

# Disappearing Dividends (developed countries)

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# Disappearing dividends: changing firm characteristics or lower propensity to pay?

Eugene F. Fama, Kenneth R. French  
Journal of Financial Economics 60 (2001) 3-43

Sample: US companies, 1978-1999

Fraction of publicly traded, non-financial, non-utility (industrial) firms pay dividends

- 1978: 66.5% (peak)
- 1999: 20.8%
- Three questions of interest
  1. What are characteristics of firms that choose to pay dividends?
  2. Is the decline in the number and percentage of payers caused by a decline in the prevalence of the characteristics identified above?
  3. Have firms possessing characteristics historically typical of payers become less likely to pay?

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# Answers

1. Relevant characteristics: profitability, investment (growth) opportunities, size

- Former payers: distressed, low earnings
- Never payers: more profitable than former payers, abundant investment opportunities
- Payers: more profitable than never payers, fewer investment opportunities, large size

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# Answers

2. Surge of new lists (1979) floods market with firms possessing characteristics of never payers
  - Low profitability, strong growth, small size
  
3. Regardless of their characteristics, firms have become less likely to pay dividends
  - “Lower propensity to pay”
  - Techniques used to establish lower propensity to pay
    - Logistic regression

# **Are dividends disappearing? Dividend concentration and the consolidation of earnings**

Harry DeAngelo, Linda DeAngelo, Douglas J. Skinner  
Journal of Financial Economics 72 (2004) 425-456

- Sample: industrial firms from NYSE, AMEX, and NASDAQ (1978-2000)
- Real and nominal dividends paid by industrial firms have increased over this period
  - Reduction in number and percentage of payers comes mainly from loss of small firms
  - Largest payers have significantly increased dividends
  - “increase in real dividends paid by firms at the top of the dividend distribution swamps the dividend reduction associated with the loss of many small payers at the bottom”

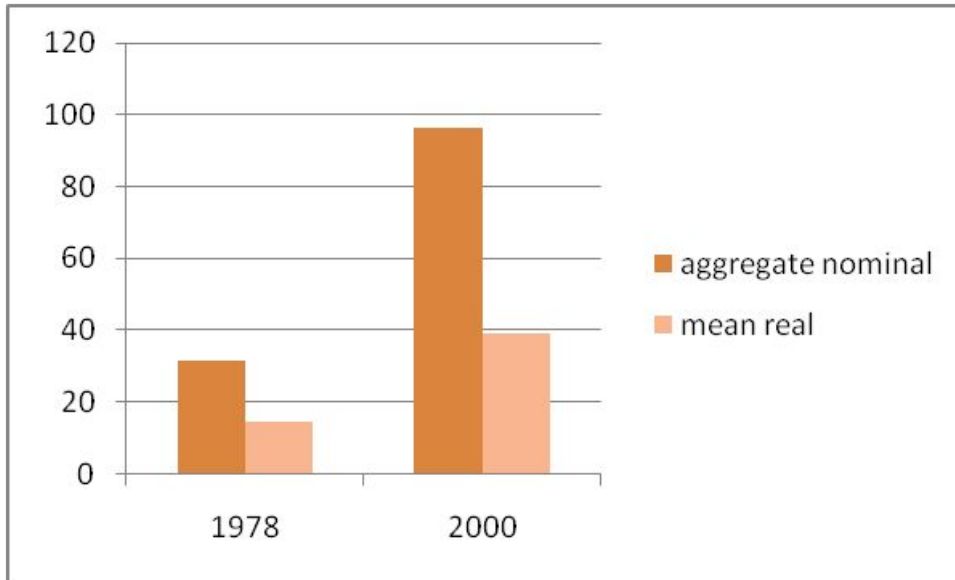
## **Are dividends disappearing? Dividend concentration and the consolidation of earnings**

