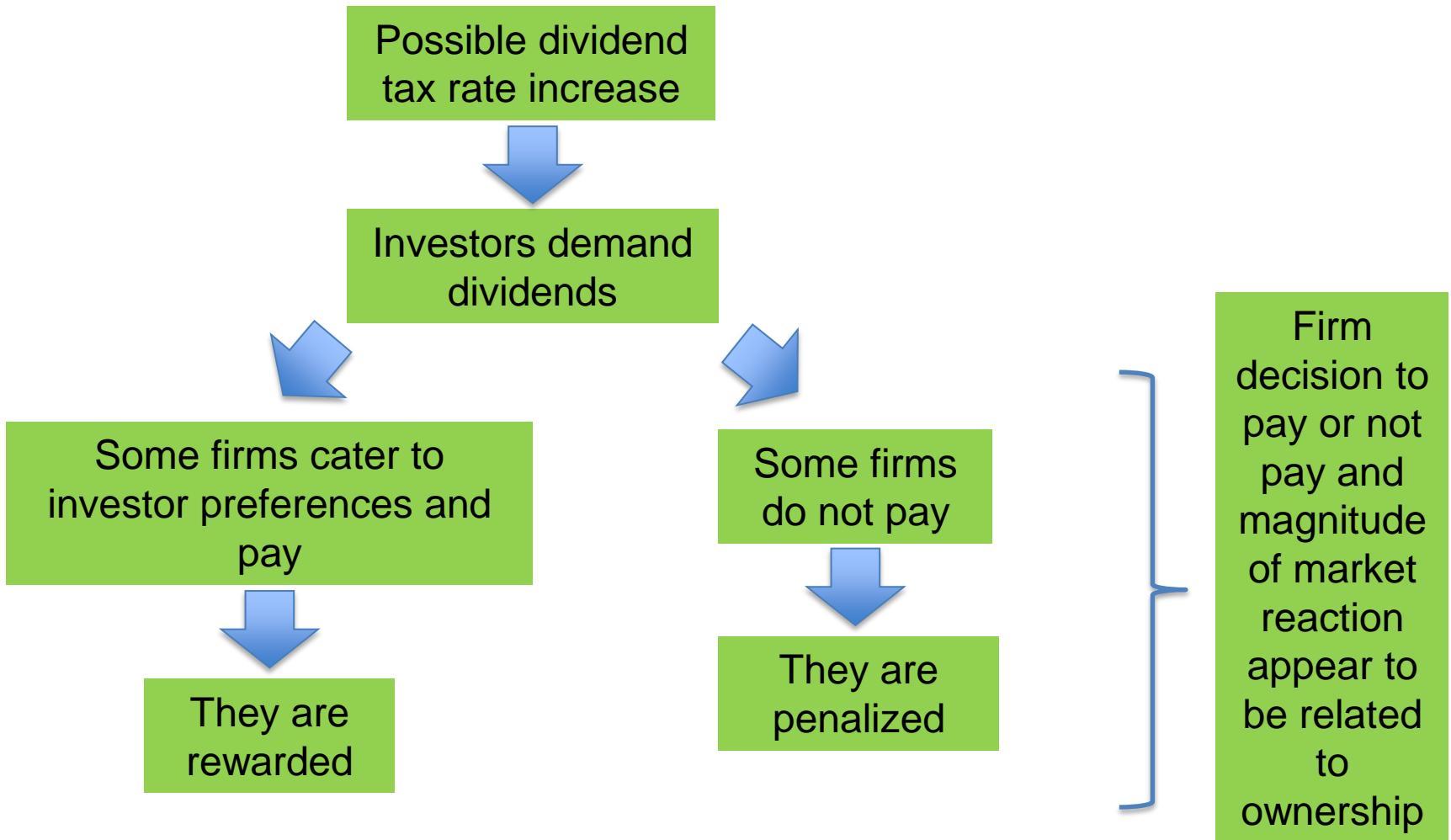
Related Literature

- Fos, Kim, and Kronlund (2013)
 - 2012
 - Election
 - Market reaction
 - Insider and individual ownership

Related Literature

- Fos, Kim, and Kronlund (2013)
 - Results
 - Firms with high insider ownership more likely to pay special dividend
 - Firms with low insider ownership more likely to pay special dividend when there are many individual owners
 - Abnormal positive returns are
 - * Lower for special-dividend-paying firms with high insider ownership
 - * Higher for special-dividend-paying firms with high insider ownership *and* high individual ownership

What's the story?



Is there more to the story?

Where did Payers get the money?

(What would they have done with the money if not for the special dividend?)



- Perpetually cash rich firms?
- Historical overinvesting firms that cut down on investment to pay the special dividend?
- Did the market care where the money came from or just that payers paid?

Why didn't Non-Payers pay?

- Did non-payers use the money for something “better”?
 - R&D
 - Employment
 - CapEx
 - Acquisitions
- Did the market care *why* non-payers didn't pay or just that they didn't pay?

Did history repeat itself?

- 2010 vs. 2012
 - Market response
 - Has anyone looked at the market response in 2010?
 - Firm perspective
 - Non-payers in 2010 that paid in 2012?

What about Non-Accelerators?

- Look at non-payers, but what about non-accelerators?
- Perhaps a non-payer could not come up with the money for a special dividend, but what about non-accelerators?
 - Why *wouldn't* a firm accelerate its 2013 dividend?
- Look at firms that paid out regular dividends in early 2013

Additional Suggestions

- Insider ownership
- Did the market differentiate ability/liability to pay?
 - Show results for top decile of non-payers from prediction model, but what about market returns for other deciles?
- Descriptive statistics for top decile of non-payer sample
 - Compare top decile of non-payers to payers

Conclusion

- Interesting topic
- Prediction model
- Opportunities to expand the story

Thank You