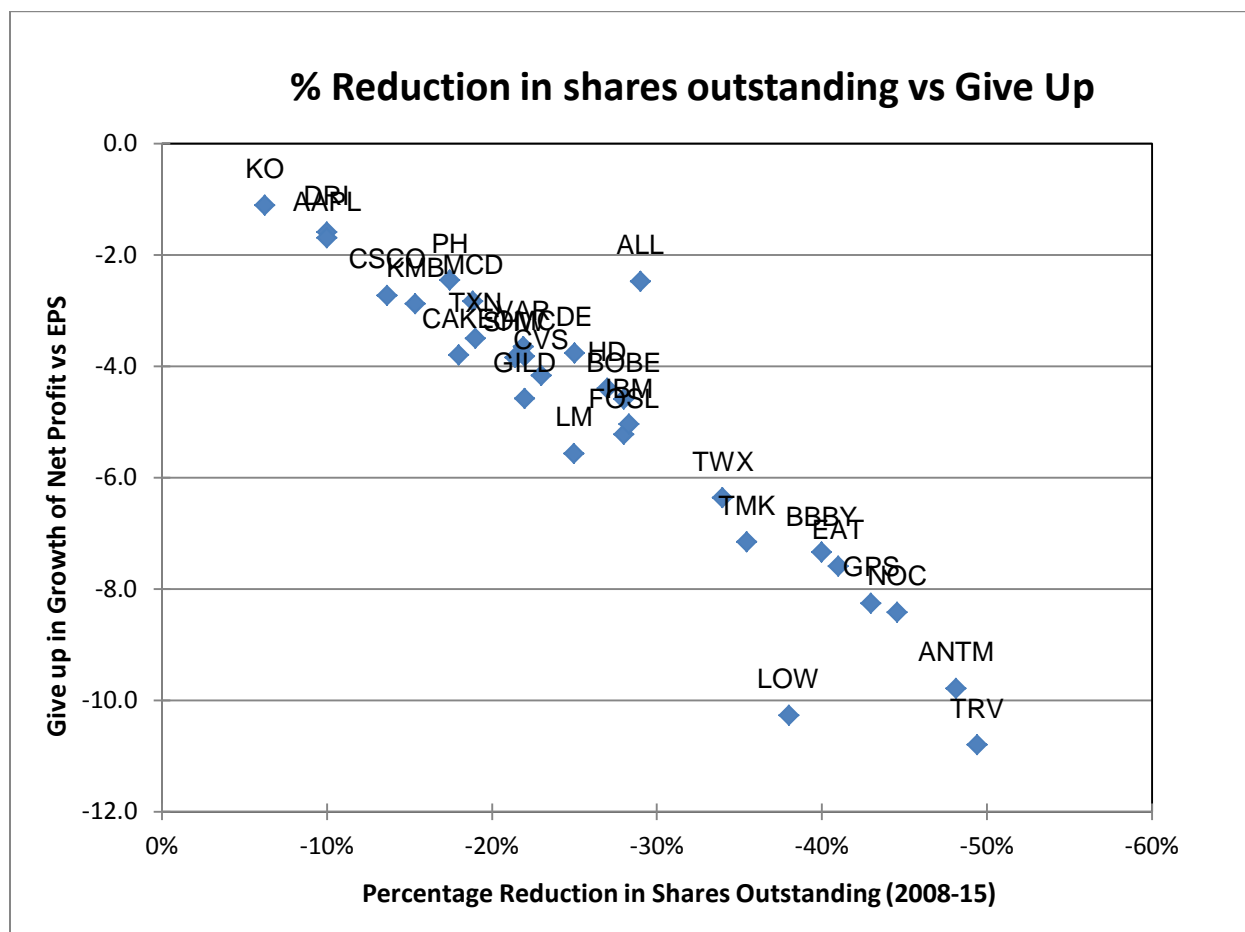


## 30 Stocks with significant buybacks between 2008 and 2015

Thirty equities with significant buyback programs in the last 7 years show that their average EPS grew at 9.9% pa while Net Profit gained only 4.9% (Median numbers are 8.1 vs 1.7%.) Using the averages, the give up is 5.0% pa which is an enormous difference in the amount of cash generated.

Our analysis is based on the Net Profit Test which asks the question: *what rate of return is required on investing the buyback funds to grow the Net Profit and EPS at the same rate as the Earnings per Share (EPS) grew due to the buyback.* The answer is not very much. The average for the 30 stocks is 5.8% and the median 5.4%.

This give up in Net Profit is directly attributable to the size of the buyback program as shown in this chart. On the x-axis we have the size of the reduction in shares outstanding from 2008 to 2015. On the y-axis, we show the give up in the growth of EPS and Net Profit. The correlation between the two is 0.94. In plain English, the larger the buyback program, the greater the penalty as measured by cash generation.



There are two main reasons for this apparent anomaly. One, the price paid for the shares is too much to compete with alternative investments (the average P/E for all stocks is 15x for the period). An example of this is given in the paper "The Net Profit Test: Comparing Buybacks to Investment". Secondly, the correlation between each equities annual percentage of total buyback and average annual price is very a positive: it averages 0.48 and the median is 0.59. The exceptions are ANTM (-0.60), CSC (0.03), GPS (-0.33), TMK (-0.12) AND TRV (-0.16).

