



Shareholder Yield: Breaking Down the Components

Shareholder Yield = Dividends + Net Buy Backs + Change in Debt

GVA's research shows that a company's capital allocation discipline is a key driver of its stock performance. Shareholder Yield is a calculation of how effectively management is allocating its FCF. Dividends are a direct measure of how much cash is being returned to shareholders. Share buy backs and debt reduction are indirect returns to shareholders. GVA includes net change in debt to ensure that management teams are not returning cash to shareholders simply by raising debt.

Companies that have a high Shareholder Yield are often paying dividends, buying back shares, AND paying down debt. Sustainability of positive FCF and positive Shareholder Yield are strong signals of a good business and management capital allocation skill – essential drivers of long-term outperformance.

As a reminder, GVA's model picks stocks based on four cornerstone investment criteria:

1. Strong and consistent Free Cash Flow (FCF) generation.
2. Strong and consistent Shareholder Yield.
3. Cheap valuation.
4. Solid balance sheets.

How much does each component of Shareholder Yield contribute to return?

Table 1 breaks down the Shareholder Yield into its 3 components: Dividend Yield, Net Buyback Yield, and Debt Change Yield. It shows the annual relative returns of each quintile for each component. The study period is 2003-2019. The universe is the MSCI ACWI ex US Small Cap Index. Financials are excluded. Returns are market cap weighted.

If we focus on the cheapest segment for each component:

- Dividend Yield's has the strongest average annual excess return of +3.2% followed by the Debt Change Yield (+2.7%), then the Net Buyback Yield (+1.9%). The Shareholder Yield delivers +4.1%.
- If the volatility of the returns is taken into consideration, then the Debt Change Yield shows the highest Information Ratio (+0.85), followed by the Dividend Yield (IR of +0.61) and the Net Buyback Yield (IR of +0.57). The Shareholder Yield's IR is +1.19.
- After removing the year 2009 which shows an atypical pattern, the Debt Change Yield delivers the strongest annual excess return (+2.78%) and information ratio (+0.91) followed by the Net Buyback Yield with an annual excess return of +2.14% and an IR of +0.65. The Dividend Yield is last with an annual excess return of +1.73% and an IR of +0.40. The Shareholder Yield's annual excess return stands at +3.81% for an IR of +1.20.



Universe: MSCI All Country World ex-US Small Cap Constituents, ex-Financial.

