Stock Buybacks

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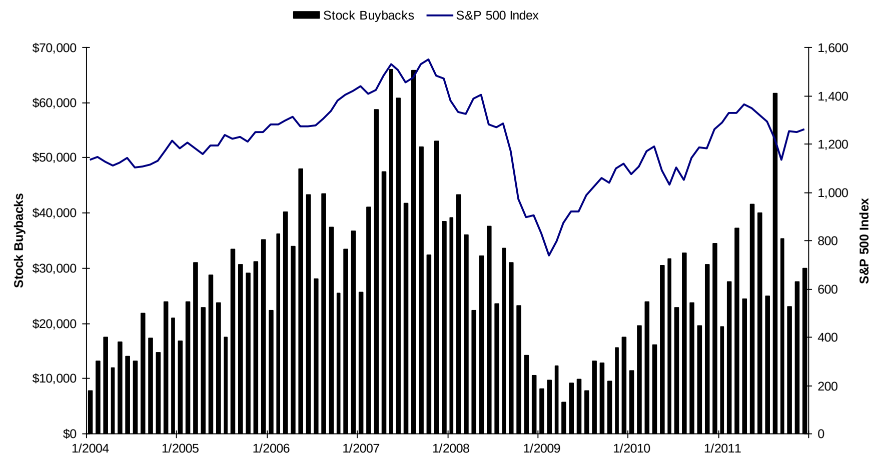
ACCOUNTING

Adding Value or Destroying Value?

Exhibit 1: **Buy High: Monthly Share Buybacks for S&P 500 Companies versus S&P 500 Index, 2004–2011**
US$ in millions



Source: Company data, Credit Suisse estimates

- **Next time a company announces a stock buyback, ask yourself is the company paying less than intrinsic value for the shares (i.e., is it making a good investment)?** If it pays less than intrinsic value (i.e., shares are cheap), that'll add value for the remaining shareholders. On the other hand if it pays more than intrinsic value (i.e., shares are expensive) that'll destroy value as wealth is transferred from those that hold to those who sold.
- **Evaluating buybacks like a portfolio manager.** It seems like many investors and analysts assume buybacks are good news and a catalyst for the stock (regardless of the price paid). But are they really? We suggest evaluating buybacks like your own portfolio. Treat the buybacks as if the company were building a portfolio; measure the returns and compare to a relevant benchmark to find out if value is being added or destroyed.
- **Check out our *Stock Buyback Scorecard* to find winners and losers.** From 2004 through 2011 the S&P 500 companies spent $2.7 trillion buying their stock. Did they invest wisely? Using our *Stock Buyback Scorecard* we find only 180 companies that were able to generate a return above a 7% cost of equity and just 98 companies that beat simple dollar cost averaging. As a result it looks like most of the buybacks by the S&P 500 over the past eight years have not *yet* added much value for remaining shareholders.

Stock Buybacks

Before jumping for joy the next time a company announces a share buyback ask yourself a simple question: Is the company paying less than the intrinsic value of the stock (i.e., is it making a good investment)? If it is, then jump for joy (assuming the company doesn't have better investment opportunities) as the buyback will add value for the remaining shareholders (it's a transfer of wealth from those that sold to those that continue to hold). On the other hand, if the company is paying more than intrinsic value you might want to ease up on the jumping (even if its accretive to earnings) as the buyback will destroy value for the remaining shareholders (in this case wealth is transferred from those that hold to those that have sold). Of course if the market were perfect no wealth would be transferred as the company would be buying the stock back at its intrinsic value (last we looked the market is far from perfect, if it were perfect you'd probably be doing something else for a living like playing small forward for the New York Knicks or touring with One Direction).

The notion that share buybacks can add or destroy value for remaining shareholders depending upon the price paid relative to intrinsic value is old school common sense corporate finance. It's a view that has been expressed by many over the years, most notably by Warren Buffett. For example, in his 1984 Chairman's Letter: "when companies with outstanding businesses and comfortable financial positions find their shares selling far below intrinsic value in the marketplace, no alternative action can benefit shareholders as surely as repurchases." In his most recent letter, he added that "it doesn't suffice to say that repurchases are being made to offset the dilution from stock issuances or simply because a company has excess cash. Continuing shareholders are *hurt* unless shares are purchased below intrinsic value."

That said it seems like many investors and analysts are quick to assume that buybacks are good news and a catalyst for the stock (the potential boost to EPS may have something to do with their optimism) regardless of the price being paid (that's if they even track the price paid). So how does one monitor whether the company is making good investment decisions when it buys back its stock? We'd suggest evaluating buybacks the same way that you would your own portfolio. Treat the share buybacks as if the company were building positions in a portfolio, measure the returns on that portfolio over time (including dividends) and then compare the results to a relevant benchmark (ideally the cost of equity) to find out if value is being added or destroyed.

Find the Winners and Losers with Our *Stock Buyback Scorecard*

That's what we've done in this report for the companies in the S&P 500 using our *Stock Buyback Scorecard* (see Exhibit 15 for more detail) based on monthly share buyback data that we have pulled together since 2004. The *Stock Buyback Scorecard* is available to Credit Suisse clients here: **Accounting Toolbox: Stock Buyback Scorecard**. (Our interest in stock buybacks was initially sparked with our research on employee stock options, for example, in our June 14, 2004 report *The Cost of Employee Stock Options*, we link buybacks to option-related wealth transfers and earnings dilution).

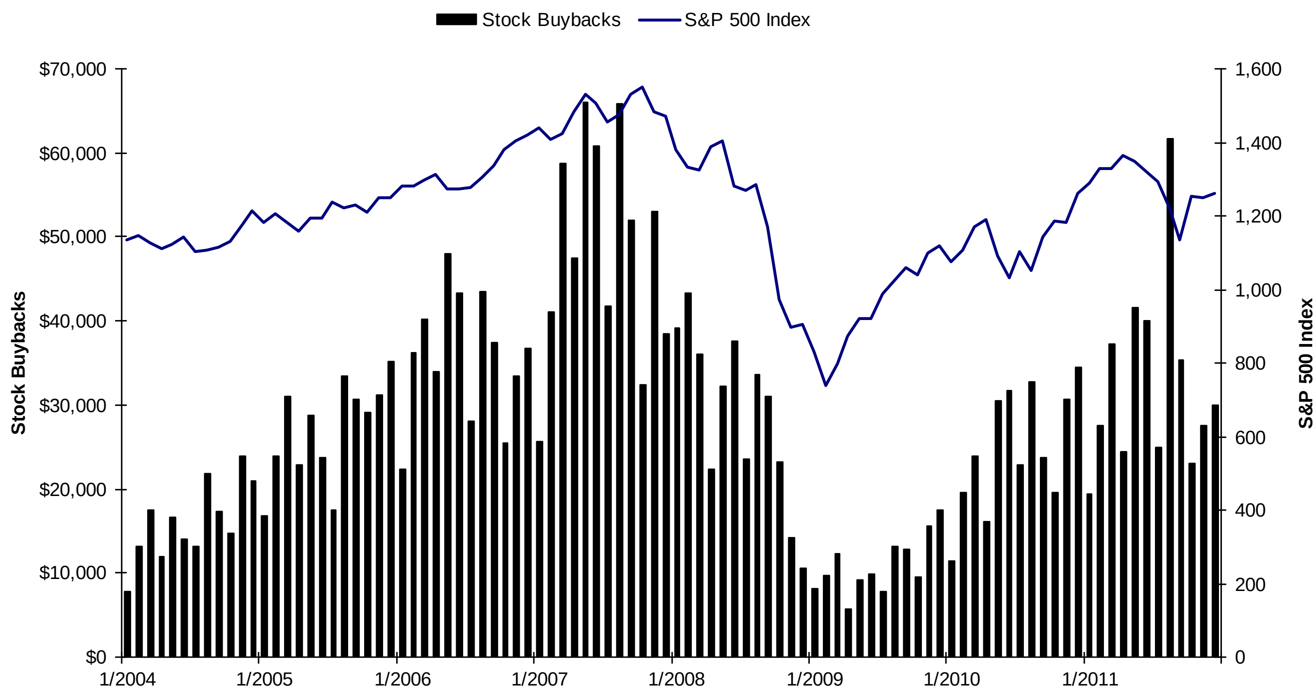
Keep in mind that our results are heavily reliant upon when we take the picture of the portfolio and stock prices on that date (for this report that's May 31, 2012). That may pose a problem, because stock prices can deviate from underlying value for long periods of time (Mr. Market is not always right) so what looks like value-destroying share buybacks could really be value-adding if intrinsic value is eventually realized. As a result you might want to use your target price or intrinsic value estimates in place of the current stock price in the analysis (which you can do in the *Stock Buyback Scorecard*). We'd also suggest evaluating the performance regularly (we are planning on periodic updates).

From 2004 through 2011 the S&P 500 companies spent $2.7 trillion in the aggregate buying back their stock. We estimate that those buybacks would have generated a $449 billion profit in the aggregate including dividends of $231 billion through May 31, 2012.

There are 306 companies or 61% showing a positive return, 154 companies or 31% with a negative return and 40 companies that had no buybacks over the past eight years. But if you were to benchmark against a cost of equity of let's say 7%, we find only 180 companies or 36% that beat the benchmark. As a result it looks like most of the buybacks for the S&P 500 over the past eight years have not *yet* added much value for the remaining shareholders.

The problem for many companies is bad timing, instead of buy low sell high, it appears share buybacks ramp up when things are going well and stock prices are higher (when companies have "excess cash" and there's more dilution from stock based compensation), and are dialed down when times are tough and stock prices are lower which you can see in Exhibit 2.