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- High and increasing concentration of the dividend supply
  - 2000: 75 firms pay 75% of agg. industrial dividends
- Increasing concentration of earnings
  - 2000: 56 firms responsible for:
    - 86.2 % of aggregate industrial earnings
    - 61.4 % of aggregate industrial dividends

# Are dividends disappearing? Dividend concentration and the consolidation of earnings

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- Mean real dividend paid
  - 1978: \$14.4 million
  - 2000: \$39.2 million
- Median real dividend paid
  - 1978: \$1.4 million
  - 2000: \$3.6 million
- Increasing gap between mean and median hints at increasing concentration

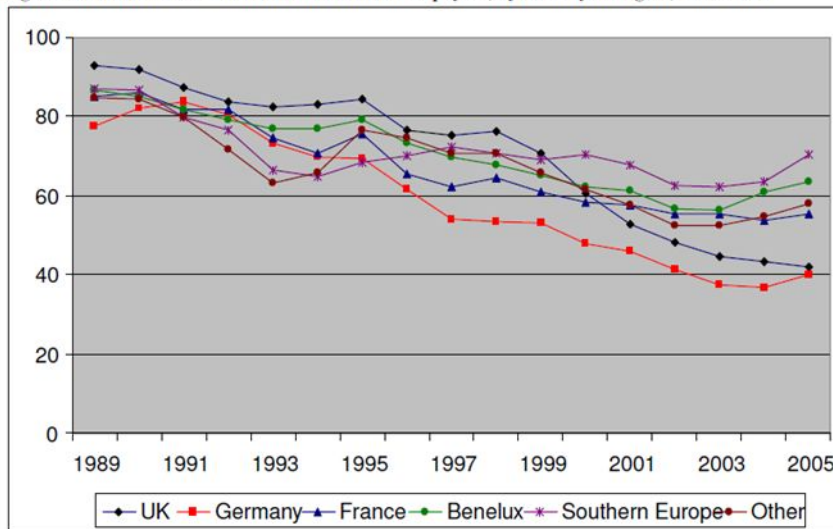
# Dividends And Share Repurchases In The European Union

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December 2, 2007

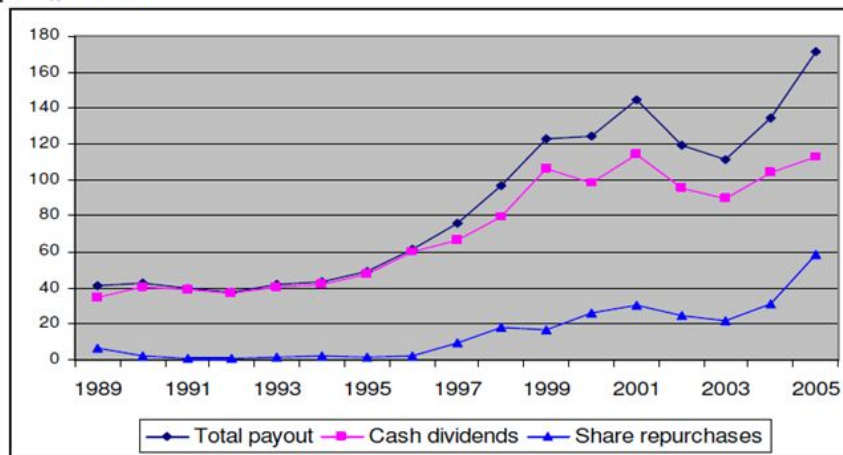
Figure 3. Percent of EU15 industrial cash dividend payers, by country or region, 1989-2005



Database of over 4100 listed industrial companies from 1989 to 2005 in the fifteen nations that are members of the European Union

Examine the evolution of payout policy from 1989 to 2005

Figure 4. Total real cash dividends and repurchases by EU15 companies, € real billions (2000 prices), 1989-2005



## Conclusion:

the fraction of European firms paying dividends has declined significantly in recent years, while total real dividends paid have increased.



- Thank you for your attention!