	Benchmark Return	Dividend Yield					Net Buyback Yield					Debt Change Yield					Total Shareholder Yield				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Absolute Return		Cheap ----- Expensive					Cheap ----- Expensive					Cheap ----- Expensive					Cheap ----- Expensive				
Annualized Return	10.90	14.20	13.32	11.58	8.34	6.07	13.29	11.97	12.25	11.11	7.07	13.82	12.45	10.27	9.26	8.43	15.46	13.52	10.40	8.19	6.38
Annualized Volatility	18.20	19.94	17.27	15.59	17.25	22.84	17.09	15.68	18.61	18.68	21.73	18.70	16.53	17.65	18.19	21.01	18.51	16.03	16.79	19.02	22.04
Sharpe Ratio	0.60	0.71	0.77	0.74	0.48	0.27	0.78	0.76	0.66	0.59	0.33	0.74	0.75	0.58	0.51	0.40	0.84	0.84	0.62	0.43	0.29
Relative Return																					
Annualized Excess Return		3.17	1.98	0.05	-2.65	-3.58	1.89	0.16	1.26	0.24	-2.86	2.68	1.06	-0.73	-1.51	-1.78	4.11	1.92	-0.77	-2.32	-3.45
Tracking Error		5.18	2.73	4.37	5.51	6.09	3.33	8.22	2.47	2.87	4.99	3.11	3.05	2.98	2.27	4.42	3.46	3.38	3.49	2.79	5.26
Information Ratio		0.61	0.73	0.01	-0.48	-0.59	0.57	0.02	0.51	0.08	-0.57	0.86	0.35	-0.24	-0.66	-0.40	1.19	0.57	-0.22	-0.83	-0.66
	2003	5.82%	-2.63%	-5.32%	-5.60%	6.60%	-3.13%	-2.76%	-0.05%	2.58%	1.70%	13.90%	-3.26%	-4.75%	-2.24%	-1.73%	14.21%	-2.76%	-6.78%	-3.95%	-0.69%
	2004	6.33%	6.39%	0.86%	-4.82%	-9.16%	3.71%	-0.54%	-2.46%	4.05%	-2.93%	4.83%	-0.23%	-0.40%	-5.63%	0.40%	6.84%	1.06%	-0.39%	-4.36%	-3.13%
	2005	-6.20%	-3.81%	2.50%	8.72%	0.05%	2.46%	7.87%	0.22%	-2.83%	-2.13%	3.75%	1.97%	-2.37%	-1.31%	-1.88%	3.25%	-0.31%	-0.54%	-1.28%	-1.19%
	2006	7.89%	7.41%	-5.14%	-12.76%	2.67%	-1.60%	-11.35%	3.56%	2.72%	-1.07%	-0.85%	2.27%	-5.94%	0.46%	3.78%	2.35%	3.22%	-6.45%	-0.42%	0.81%
	2007	2.65%	-2.21%	-3.04%	-2.25%	4.39%	-4.56%	-7.33%	5.65%	-2.78%	4.59%	-4.74%	0.02%	-0.58%	1.82%	3.47%	-2.03%	-3.91%	-1.17%	1.93%	4.94%