Exhibit 2: Buy High: Monthly Stock Buybacks for S&P 500 Companies versus S&P 500 Index, 2004–2011
US$ in millions



Source: Company data, Credit Suisse estimates

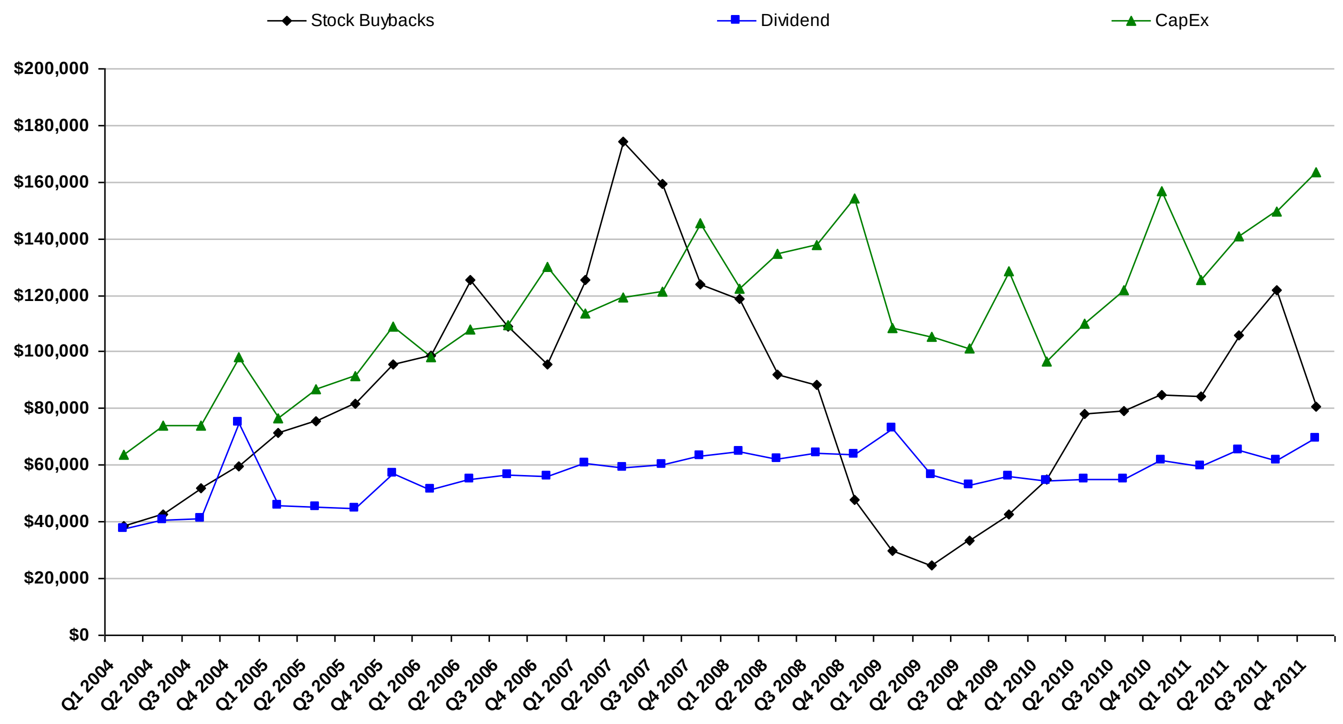
Of course, that's the exact opposite of what companies should be doing (from a continuing shareholders perspective), since they are probably buying when stock prices are high and the shares are more likely to be overvalued and not buying when prices are low and the shares are more likely to be undervalued. For example in May 2007 and August 2007 as the S&P 500 index was hitting new highs, the companies in the S&P 500 spent a record $66 billion in each month on share buybacks. Combined, that's more than the $131 billion spent on buybacks in all of 2009 when the index was at much lower levels. With hindsight it's easy to say that buying back stock would have been a good investment in late 2008 and early 2009, but we were dealing with a financial crisis at the time and many companies were hoarding cash to prepare for the worst; share buybacks may have been the last thing on their minds. That's fine, but what was the rationale for buying so much stock in 2007 as stock prices continued hitting new highs? Did the companies really believe they were paying less than intrinsic value for their stock (how many even ran the analysis)?

Lots of Buybacks

The $2.7 trillion spent on buybacks by the S&P 500 from 2004-2011 dwarfed the $1.8 trillion in dividends paid over the same timeframe. In fact share buybacks top dividends in every quarter except the fourth quarter of 2004 and 2008 and all of 2009 which you can see in Exhibit 3. The key question is whether companies truly believe they are paying less than intrinsic value for the stock and adding value for the remaining shareholders? If not, maybe they should be spending less on buybacks and paying out more in dividends.

On the other hand companies regularly spend more on capex than they do on share buybacks, $3.7 trillion in total capex for the S&P 500 over the eight years ended 2011. The question here is whether investing in the business will generate a better return than buying back the stock? Also note how much more volatile and procyclical share buybacks are relative to both capex and dividends.

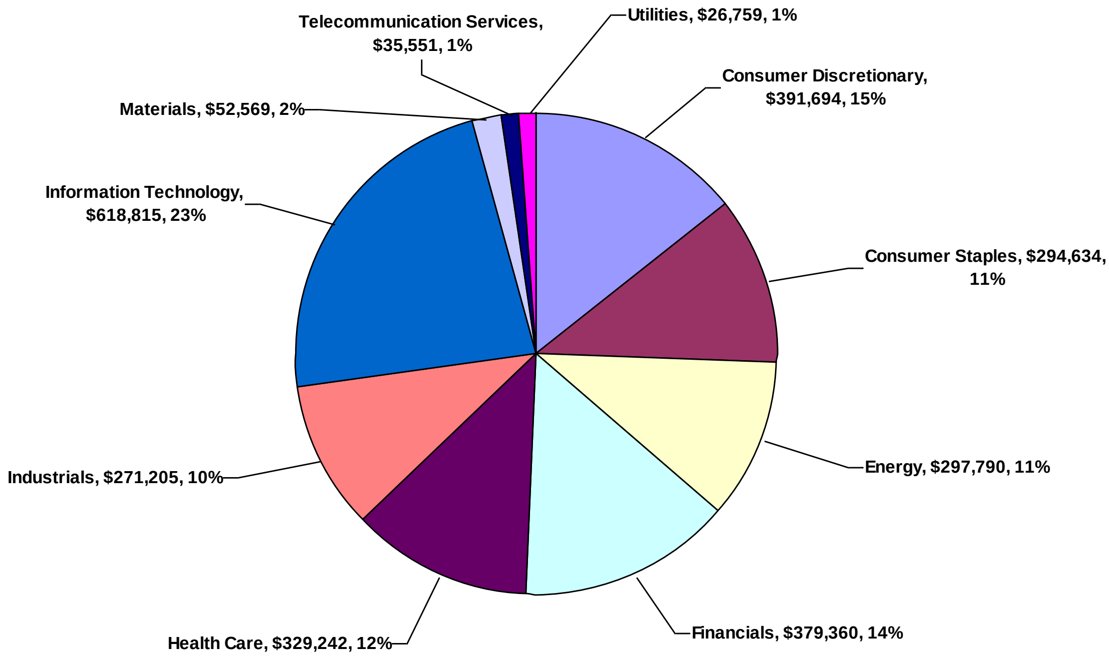
Exhibit 3: Quarterly Stock Buybacks Versus Dividends Versus Capex for the S&P 500, 2004–2011
US$ in millions



Source: Company data, Compustat, Credit Suisse estimates

If we drill down to the sector level you can see in Exhibit 4 that buybacks are pretty evenly distributed among a number of sectors. Only the Tech sector stands out a bit, accounting for 23% of total buybacks over the past eight years, while all of the other sectors (except Materials, Telecom and Utilities) hover around 10%-16% of the total. Drilling down, buybacks are more heavily concentrated at the company level. The ten biggest buyers of their own stock from 2004-2011 (listed in Exhibit 12) accounted for 27% of the total spent by all of the S&P 500 companies while the top fifty companies represented 58% of the total.

Exhibit 4: $2.7 Trillion of Buybacks for the S&P 500 Companies from 2004–2011 by Sector
US$ in millions



Source: Company data, Credit Suisse estimates

If we take a look at stock buybacks by sector over time, we find that the sectors tend to follow the crowd (they are the crowd) and the crowd follows stock prices. Buybacks peaked in 2007 for all sectors (except Energy and Consumer Staples) when stock prices were at the highest levels in the period examined. In fact the highest level of buybacks for any sector was Financials spending $117 billion in 2007 (in hindsight that was some really bad timing). During 2009 buybacks hit a low for all sectors (except Energy and Telecom) when stock prices were at their lowest levels over the eight year period.

Exhibit 5: Trends in Stock Buybacks by Sector, S&P 500, 2004–2011
US$ in millions

	Buybacks								
Sector	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**TOTAL**
Information Technology	$ 44,380	$ 80,988	$ 97,521	$ 115,473	$ 85,838	$ 33,199	$ 79,123	$ 82,293	**$ 618,815**
Consumer Discretionary	27,675	44,176	70,145	86,222	36,050	13,720	44,136	69,570	**391,694**
Financials	34,883	56,260	71,628	117,335	27,642	6,777	22,752	42,082	**379,360**
Health Care	24,746	30,483	50,177	62,363	36,586	21,589	46,386	56,912	**329,242**
Energy	14,778	28,784	47,978	58,204	61,618	20,595	21,276	44,557	**297,790**
Consumer Staples	24,589	32,773	30,229	47,568	37,558	23,485	52,065	46,368	**294,634**
Industrials	15,650	34,153	43,799	61,276	42,916	8,937	24,902	39,571	**271,205**
Materials	2,946	7,818	6,928	12,549	8,006	1,362	4,183	8,777	**52,569**
Telecomm. Services	1,219	2,893	6,928	15,811	8,189	512	-	-	**35,551**
Utilities	1,914	5,905	3,459	6,631	2,572	1,116	2,485	2,676	**26,759**
TOTAL	**$ 192,781**	**$ 324,234**	**$ 428,792**	**$ 583,432**	**$ 346,976**	**$ 131,292**	**$ 297,308**	**$ 392,805**	**$ 2,697,620**

Note: Amounts may not recalculate due to rounding.