Ranked from the bottom in terms of Required Return to equal EPS growth we have BOBE (-0.7%), MCD (2.3%), LM (2.9%), KO (3.7%), DRI (3.8%), KMB (2.9%), VAR (4.3%), FOSL (4.3%), CAKE (4.5%), OMC (4.8%), AAPL (5.0%), ALL (5.1%), TXN (5.1%), PH (5.2%), SHW (5.3%) and DE at 5.4%.

2008-15	% -prc			% Growth			Required Return			
Ticker	correl	Shs O/S	Cost (B\$)	EPS	NET PRF	Give up	ADJ	NOM	Av Prc/Bk	Ave P/E
AAPL	0.75	-10%	74,389	42.6	40.9	-1.7	5.0	6.0	4.40	13.8
ALL	0.94	-29%	7,429	7.1	4.6	-2.5	5.1	4.2	1.02	11.5
ANTM	-0.60	-48%	15,546	10.2	0.4	-9.8	9.1	10.3	1.01	10.0
BBBY	0.83	-40%	6,586	17.6	10.3	-7.4	6.0	6.5	3.37	14.4
BOBE	0.55	-28%	338	-0.7	-5.3	-4.6	-0.7	-0.7	2.10	20.3
CAKE	0.31	-18%	383	16.4	12.6	-3.8	4.5	6.9	3.30	19.2
CSCO	-0.03	-14%	17,071	7.8	5.0	-2.7	6.0	9.8	2.30	13.0
CVS	0.85	-23%	17,902	11.3	7.1	-4.2	7.2	8.3	1.78	14.6
DE	0.72	-25%	8,163	3.0	-0.8	-3.8	5.4	6.2	3.70	12.1
DRI	0.35	-10%	715	-0.7	-2.3	-1.6	3.8	5.0	3.00	17.7
EAT	0.37	-41%	1,204	11.9	4.3	-7.6	7.0	8.6	8.60	14.3
FOSL	0.92	-28%	1,686	12.2	6.9	-5.2	4.3	4.7	4.01	14.9
GILD	0.62	-22%	16,361	41.5	36.9	-4.6	10.5	19.3	7.10	16.5
GPS	-0.33	-43%	7,190	7.6	-0.7	-8.3	6.3	7.5	4.03	12.8
HD	0.87	-27%	6,253	16.8	12.4	-4.4	6.0	6.3	5.50	17.1
IBM	0.67	-28%	62,602	5.8	0.8	-5.1	6.5	6.9	9.83	12.2
KMB	0.85	-15%	5,177	-3.6	-6.5	-2.9	3.8	4.4	7.57	17.7
KO	0.80	-6%	10,426	4.1	3.0	-1.1	3.7	5.8	5.11	18.1
LM	0.29	-25%	1,395	-8.0	-13.6	-5.6	2.9	2.7	0.91	16.6
LOW	0.63	-38%	20,238	12.0	1.7	-10.3	7.4	7.4	2.97	17.5
MCD	0.34	-19%	17,939	4.4	1.6	-2.8	2.3	2.4	6.15	16.6
NOC	0.82	-45%	11,260	10.0	1.6	-8.4	8.9	8.3	9.60	10.9
OMC	0.30	-22%	3,583	4.8	1.0	-3.8	4.8	7.3	4.23	14.9
PH	0.72	-17%	2,555	3.9	1.5	-2.5	5.2	6.4	2.42	14.7
SHW	0.67	-21%	2,664	15.4	11.6	-3.9	5.3	7.5	8.34	19.5
TMK	-0.12	-35%	2,267	7.2	0.1	-7.2	9.4	11.2	1.31	10.1
TRV	-0.16	-49%	15,454	11.0	0.2	-10.8	11.6	12.5	1.06	10.0
TWX	0.52	-34%	17,482	7.3	0.9	-6.4	7.2	9.1	1.43	14.0
TXN	0.47	-19%	7,680	8.3	4.8	-3.5	5.1	7.2	3.72	17.7
VAR	0.43	-22%	1,823	8.5	4.9	-3.7	4.3	5.3	4.86	18.1
Average	0.48	-0.27	12,125	9.9	4.9	-5.0	5.8	7.1	4.16	15.0
Median	0.59	-0.25	7,310	8.1	1.7	-4.3	5.4	6.9	3.71	14.8

**Correl** is the Correlation between average stock price and the %age of annual buyback to total buyback from 2009 to 2015. There is a definite positive correlation between the size of the annual buyback and the price.

**Shares O/S** is the %age contraction from 2008 to 2015

**Cost (B\$)** is the cost in Billions of total shares bought back from 2009 to 2015

**% Growth in EPS and NET PRF** is the % annual growth in Earnings per Share and Net Profit from 2008 to 2015

**Give up** is the difference between the growth in EPS and growth in Net Profit.

**Required Return ADJ and NOM.** The nominal required return is the % growth applied to the buyback cost to equalize the growth in net profit to earnings per share growth. ADJ is the adjusted required return to reflect that our method of calculation of buyback cost is less than actual cost (using last 4 years of data)

**Average Prc/Bk** (Price/Book Value) and **Ave P/E** (Average Price to Earnings ratio) are based on 2009-2015