	2008	-2.93%	2.89%	14.42%	5.45%	-17.98%	8.87%	24.90%	-1.73%	-3.76%	-16.06%	5.80%	7.71%	3.02%	1.06%	-15.24%	5.73%	16.68%	2.47%	-4.83%	-17.82%
	2009	27.86%	0.37%	-14.33%	-24.43%	14.18%	-1.82%	-19.16%	5.18%	-0.63%	14.62%	1.06%	-9.71%	-3.91%	-4.57%	17.75%	8.76%	-6.43%	-13.02%	-6.48%	19.51%
	2010	1.71%	0.89%	0.14%	-10.29%	3.07%	0.02%	-1.35%	6.41%	1.40%	-1.28%	-1.65%	3.17%	-0.22%	-1.71%	-0.53%	0.34%	0.77%	-1.27%	0.79%	-0.86%
	2011	3.67%	9.96%	2.82%	-2.19%	-11.23%	5.01%	14.90%	1.58%	0.90%	-8.96%	4.96%	1.95%	-0.07%	0.42%	-7.78%	5.76%	6.52%	1.98%	-1.78%	-13.15%
	2012	9.47%	1.96%	-2.42%	-3.87%	-5.59%	3.80%	-4.79%	1.79%	1.92%	-6.16%	4.17%	1.71%	-2.08%	-1.73%	-2.39%	7.32%	3.48%	-0.62%	-4.37%	-6.31%
	2013	-2.42%	4.34%	4.14%	3.45%	-9.34%	3.09%	-0.71%	2.77%	0.14%	-7.07%	7.19%	3.76%	-2.47%	-2.72%	-5.42%	6.84%	5.01%	2.90%	-4.02%	-10.28%
	2014	1.08%	0.52%	3.36%	2.94%	-7.96%	3.35%	-0.50%	2.22%	0.20%	-7.31%	0.46%	2.52%	1.54%	-0.14%	-4.49%	2.76%	4.01%	1.33%	-2.66%	-5.72%
	2015	-7.02%	3.00%	8.66%	6.48%	-10.29%	4.39%	7.88%	-1.81%	0.33%	-5.46%	1.26%	4.97%	3.64%	-1.97%	-7.80%	-0.09%	5.04%	5.54%	0.00%	-10.50%
	2016	5.92%	1.94%	-0.18%	-3.86%	-4.81%	2.73%	3.96%	-0.09%	-4.22%	-2.05%	10.70%	-1.69%	-3.33%	-5.06%	-0.02%	10.26%	0.32%	-1.49%	-7.96%	-0.85%
	2017	-4.24%	1.10%	1.47%	5.14%	-2.90%	1.64%	-2.33%	1.40%	2.51%	-4.17%	-0.65%	0.15%	2.99%	-1.60%	-0.82%	-1.79%	0.20%	2.80%	1.75%	-2.83%
	2018	5.75%	1.06%	-2.46%	1.01%	-5.65%	2.07%	3.05%	-1.46%	-0.48%	-0.73%	-2.92%	2.08%	1.65%	1.26%	-1.88%	-1.58%	1.32%	3.33%	0.55%	-3.67%
	YTD 2019	0.87%	0.05%	-1.54%	-0.31%	0.90%	1.50%	-1.38%	-2.03%	2.32%	1.41%	-1.95%	0.96%	2.11%	-0.44%	-0.83%	-0.56%	-1.15%	0.66%	0.04%	0.99%
	Average	3.31%	1.95%	0.23%	-2.19%	-3.12%	1.86%	0.61%	1.24%	0.26%	-2.53%	2.67%	1.08%	-0.66%	-1.42%	-1.49%	4.02%	1.95%	-0.63%	-2.18%	-2.99%
	Number of Positive Years	12	14	9	7	7	13	6	10	11	4	11	13	6	5	4	12	12	8	6	4