Source: Company data, Credit Suisse estimates

Adding Value or Destroying Value?

Clearly the companies in the S&P 500 have been allocating a large of amount of capital toward stock buybacks. But why? Is it because all of the companies believe that their stocks are trading below intrinsic value and the potential returns on a buyback would outpace reinvesting in the business and their cost of equity? Probably not, in the real world companies buy back stock for lots of reasons and here are some examples from recent 10-Ks and 10-Qs:

- *Apple*. The repurchase program is expected to be executed over a three-year period with the primary objective to neutralize the impact of dilution from future employee equity grants and employee stock purchase programs.
- *Autodesk*. The purpose of Autodesk's stock repurchase program is largely to help offset the dilution from the issuance of stock under our employee stock plans and for such other purposes as may be in the interests of Autodesk and its stockholders, and has the effect of returning excess cash generated from our business to stockholders.
- *BMC Software*. We also continue to enhance shareholder value by returning cash to shareholders through our stock repurchase program.
- *Citrix Systems*. The objective of the Company's stock repurchase program is to improve shareholders' returns.
- *eBay*. …our Board authorized a stock repurchase program that provides for the repurchase of up to $2 billion of our common stock…for the purpose of offsetting the impact of dilution from our equity compensation programs.
- *Franklin Resources*. We maintain a stock repurchase program to manage our equity capital with the objective of maximizing shareholder value.
- *UnitedHealth Group*. The objectives of the share repurchase program are to optimize the Company's capital structure and cost of capital, thereby improving returns to shareholders, as well as to offset the dilutive impact of share-based awards.

The main driver behind many share buyback programs may simply be an attempt by companies to offset the earnings per share dilution from their stock based compensation plans (there is still economic dilution). Of course some companies may take it a step further and use buybacks to try and drive EPS growth by reducing the share count (just because something is accretive to earnings doesn't necessarily mean that it's creating value for shareholders). Buybacks are also viewed as a more flexible way to return capital to shareholders than dividends especially if there is "excess cash" since buybacks can more easily be adjusted up or down. In contrast companies are loath to reduce the dividend even in tough times (keep in mind that a buyback only returns capital to former shareholders while all shareholders get paid with a dividend). Buybacks can also be used to increase leverage and to manage the firm's capital structure. Or management just might think that the market has undervalued its stock and a buyback is simply a good investment (we test to see how well they do as portfolio managers).

Stock Buyback Wealth Transfer

Before moving on to the analysis we thought a brief review of how buybacks can add or destroy value for the remaining shareholders might be helpful. The concept is pretty straightforward, if a company pays less than intrinsic value when buying back its stock value is added for the remaining shareholders since wealth is transferred to them from the selling shareholders (that's what happens when you pay $0.80 for a dollar). On the other hand if the company is paying more than intrinsic value that destroys value for the remaining shareholders who transferred wealth to the former shareholders (or as Warren Buffet noted in the 1999 Berkshire Hathaway Chairman's Letter, "buying dollar bills for $1.10 is not good business for those who stick around"). If the company pays intrinsic value for the shares (efficient market) its value neutral for the remaining shareholders since no wealth is transferred.

A simple example should help prove the point. Let's say Goldilocks Inc. has an intrinsic value of $1,000 of which $200 is cash and $800 is the present value of future cash flows, and there are 100 shares outstanding so the intrinsic value per share is $10. The company can repurchase its shares under three scenarios: the stock is undervalued and trading at $8 per share, it's overvalued and trading at $12.50 per share and it's just right trading at $10 per share. If the company were to use all of its $200 in cash to buy back shares you can see in Exhibit 6 how the intrinsic value per share would be affected under each scenario all else equal. In the first case, the intrinsic value per share improves to $10.67 (the benefit of paying only $8 for something worth $10) adding value for the remaining shareholders. In the second case the intrinsic value per share drops to $9.52 (not such a good deal when you pay $12.50 for something worth only $10) as wealth gets transferred to the selling shareholders. While in the third case the intrinsic value per share stays at $10, no wealth transfer takes place.

Exhibit 6: Goldilocks Inc, an Example

	Goldilocks Inc.	
Cash	$ 200	*A*
PV of future cash flows	800	*B*
Intrinsic value	$ 1,000	*C = A + B*
# of shares outstanding	100	*D*
Intrinsic value per share	$ 10	*= C / D*

	Undervalued	Overvalued	Just Right	
Stock price	$ 8.00	$ 12.50	$ 10.00	*E*
Cash used to buy back stock	$ 200	$ 200	$ 200	*F = A*
# of shares bought	25	16	20	*G = F / E*
Remaining # of shares outstanding	75	84	80	*H = D - G*
New intrinsic value per share	**$ 10.67**	**$ 9.52**	**$ 10.00**	*= B / H*

Source: Based on an example from Clear Thinking About Share Repurchase, Michael Mauboussin January 10, 2006, Credit Suisse

Evaluating Buybacks Like a Portfolio Manager

So, how do we know if stock buybacks are adding value or destroying value for remaining shareholders? It seems like many investors and analysts assume that buybacks automatically add value (regardless of the price paid). In fact most of the focus on buybacks tends to center around the announcement of a new stock buyback program and what effect it will have on future earnings. Even the academic research has focused primarily on stock buyback announcements and share price performance.

The announcement is one thing, but what happens when the company puts its money where its mouth is and starts buying shares? How do investors and analysts track whether the company is making good investment decisions or not? In order to do so investors need a framework for thinking about stock buybacks. Of the frameworks out there we like the *Golden Rule of Share Buybacks* from Michael Mauboussin and Alfred Rappaport's book *Expectations Investing:*

> *A company should repurchase its shares only when its stock is trading below its expected value and when no better investment opportunities are available.*

As with other capital allocation decisions investors should try to determine whether a stock buyback adds or destroys shareholder value: is the company paying less or more than intrinsic value? To monitor whether companies are following the golden rule and making good investment decisions when buying back stock we suggest evaluating buybacks as you would your own portfolio. That's what we've done in this report for each company in the S&P 500 based on monthly buyback data that we've pulled together from 2004 through 2011. We started with 2004 because that's when the SEC first started requiring companies to provide the additional disclosure on stock buybacks in 10-Ks and 10-Qs an example of which is included in Exhibit 7.

Exhibit 7: An Example of Share Repurchase Disclosure, Exxon Mobil 4Q 2011

Issuer Purchases of Equity Securities for Quarter Ended December 31, 2011

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October, 2011	22,659,131	77.15	22,659,131	
November, 2011	23,409,517	77.67	23,409,517	
December, 2011	22,796,769	81.40	22,796,769	
Total	68,865,417	78.73	68,865,417	(See note 1)

Note 1—On August 1, 2000, the Corporation announced its intention to resume purchases of shares of its common stock for the treasury both to offset shares issued in conjunction with company benefit plans and programs and to gradually reduce the number of shares outstanding. The announcement did not specify an amount or expiration date. The Corporation has continued to purchase shares since this announcement and to report purchased volumes in its quarterly earnings releases. In its most recent earnings release dated January 31, 2012, the Corporation stated that first quarter 2012 share purchases are continuing at a pace consistent with fourth quarter 2011 share reduction spending of $5 billion. Purchases may be made in both the open market and through negotiated transactions, and purchases may be increased, decreased or discontinued at any time without prior notice.

Source: Exxon Mobil December 31, 2011 10-K

We treat each buyback as if the company were building positions in a portfolio (assuming the positions are added mid-month) then we measure returns (using an internal rate of return) on the portfolio over time taking into account dividends (it's a dividend that the company didn't have to pay so it has a positive effect on the hypothetical portfolio) and adjusting for stock splits. Note that our analysis does not incorporate share issuance.

We'd suggest that the returns be compared to the company's cost of equity to find out if value is being added or destroyed for remaining shareholders. Why cost of equity? It's the theoretical return that investors expect to receive from holding the stock (i.e., expected rate of return). If the returns on the buybacks outpace the cost of equity, it indicates the company has been successful at buying shares below intrinsic value and adding value for remaining shareholders. On the other hand if the returns come in below the cost of equity this indicates the company has been buying shares above intrinsic value and destroying value. If the returns happen to equal the cost of equity that implies share buybacks are at a price equal to intrinsic value and there is no wealth transfer. In order to complete the golden rule you'd also want to consider how the returns on buybacks compare to returns the company could have generated elsewhere.

Past Performance Not a Guarantee of Future Results

There is a flaw in our analysis, we are using the market price of the stock to evaluate whether stock buybacks have been adding or destroying value for the remaining shareholders. For a long term investor that can cause problems because the stock price can disconnect from underlying intrinsic value for long periods of time. Or as Benjamin Graham noted in *The Intelligent Investor*,

> Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies.

In fact, what looks like a poor track record of destroying value with share buybacks when using today's stock price could be transformed to one of adding value for remaining shareholders if the analysis were to incorporate intrinsic value instead (our *Stock Buyback Scorecard* allows you to use your target price or any other price in place of the current stock price). In other words today's poor performers could turn into tomorrow's winners (they do say past performance is no guarantee of future results). There are even those (buyers of the stock) that would in theory prefer to see share buyback underperformance assuming the stock is trading below its intrinsic value and they're adding to their position as Warren Buffet explained in his 2011 Chairman's Letter:

> The logic is simple: If you are going to be a net buyer of stocks in the future, either directly with your own money or indirectly (through your ownership of a company that is repurchasing shares), you are *hurt* when stocks rise. You benefit when stocks swoon.

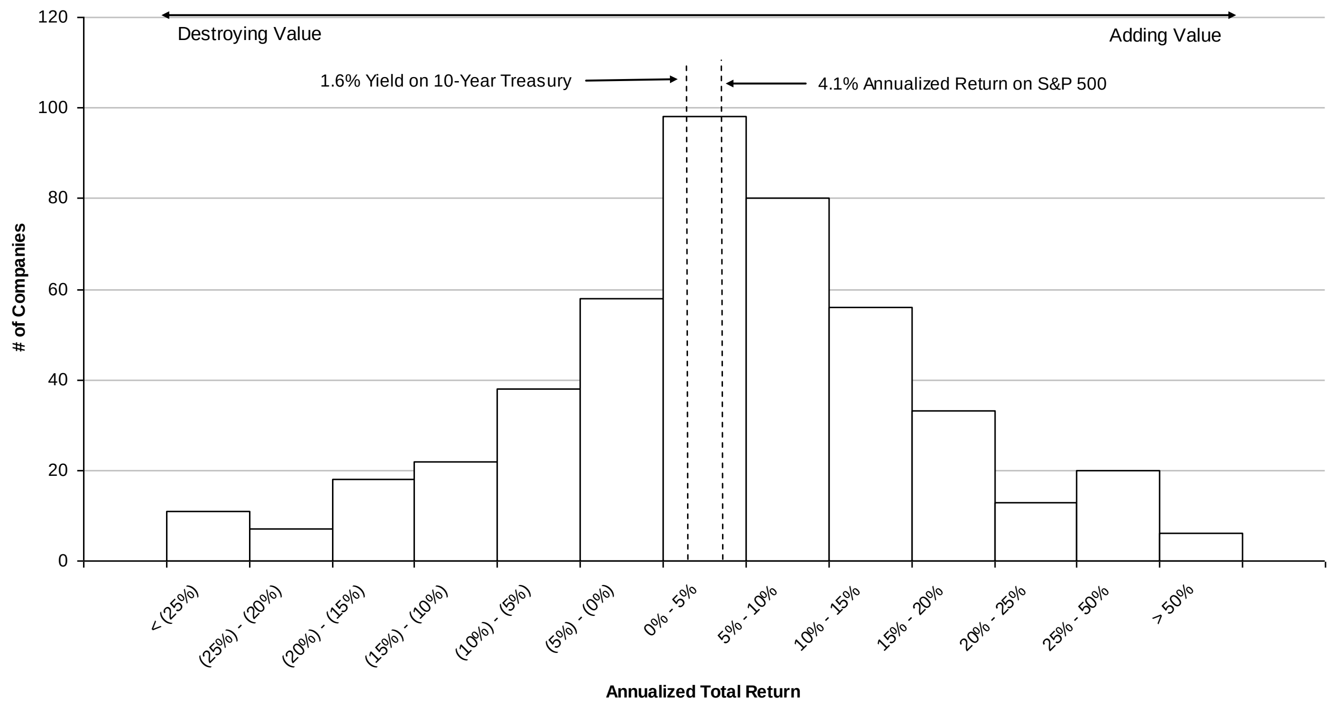
The key is your time horizon and whether you are a net buyer or seller of the stock, we are evaluating buybacks over the past eight years, that's probably too short for some and way too long for others (let us know if you're interested in looking at a different time frame). Regardless of the limitations of our analysis we think that a track record of adding or destroying value through share buybacks is worth considering as it may tell us something about management's ability to do value added stock buybacks in the future or to create shareholder value in general.

Management in the Role of Portfolio Manager

So, how do you think you'd do if you had just one stock in your portfolio that you knew *inside* and out? Do management teams make good portfolio managers? We estimate that the $2.7 trillion in buybacks by the S&P 500 companies from 2004 through 2011 would have generated a $449 billion profit in the aggregate including $231 billion of dividends.

As you can see in Exhibit 8 there are 306 companies or 61% showing a positive return, 154 companies or 31% with a negative return. (Note that 40 companies which are not included in Exhibit 8 had no buybacks over the past eight years.) But if you were to benchmark against a cost of equity of let's say 7%, we find only 180 companies or 36% that beat the benchmark. As a result it looks like most of the buybacks for the S&P 500 over the past eight years have not *yet* added much value for the remaining shareholders.

Exhibit 8: Distribution of Estimated Annualized Return on Stock Buybacks from 2004–2011 for S&P 500 Companies



Note: Includes 460 S&P 500 companies that bought back their stock from 2004-2011.

Source: Company data, Credit Suisse estimates

Top and Bottom Performers

Starting with the best performers, we find 128 companies in the S&P 500 with stock buybacks over the past eight years that we estimate would have generated an annualized return in excess of 10% based upon the stock price on May 31, 2012. The ten best performers that spent over $1 billion buying back their stock from 2004 through 2011 are included in Exhibit 9. Note that there are three discount retailers among the top 10, not a surprise as their share prices are at all-time highs. For example, Dollar Tree has spent $1,903 million buying back 67.2 million shares at an average price of $28.32 from 2004 through October 2011 (the last fiscal period in 2011), the stock was trading at $103.18 per share on May 31, 2012 and those shares were worth $6,934 million, that's good enough for an estimated 34.0% annualized return (not too shabby). Given the current stock price, the question for Dollar Tree and the other companies in Exhibit 9 is whether it's prudent to keep buying back their stock? All of the companies in Exhibit 9 bought back their stock during the fourth quarter of 2011 and it'll be interesting to see how these companies "score" in the future.

About 40% of Dollar Tree's buybacks over the period have come in the form of accelerated share repurchases (ASR) and that excludes their largest ASR to date of $300 million announced in November of 2011. An ASR program allows a company to immediately reduce its share count by buying its stock back directly from an investment bank that has borrowed the shares. If the stock price drops as the investment bank covers its short, it will deliver additional shares or cash to the company at the end of the program and vice versa if the stock price rises. We estimate that there are at least 90 companies in the S&P 500 that have used an ASR program over the past eight years.

Exhibit 9: Top 10 Estimated Annualized Returns with More Than $1 Billion Spent on Buybacks from 2004–2011
In millions, except percent

Company	Ticker	# of Shares Repurchased	A Cost Basis	B Estimated Dividends Not Paid[7]	C Market Value	= C + B - A Estimated Profit	Annualized Return
Dollar Tree Inc[1]	DLTR	67.2	$ 1,903	$ -	$ 6,934	$ 5,031	34.0%
CF Industries Holdings[2]	CF	15.0	1,500	30	2,563	1,093	32.6%
Visa Inc[3]	V	40.3	3,097	42	4,646	1,591	32.4%
Ross Stores Inc[4]	ROST	109.8	2,067	134	6,943	5,009	32.2%
Lorillard Inc	LO	42.7	3,612	445	5,278	2,110	27.6%
Edwards Lifesciences Corp	EW	40.4	1,291	-	3,445	2,154	27.4%
Philip Morris International[5]	PM	414.1	21,353	2,615	34,994	16,256	26.2%
AutoZone Inc[6]	AZO	54.2	7,485	-	20,600	13,115	26.1%
TJX Cos Inc[4]	TJX	411.3	6,607	498	17,466	11,357	25.6%
Grainger, W.W. Inc[1]	GWW	34.1	2,733	307	6,599	4,174	24.0%

[1]Bought back shares using an accelerated share repurchase program during our analysis period.

[2]Became a public company on August 11, 2005.

[3]Became a public company on March 18, 2008.

[4]Repurchases through October 31, 2011.

[5]Became a public company on March 28, 2008.

[6]Repurchases through November 19, 2011.

[7]This is an estimate of the amount of dividends that the company did not have to pay because the shares were repurchased.

Note: Amounts may not recalculate due to rounding.

Source: Company data, Datastream, Credit Suisse estimates

At the other end of the spectrum there are 154 companies with share buybacks that have generated a negative return, including the 10 companies in Exhibit 10 with estimated annualized losses in excess of 21% that have spent more than $1 billion buying their stock. No surprise that this list is dominated by Financials, for example, Citigroup spent nearly $21 billion buying 44.6 million shares of its own stock from 2004-2011, that stock is worth only $1.2 billion. Or how about Bank of America which spent over $30 billion for shares worth around $4.7 billion. Clearly both of these companies and their remaining shareholders wish they still had that capital today.

Switching gears from the Financials, we find that the stock prices of both Sprint and Alcoa are trading near their lows for the time period we are analyzing, however neither company has bought back shares in a while. Alcoa hasn’t repurchased shares since September 2008 when they paid on average $28.71 per share, and as of May 31, 2012 the stock was $8.55 per share. While Sprint has been off the repurchase wagon for even longer, last buying its stock at $18.86 per share back in September 2007. If we were to replace Sprint’s current stock price with the Credit Suisse target price of $4 in our analysis, returns would improve only slightly to an estimated annualized loss of 25.1%. The question for Sprint and the other companies in Exhibit 10 is whether now is the right time to buy their shares. Their share prices are low but do they have the capital to spare, are their stocks trading below intrinsic value and do they have no better investment alternatives?