Source: Factset. MSCI database.

Table 2 breaks down the Shareholder Yield into its 3 components within ONLY the advantaged subset of the universe GVA focuses on - companies that generate positive Free Cash Flow and have positive Shareholder Yields. Typically, this sub universe represents about half the universe covered in Table 1.

If we focus on the cheapest segment for each component:

- Debt Change Yield has the strongest average annual excess return of +4.66% and an IR of +1.08. It is closely followed by the Net Buyback Yield with an average annual excess return of +4.54% and an IR of +1.10. Dividend Yield ranks last with an average annual excess return of +4.35% and an IR of +0.80. The Shareholder Yield delivers +5.54% annually with an IR of +1.21.
- If we remove the year 2009 from the study, the Net Buyback yield takes the lead followed by the Debt Change Yield and then the Dividend Yield.



Universe: MSCI All Country World ex-US Small Cap Constituents, ex-Financials —ONLY Companies with Positive Free Cash Flows and Positive Shareholder Yields.

	Dividend Yield Excess Return Vs Bench					Net Buyback Yield Excess Return Vs Bench					Debt Change Yield Excess Return Vs Bench					Total Shareholder Yield Excess Return Vs Bench				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Annualized Excess Return	4.35	4.23	2.42	0.53	1.11	4.54	0.13	1.80	2.25	2.46	4.66	2.92	2.54	1.18	2.01	5.54	3.85	2.08	2.14	(0.79)
Tracking Error	5.47	3.66	5.12	7.07	4.59	4.11	7.57	5.13	4.94	3.17	4.31	3.70	4.33	4.84	3.47	4.60	3.46	4.08	4.37	4.38
Information Ratio	0.80	1.16	0.47	0.07	0.24	1.10	0.02	0.35	0.46	0.77	1.08	0.79	0.59	0.24	0.58	1.21	1.11	0.51	0.49	(0.18)
2003	8.11	(1.73)	(1.56)	(6.93)	13.22	(3.30)	(0.86)	5.02	(1.11)	5.26	22.61	3.11	(2.78)	(8.07)	(1.28)	22.62	0.17	(1.88)	(5.27)	(4.55)
2004	8.16	8.69	1.18	(5.46)	(3.51)	6.32	(1.32)	(0.39)	(2.70)	6.40	7.18	0.79	1.55	1.65	(1.21)	7.90	5.63	0.99	1.05	(5.94)
2005	(5.71)	(4.39)	0.94	7.60	8.13	1.55	12.50	(0.23)	(1.15)	(3.16)	4.61	4.19	2.69	(5.69)	0.31	3.58	2.98	(1.08)	0.14	(0.66)
2006	6.95	12.16	(2.74)	(7.76)	(4.06)	4.35	(16.12)	6.36	0.68	1.19	2.91	2.22	4.03	(9.09)	4.82	2.77	5.53	3.75	0.41	(9.17)
2007	2.38	(1.02)	(1.79)	(6.47)	(5.79)	(2.25)	(10.71)	2.50	(6.45)	(1.66)	(5.61)	(3.28)	(2.17)	(1.15)	(0.56)	(2.92)	(1.89)	(2.43)	(2.95)	(2.99)
2008	0.91	11.49	16.95	27.84	3.11	18.47	17.87	10.16	3.50	5.59	8.94	11.96	15.20	19.24	4.98	7.89	11.12	17.02	19.51	4.09
2009	29.59	2.02	(11.06)	(26.99)	(8.51)	(2.14)	(12.14)	(21.25)	(3.58)	4.42	4.16	(7.03)	(11.85)	(6.02)	0.56	12.85	1.26	(9.70)	(9.55)	(14.25)
2010	1.55	(0.09)	1.11	1.58	(1.07)	5.25	(12.49)	3.09	5.19	(3.87)	(2.22)	2.33	3.41	(0.88)	0.46	(0.84)	2.62	3.09	(2.57)	0.76
2011	3.61	16.26	8.75	4.55	(2.36)	7.80	9.29	4.85	8.96	3.13	5.64	7.00	8.07	7.72	2.11	6.22	10.69	2.53	9.18	2.17
2012	12.48	11.35	2.12	(0.79)	3.02	7.49	(0.78)	7.94	5.97	6.16	6.97	5.83	4.75	2.36	8.17	11.68	4.84	5.95	5.63	(0.41)
2013	2.72	5.26	8.88	6.80	13.10	7.84	2.79	6.24	7.52	10.73	14.57	7.05	5.25	6.13	3.58	12.60	6.31	6.56	3.87	7.38
2014	1.35	2.76	5.70	4.83	2.85	6.39	6.31	2.19	2.42	0.76	0.92	6.17	2.32	3.23	5.96	1.47	5.45	4.49	4.46	1.93
2015	(5.64)	2.89	10.03	14.72	3.30	6.60	10.98	1.95	1.40	3.98	3.32	6.22	7.55	7.00	0.55	(2.41)	4.94	7.17	10.09	4.78
2016	7.78	3.43	0.95	(0.21)	(2.43)	3.65	3.31	1.15	1.81	0.72	10.14	2.38	(1.61)	(0.11)	0.02	13.08	2.97	(0.17)	(1.86)	(3.33)
2017	(4.19)	0.68	4.28	4.57	2.25	1.82	(1.74)	2.47	2.65	1.56	1.39	0.08	2.81	3.52	(0.81)	(0.79)	0.14	(1.39)	4.29	5.24
2018	5.42	2.16	(1.09)	1.31	(0.01)	5.29	3.78	0.49	14.46	(1.67)	(3.84)	1.04	4.81	1.31	5.03	(0.57)	1.39	2.99	1.64	2.33
YTD 2019	0.03	(0.66)	(0.28)	(0.09)	(0.48)	0.51	(1.23)	0.67	(1.17)	1.54	(2.46)	(1.02)	(0.22)	1.56	0.56	(1.32)	(0.60)	(1.67)	(0.00)	2.45

Source: Factset. MSCI database.

Conclusion

Over the past 16 years, and when looking at international small companies, all three components of Shareholder Yield deliver positive excess returns. **The most important takeaway is that the Shareholder Yield which combines these 3 components delivers a better risk return profile than any individual component**, and it is one of the key pillars of GVA's investment process. Another observation is that the Dividend Yield is the weakest component of the Shareholder Yield. Both the Net Buyback Yield and the Change in Debt Yield show stronger risk return profiles.

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