Exhibit 10: Bottom 10 Estimated Annualized Returns with More Than $1 Billion Spent on Buybacks from 2004–2011
In millions, except percent

Company	Ticker	# of Shares Repurchased	A Cost Basis	B Estimated Dividends Not Paid[6]	C Market Value	= C + B - A Estimated Loss	Annualized Return
American Intl Group Inc[2]	AIG	9.7	$ 8,324	$ 143	$ 284	$ (7,897)	(51.7%)
Citigroup Inc	C	44.6	20,995	2,314	1,183	(17,497)	(33.9%)
Sprint Nextel Corp[5]	S	185.2	3,475	19	476	(2,980)	(31.1%)
Genworth Financial Inc[1, 3]	GNW	54.0	1,721	34	283	(1,404)	(29.0%)
Hartford Finl Services Group[1]	HIG	30.8	2,313	81	518	(1,714)	(28.3%)
Alcoa Inc	AA	116.3	4,048	165	995	(2,888)	(24.8%)
Regions Financial Corp[4]	RF	76.1	2,610	251	479	(1,880)	(23.8%)
Bank of America Corp	BAC	639.1	30,213	4,431	4,698	(21,085)	(22.5%)
Donnelley, R.R. & Sons[1]	RRD	55.2	1,419	170	594	(655)	(21.7%)
Electronic Arts	EA	27.0	1,038	-	368	(670)	(21.6%)

[1]Bought back shares using an accelerated share repurchase program during our analysis period.
[2]Repurchases are through December 31, 2012 and therefore the analysis does not include the shares repurchased from the Treasury.
[3]Became a public company on May 25, 2004. Only includes class A share repurchases.
[4]Includes repurchases made prior to July 1, 2004, before merging with Union Planters into the current holding company.
[5]Excludes fractional shares of Nextel common stock that were purchased when Nextel common stock was exchanged for Sprint common stock. Repurchases of tracking stock from January 2004 through April 2004 have been adjusted to reflect a recombined basis.
[6]This is an estimate of the amount of dividends that the company did not have to pay because the shares were repurchased.
Note: Amounts may not recalculate due to rounding.
Source: Company data, Datastream, Credit Suisse estimates

In Exhibit 11 we highlight the companies in each sector that had the best and worst returns on their share buybacks over the past eight years. Take Health Care as an example, the best performer in the sector is Intuitive Surgical with an estimated 61.2% annualized return while the worst performer is Boston Scientific with an estimated annualized loss of 18.6%. Boston Scientific spent nearly $1.1 billion buying back its stock during 2004 and 2005 when the stock was between $28 and $35 per share. Why buy the stock back then? Did the company believe that its shares were trading at a discount to intrinsic value or was it just looking for a way to put to work the $1 billion of foreign earnings that it had repatriated as a result of the American Jobs Creation Act? During 2011 the company announced a billion dollar buyback program that CFO, Jeffrey Capello claimed on the Q2 2011 earnings call "will without question return value to shareholders." The remaining shareholders sure hope that they're right this time around especially since the company already spent $490 million buying their stock back late last year. Similar to Boston Scientific, Intuitive Surgical has had only a few quarters in which they repurchased stock. The company had a $150 million ASR in 2009 and bought back shares in 2010 and 2011. At a recent healthcare conference, CFO Marshall Mohr noted that they haven't purchased shares since Q3 2011 given that the stock price has been nearing an all-time high and that they view buying shares as something done "opportunistically at a time that there's a discontinuity in the stock price."

Exhibit 11: **Best & Worst Estimated Annualized Returns by Sector**

Sector	Company	Ticker	Annualized Return	Company	Ticker	Annualized Return
Consumer Discretionary	Chipotle Mexican Grill Inc. [3]	CMG	74.7%	Cablevision Systems Co[3]	CVC	(48.9%)
Consumer Staples	Lorillard Inc[11]	LO	27.6%	Supervalu Inc[10]	SVU	(27.6%)
Energy	Diamond Offshore Drilling[4]	DO	24.9%	Alpha Natural Resources[9]	ANR	(58.9%)
Financials	Discover Financial Services[5]	DFS	61.7%	American Intl Group Inc[6]	AIG	(51.7%)
Health Care	Intuitive Surgical Inc[1]	ISRG	61.2%	Boston Scientific Corp	BSX	(18.6%)
Industrials	FedEx Corp[10]	FDX	38.2%	Donnelley, R.R. & Sons[1]	RRD	(21.7%)
Information Technology	F5 Networks Inc	FFIV	39.7%	Micron Technology Inc	MU	(25.9%)
Materials	CF Industries Holdings[2]	CF	32.6%	Alcoa Inc	AA	(24.8%)
Telecommunication Services	Verizon Communications Inc	VZ	7.1%	Sprint Nextel Corp[7]	S	(31.1%)
Utilities	NextEra Energy Inc[1, 8]	NEE	47.2%	NRG Energy[1]	NRG	(9.8%)

[1]Bought back shares using an accelerated share repurchase program during our analysis period.

[2]Became a public company on August 11, 2005.

[3]Only includes class A share repurchase.

[5]Became a public company on July 2, 2007.

[6]Repurchases are through December 31, 2012 and therefore the analysis does not include the shares repurchased from the Treasury.

[7]Excludes fractional shares of Nextel common stock that were purchased when Nextel common stock was exchanged for Sprint common stock. Repurchases of tracking stock from January 2004 through April 2004 have been adjusted on a recombined basis.

[9]Became a public company on February 15, 2005.

[10]Repurchases through November 30, 2011.

[11]Became a public company on June 10, 2008.

Source: Company data, Datastream, Credit Suisse estimates

Hey Big Spender

Of the $2.7 trillion in total buybacks by the S&P 500 companies over the past eight years, $1.6 trillion or 58% was concentrated among just fifty companies, including the ten companies in Exhibit 12 that spent the most buying their shares ($730 billion in total or 27%).

Of the big spenders two companies stand out at opposite ends of the spectrum, IBM and Hewlett Packard. IBM spent nearly $90 billion to buy almost 810 million shares and has generated a 15.3% annualized return, while Hewlett Packard spent $61 billion buying over 1.6 billion shares that are worth about $37 billion for an annualized loss of 11.3%. Both companies consistently buyback their stock; of the 96 month period that we are analyzing IBM bought back stock in 87 months while Hewlett Packard repurchased shares in 86 of the 96 months. However, they have both had months where they have done abnormally large buybacks it’s just that IBM has had better timing than Hewlett Packard. For example back in May 2007 IBM spent $13.9 billion buying back its stock at about $105 per share on average. That probably didn’t seem so smart when the stock dipped into the $70s in late 2008, but appears brilliant with the stock at $192.90 on May 31, 2012. While Hewlett Packard spent $3.5 billion buying its stock in March 2007 when the stock was at $41 per share and spent over $2 billion in February 2008 and more recently June 2011 paying $43 and $36 per share respectively (the stock was at $22.68 on May 31, 2012).

The question for IBM is whether it continues to make sense to buy the stock at these levels, given its intrinsic value and other investment opportunities. As for Hewlett Packard, with the stock getting beaten up the question is whether it’s the right time to step up and buy more shares, that question was posed to CEO Meg Whitman on the fourth quarter earnings call and she stated that they would buyback enough to offset dilution from stock based comp, but that they plan to focus on rebuilding the balance sheet particularly given the “uncertain macroeconomic environment for 2012.”

Exhibit 12: Hey Big Spender, Top 10 Largest Buybacks From 2004–2011

In millions, except percent

Company	Ticker	# of Share Repurchased	*A* Cost Basis	*B* Estimated Dividends Not Paid[4]	*C* Market Value	*= C + B - A* Estimated Profit/ (Loss)	Annualized Return
Exxon Mobil Corp[2]	XOM	2,553	$ 180,137	$ 19,533	$ 200,728	$ 40,124	4.9%
Microsoft Corp	MSFT	3,711	101,125	9,849	108,324	17,048	3.5%
Intl Business Machines Corp[1]	IBM	810	89,951	8,257	156,191	74,497	15.3%
Procter & Gamble[3]	PG	1,027	61,916	8,599	63,998	10,681	3.6%
Cisco Systems Inc	CSCO	2,869	61,912	890	46,846	(14,176)	(5.4%)
Hewlett-Packard Co[1]	HPQ	1,653	61,105	2,465	37,483	(21,156)	(11.3%)
Intel Corp	INTC	2,182	49,919	5,685	56,375	12,141	5.1%
Wal-Mart Stores	WMT	938	48,109	4,179	61,718	17,789	8.9%
Pfizer Inc	PFE	1,563	38,008	6,219	34,174	2,385	1.4%
Goldman Sachs Group Inc	GS	255	37,703	1,711	24,361	(11,631)	(8.2%)

[1]Bought back shares using an accelerated share repurchase program during our analysis period.

[2]Has a discretionary share repurchase program in which purchases can be increased, decreased, or discontinued at any time without prior notice.

[3]Discloses that the average price paid per share excludes commissions. Excludes acquired shares associated with the reverse Morris Trust transaction with The J.M. Smucker Company.

[4]This is an estimate of the amount of dividends that the company did not have to pay because the shares were repurchased.

Note: Amounts may not recalculate due to rounding.

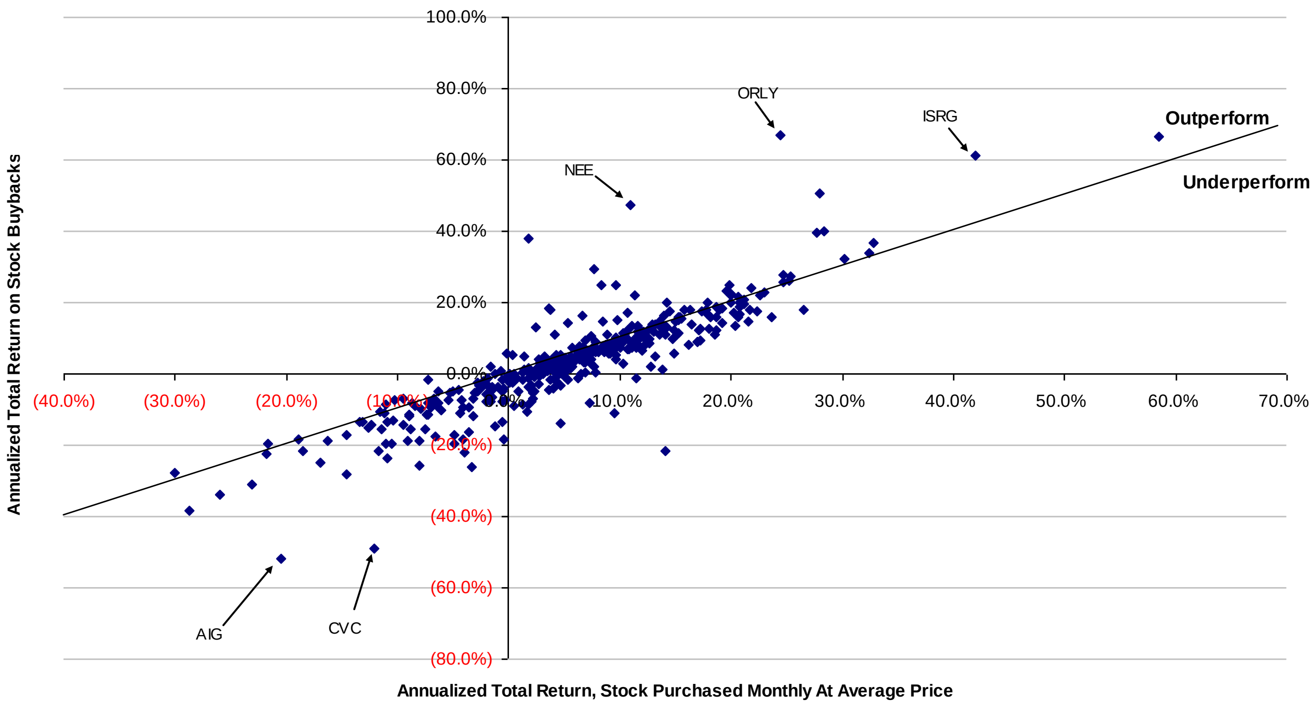
Source: Company data, Datastream, Credit Suisse estimates

Management versus the Market

What if we were to compare management's performance on buying back its stock to the market, in theory management should know their stock better than anyone else so you'd expect to see them outperform the typical investor. But how do we define the market? One way is to track the performance assuming the market bought the same number of shares as management at the same time but at the monthly average instead of the price that the company paid (i.e., did they get good execution). On this basis we find that management's performance is pretty close to the market's with a median outperformance of only six basis points, management beat the market 283 times and lost to the market 147 times. Even though the outperformance and underperformance was 100 basis points or less 78% of the time, there were some outliers ranging from 1,323 basis points of outperformance to 661 basis points of underperformance.

But what happens if we define the market a bit differently, instead of giving the market credit for management's timing, let's assume that the market is dollar cost averaging and building a portfolio by spending the same amount each month and buying at the monthly average price regardless of whether stock prices go up or down. When we compare that result to how well management did with stock buybacks in Exhibit 13, we find that management was able to beat the market only 98 times and lost to the market 332 times (the results were also more wide spread than what we had calculated above, ranging from 4,245 basis points of outperformance to 3,679 basis points of underperformance). Even though this is the one investment that management should know better than anyone else, it looks like many companies still can't get it right and would be better off dollar cost averaging than trying their hand at stock picking.

Exhibit 13: Management versus the Market



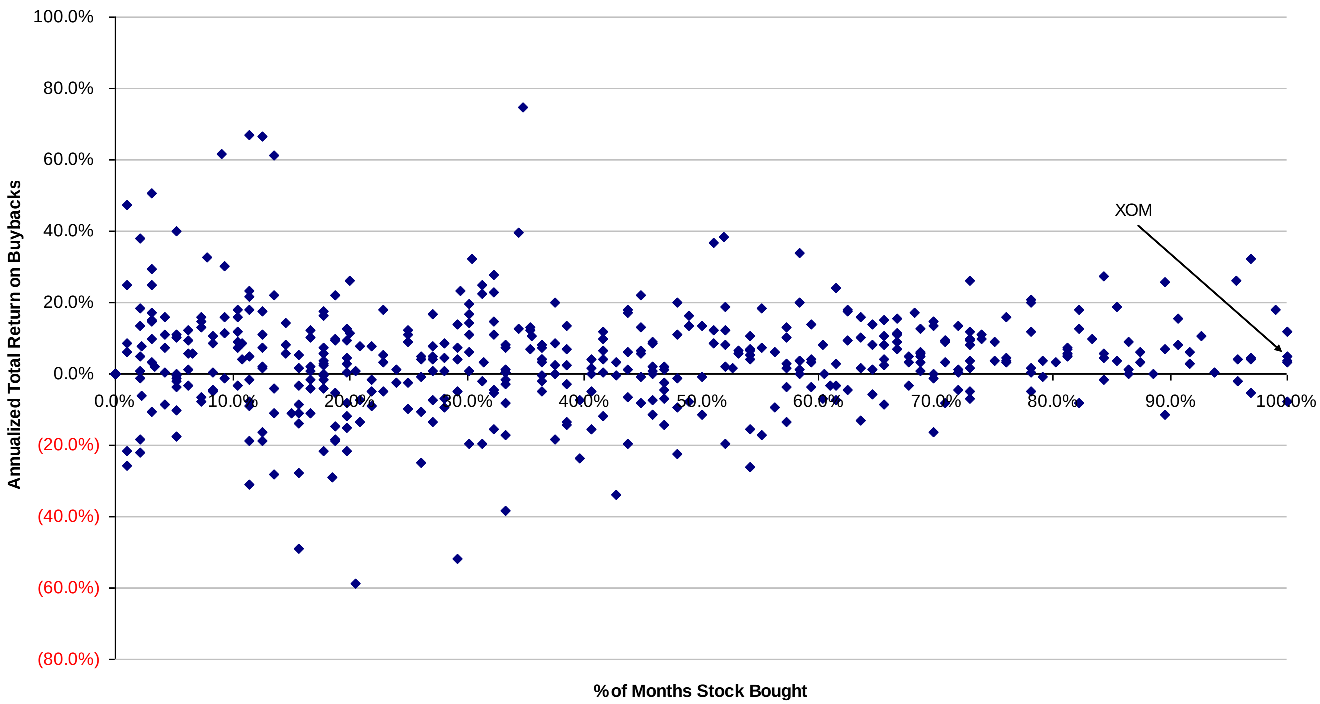
Source: Company data, Credit Suisse estimates

What's Driving the Performance?

We are curious if there's any link between how well or how poorly companies do with their share buybacks and a number of metrics, including the percentage of shares outstanding repurchased, percentage of market cap bought back, percentage of trading volume repurchased, repurchase payout ratio, P/E multiples, price-to-book, etc. We plan to follow up on these relationships and other items in future research including the impact of buybacks on EPS and to incorporate stock based compensation into our analysis.

In the meantime we compared the returns on buybacks to how often the company is buying its shares expressed as a percentage of the 96 months captured in our analysis (e.g., for the five companies that bought back stock every month Colgate-Palmolive, Exxon Mobil, General Electric, US Bancorp and Wells Fargo, its 100%). You can see in Exhibit 14 that we did not find a clear link between buyback performance and persistence (i.e., how often the company is buying its shares). That said it appears as if there's a wider disparity in performance among those companies that buy their stock less often (including the best and worst performers) than those that are more consistent purchasers of their stock. That's exactly what we find if we divide the companies into deciles by the percentage of months that they bought back their stock and we take a look at the two ends of the spectrum: the companies that bought their stock back least often had a median return of 5.9% with a 17% standard deviation, while the companies that bought most often had a 4.8% median return and a standard deviation of 9.1%.

Exhibit 14: Estimated Annualized Return on Buybacks Compared to How Often the Company is Buying Back Stock



Source: Company data, Credit Suisse estimates

Stock Buyback Scorecard

Welcome to our *Stock Buyback Scorecard*, the newest addition to the Credit Suisse Accounting Toolbox. Using monthly stock buyback data that we have collected from the 10-Ks and 10-Qs of each company in the S&P 500 since 2004, the scorecard evaluates share buybacks for each company as you would your own portfolio. We treat each buyback as if the company were building positions in a portfolio then we measure the returns on that portfolio using an internal rate of return, taking into account dividends and adjusting for stock splits.

The *Stock Buyback Scorecard* is available on the Credit Suisse Research & Analytics website here: **Accounting Toolbox: Stock Buyback Scorecard**. Please don't hesitate to let us know if you have any questions as you work with the scorecard or if you have any feedback as we'd appreciate any thoughts on how to improve future versions.

The *Stock Buyback Scorecard* includes two worksheets, *Company* and *Industry* we provide an overview of each in Exhibit 15 and Exhibit 16.

Exhibit 15: Company View

Accounting & Tax Research

Accounting Toolbox: Stock Buyback Scorecard

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Input a ticker symbol and away you go.

Curious as to how the company that you are focused on performed relative to its industry peers? Press the button and you'll find out.

* You can edit the green cells

Ticker	IBM
Company	Intl Business Machines Corp
Industry	IT Services
Sector	Information Technology

Go To Industry View

Valuation Date

Valuation Date	5/31/2012
Stock Price	$ 192.90

Estimated Annualized Return on Buybacks

15.3%

We priced the portfolio as of May 31, 2012. But you can input any stock price you want, try your target price or intrinsic value estimate.

	Annualized Return on Buybacks (IRR)	Input Your Benchmark	Outperform / (Underperform)
2004	16.1%		16.1%
2005	(11.8%)		(11.8%)
2006	23.3%		23.3%
2007	11.8%		11.8%
2008	(23.5%)		[illegible]
2009	55.4%		55.4%
2010	15.2%		15.2%
2011	26.9%		26.9%
Total	15.3%		15.3%

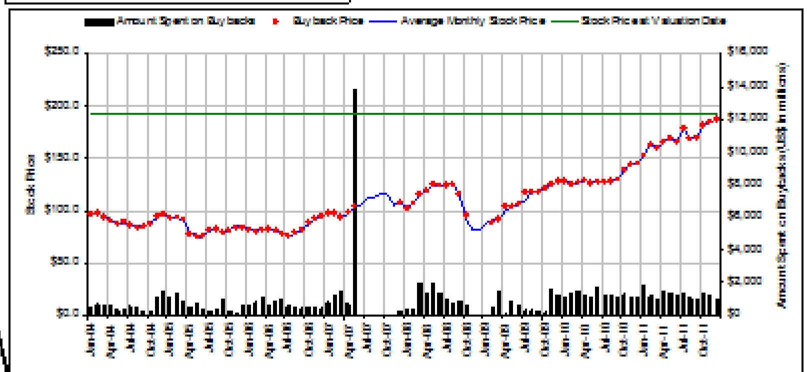
	Annualized Return on Buybacks (IRR)
1-Year	16.1%
3-Year	23.5%
5-Year	15.7%

How do the returns compare to your own portfolio?

Here's where you can tell if the buybacks have been adding or destroying value. Compare our estimated annualized return to whatever benchmark you think is appropriate. We suggest using equity cost of capital.

Plot
Amount Spent on Buybacks
\# of Shares Repurchased

You decide the view, you can either see the amount the company spent on buybacks or the number of shares repurchased.



Stock Buyback Portfolio

	# of Shares Repurchased	Average Price Paid per Share	Cost Basis
2004	78,562,974	$ 92.60	$ 7,274,949,293
2005	90,237,800	85.01	7,671,278,970
2006	97,564,462	82.22	8,022,082,127
2007	178,385,436	103.02	18,378,137,853
2008	89,890,347	118.12	10,617,801,145
2009	68,850,727	109.74	[illegible]
2010	117,721,650	130.98	15,418,860,599
2011	88,883,716	169.52	15,033,987,894
TOTAL	809,697,112	$ 111.09	$ 89,950,518,404

Stock Buyback P&L (includes shares bought back since 2004)

# of Shares repurchased	809,697,112
Market value of shares repurchased as of May 31, 2012	$ 156,190,572,905
Estimated Dividends not paid	8,256,558,457
Cost basis	(89,950,518,404)
Estimated Profit / (Loss)	$ 74,496,612,958

* Data presented is adjusted for stock splits as of 5/31/2012
* Share buyback data from January 2004 thru December 2011

This will tell you how the company management did as a portfolio manager of its own stock portfolio. It's the estimated annualized return on all buybacks from 2004 through 2011 adjusted for dividends and priced as of May 31, 2012.

Source: Company data, Credit Suisse estimates

Exhibit 16: Industry View

Accounting & Tax Research

Accounting Toolbox: Stock Buyback Scorecard

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Pretty self explanatory

Industry IT Services
Valuation Date 5/31/2012

Go Back to Company Page

You can change the stock price here too.

Drop in your benchmark to find out which companies have been adding or destroying value with stock buybacks.

Company	Ticker	# of Shares Repurchased	Cost Basis	Estimated Dividends Not Paid	Stock Price	Market Value	Profit / (Loss)	Estimated Annualized Return	Input Your Benchmark	Outperform / (Underperform)	Rank
Accenture plc	ACN	131,117,197	$ (4,671,546,061)	$ 433,325,117	$ 57.10	$ 7,486,791,949	$ 3,248,571,005	16.1%		16.1%	5
Automatic Data Processing	ADP	178,068,349	(8,028,068,182)	1,021,113,884	52.15	9,286,264,400	2,279,310,102	5.8%		5.8%	9
Computer Sciences	CSC	42,134,640	(2,097,140,678)	62,424,660	26.64	1,122,466,810	(912,249,209)	(10.9%)		(10.9%)	13
Cognizant Tech Solutions Corp	CTSH	10,602,566	(525,963,449)	-	58.25	617,599,470	91,636,020	8.4%		8.4%	7
Fidelity National Information	FIS	110,797,584	(3,319,543,079)	72,067,437	32.78	3,631,944,804	384,469,162	4.8%		4.8%	10
Fiserv Inc	FISV	69,762,303	(3,316,479,836)	-	67.43	4,704,072,091	1,387,592,255	8.1%		8.1%	8
Intl Business Machines Corp	IBM	809,697,112	(89,950,518,404)	8,256,558,457	192.90	156,190,572,905	74,496,612,958	15.3%		15.3%	6
Mastercard Inc A	MA	11,172,521	(2,397,496,282)	22,547,087	406.51	4,541,741,512	2,166,792,317	23.1%		23.1%	3
Paychex Inc	PAYX	23,658,200	(1,000,021,826)	135,618,296	29.97	709,036,254	(155,367,277)	(3.8%)		(3.8%)	11
SAIC Inc	SAI	120,368,670	(2,138,051,838)	14,444,240	11.11	1,337,295,924	(786,311,674)	(16.2%)		(16.2%)	14
Teradata Corp	TDC	20,884,395	(563,902,711)	-	66.48	1,388,394,580	824,491,869	38.5%		38.5%	1
Total System Services Inc	TSS	12,817,200	(220,460,530)	10,670,997	23.27	298,256,244	88,466,711	16.5%		16.5%	4
Visa Inc	V	40,326,380	(3,097,390,740)	42,306,779	115.20	4,645,598,976	1,590,515,015	32.4%		32.4%	2
Western Union Co	WU	194,480,920	(3,845,337,093)	124,258,913	16.40	3,189,487,088	(531,591,092)	(4.8%)		(4.8%)	12

This is the screen that you are transported to when you press the Go To Industry View button on the company page. On this screen we provide a summary of the buyback performance for the company that you are focused on and compare it with the industry group peers.

Source: Company data, Credit Suisse estimates

Simplifying Assumptions

Before you leave us, we wanted to highlight some of the simplifying assumptions that we incorporated into our analysis and the scorecard.

- First off, since we only know the month in which the companies bought their stock, not the exact date(s) we assume that all buybacks took place mid-month. In addition we have assumed that dividends are paid mid-month as well.
- We have also excluded certain buybacks that are out of the company's control since they appear to be transactions entered into directly with employees, which are in many cases the result of employees surrendering shares to cover withholding taxes or to pay the exercise price for stock options. Some companies clearly disclose these transactions for others it involves a bit of guesswork.
- Note that we have not factored share issuance into our analysis.
- We have only included stock buybacks for the class of shares that are part of the S&P 500. Buybacks of other share classes have been excluded.
- We used the data on average price paid for share buybacks from the table included in the company disclosures, which may or may not include commissions, transaction costs and settlement costs.
- The analysis includes the companies that were in the S&P 500 as of January 31, 2012.

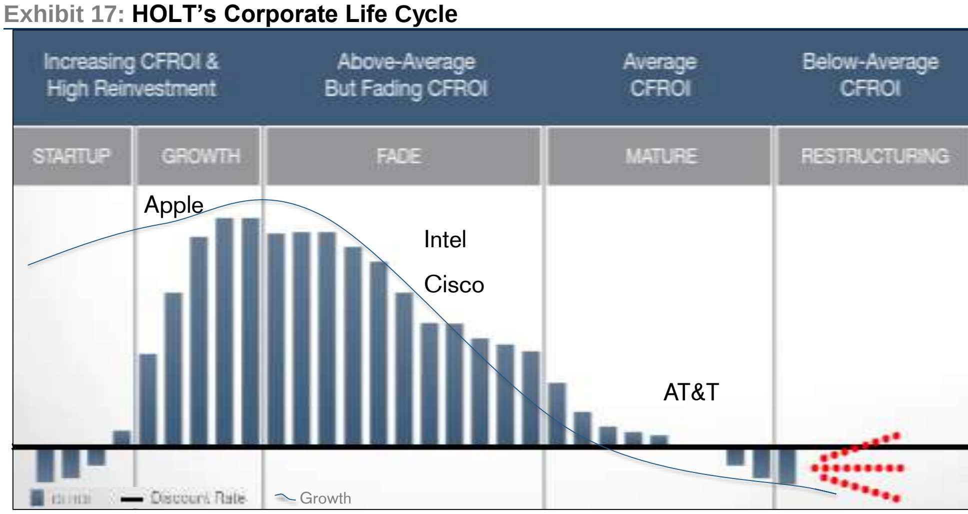
Appendix: HOLT's View on Buybacks

Can Share Buybacks Drive Shareholder Value?

Prior HOLT studies (see *Cash and the Corporate Life Cycle, A Framework for Understanding Cash and Optimal Cash Usage*, September 2010 from Ron Graziano and Michael Oliveros) have shown that when a company's stock is cheap, buying back shares is a positive NPV project and should be ranked alongside other cash deployment options such as dividends, acquisitions or other organic investment projects that a firm is considering.

These findings make sense when considered in the context of HOLT's Life Cycle Framework (Exhibit 17). As firms transition from Growth to Fade (middle stages of the life-cycle), investors fear the risk of misusing cash, and the balance between return of capital and return on capital is critical. In other words, the agency cost of holding cash is high at this stage. The resulting discount or premium that investors place on cash reflects an expectation of management's success at investing cash into high CFROI® projects and averting overinvestment into low CFROI projects by returning excess cash to shareholders.

Exhibit 17: HOLT's Corporate Life Cycle

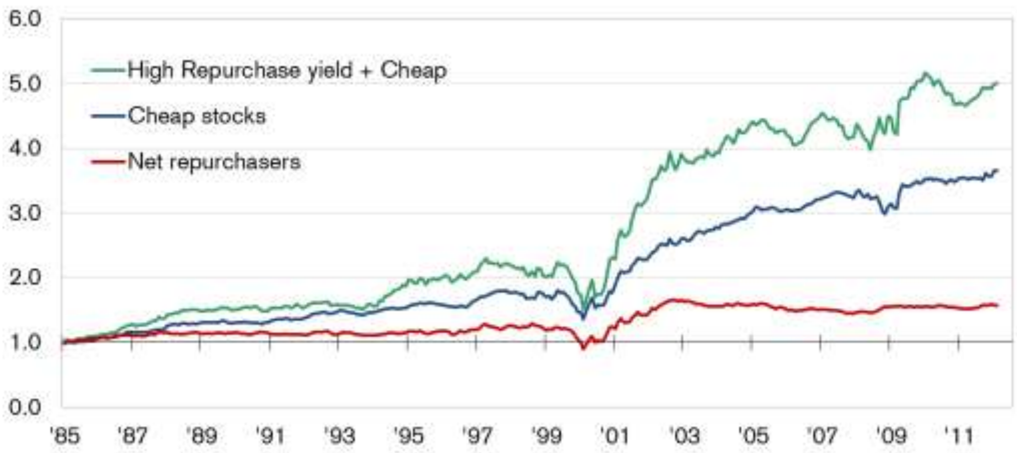


Note: Apple, Cisco, Intel and AT&T are shown for illustration purposes only
Source: HOLT Analysis.

Companies that get it right…understand market expectations, buy back cheap shares on a consistent basis *and* communicate their cash deployment strategy have the most potential to create shareholder value.

To confirm this analysis, we show all stock price returns for US firms that buy back shares (Exhibit 18). We find that the cumulative excess return for all net repurchasers is flat. However, when we look at companies that make large repurchases of shares that look cheap in HOLT, significant excess returns are created for shareholders.

Exhibit 18: Share Buyback Backtest in HOLT (Cumulative Excess Shareholder Returns)



Note: Universe: USA >$1B scaled through time. Back test is long only, rebalanced monthly, and equally weighted. Net Repurchases: Companies that had positive net shares repurchases over the trailing 4 qtrs. High Repurchase Yield: Companies with a repurchase yield (market value of share repurchases over the trailing 4 quarters divided by market cap) greater than the median of all repurchases. Cheap: top quintile of HOLT valuation. Data Date: 01/1985 - 03/12
Source: HOLT

The challenge is most companies are typically not good at timing share buybacks. Shares are bought back in droves at peak stock prices and as stock prices begin to fall, share buybacks are cut. Companies shown below are the exception—they have a proven track record of buying back undervalued shares and currently look cheap in HOLT. They successfully use the share buyback as an alternative to the dividend yield!

Exhibit 19: Share Buybacks that Work (Bloomberg Ticker HTUSBYBK)

		Filters:	>$700M	>14			>0	
Company	Ticker	Industry	Total $Share Buyback Trailing 7 Years	# of Qtrs with Share Buybacks (last 28 qtrs	Average Price Basis of Share Buyback	Current Stock Price	Unrealized Gain on Stock Buyback	Stock Price % Upside in HOLT
WAL-MART STORES INC	WMT	Food & Staples Retail	$45,034	22	$52	$66	$12,240	7%
DIRECTV	DTV	Media	$21,142	24	$29	$44	$11,113	15%
VIACOM INC	VIAB	Media	$9,416	19	$40	$46	$10,862	18%
EXXON MOBIL CORP	XOM	Energy	$168,170	28	$74	$78	$9,871	17%
UNITEDHEALTH GROUP INC	UNH	Health Care	$18,497	24	$43	$55	$5,362	38%
COMCAST CORP	CMCSA	Media	$13,696	26	$21	$29	$5,249	9%
MICROSOFT CORP	MSFT	Software & Services	$79,000	24	$27	$28	$5,055	122%
AMGEN INC	AMGN	Pharmaceuticals, Bio	$26,263	22	$57	$68	$4,727	16%
INTEL CORP	INTC	Semiconductors	$31,799	19	$22	$25	$4,350	75%
PARKER-HANNIFIN CORP	PH	Capital Goods	$2,383	24	$69	$78	$2,760	65%

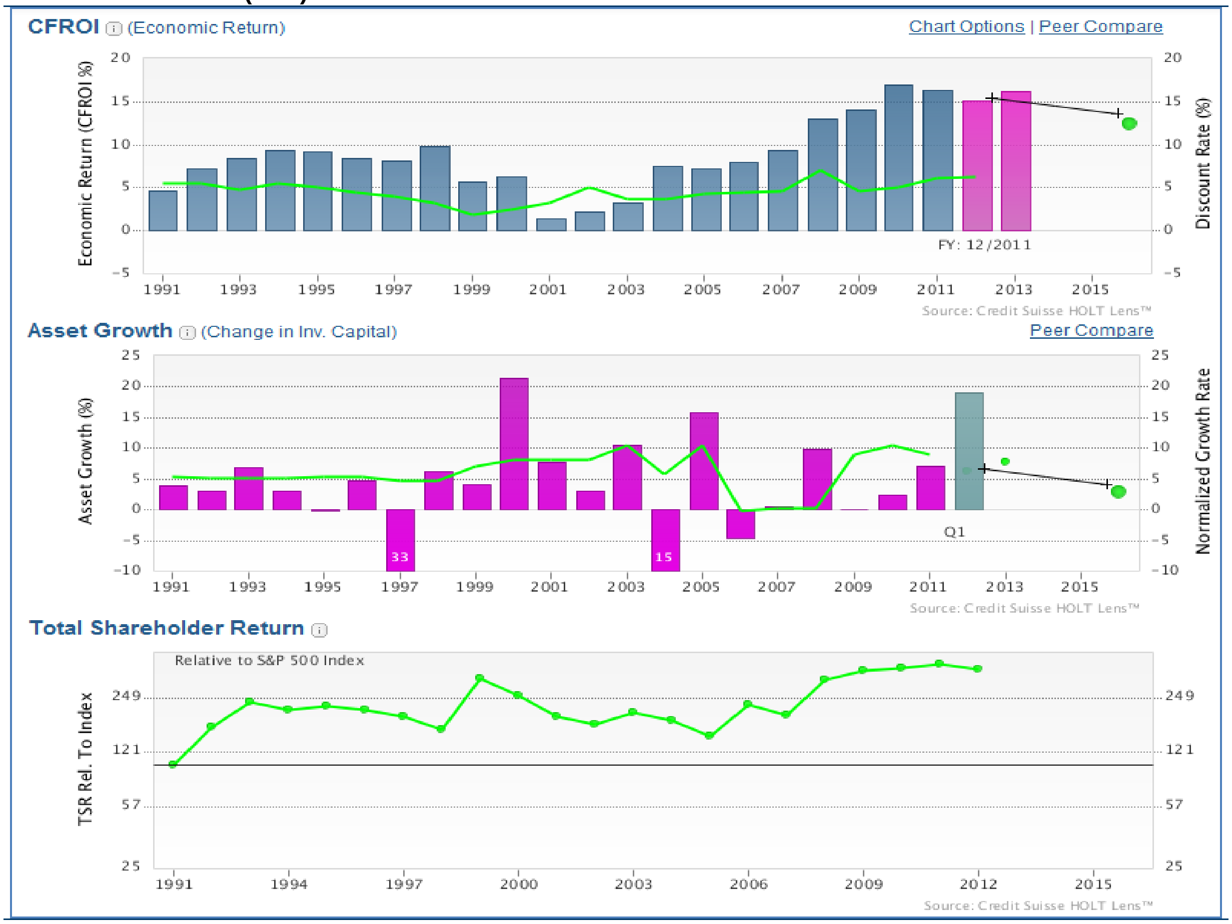
Source: HOLT Lens™ and Factset. USA S&P 500 (ex financials). Screening criteria: Share buyback trailing 7 years > $700M; cost of stock options/dilution <50% of total share buybacks; stock price % upside in HOLT > 0%; positive cash flow less fixed charges. Sorted by unrealized gain (a HOLT calc). Data Date: 6/06/2012. Top 10 companies shown. See Bloomberg ticker HTUSBYBK <Index> for full list.

Case Example: Using HOLT's Relative Wealth Chart to Gauge Share Buybacks

As noted above, gauging investor expectations on operating returns and reinvestment rates (Life Cycle) is crucial when considering uses of capital, such as a share buyback. **HOLT's Relative Wealth Chart** provides this information. As a case example, we have chosen to highlight **Direct TV (DTV).**

The **Relative Wealth Chart** below for Direct TV (DTV) displays the firm's CFROI (top panel, blue bars) relative to its cost of capital (top panel, green line) and asset growth (middle panel red bars). The green dots show the market's expectations for future CFROI levels (top panel) and future asset growth (middle panel) over the next five years. Investors can benchmark these future expectations relative to the historical track record of corporate performance. The bottom panel (line) represents the company's total shareholder return relative to the S&P 500.

Exhibit 20: **Direct TV (DTV) Relative Wealth Chart**



Source: HOLT

Direct TV's Relative Wealth Chart is an interesting example. The company has steadily increased its CFROI to new highs over the past ten years. Given its low reinvestment into the business (middle panel), cash levels and related agency costs could have grown to undesirable levels. However, DTV has repurchased over $21B of undervalued shares over the past seven years to offset the market's expectation for lower growth. The company's share price has significantly outperformed the market over this time frame. In addition, management is quite clear it will continue to return excess cash to shareholders in the form of share buybacks helping to reduce potential agency costs. Given the market's low expectations in HOLT, additional share buybacks should be well received by investors.

Companies Mentioned *(Price as of 15 Jun 12)*
Alcoa Inc. (AA, RESTRICTED)
Alpha Natural Resources (ANR, NEUTRAL [V], TP 11.00)
American International Group Inc. (AIG, NEUTRAL, TP 31.00)
AutoZone, Inc. (AZO, OUTPERFORM, TP 440.00)
Bank of America Corp. (BAC, OUTPERFORM [V], TP 11.00)
Boston Scientific Corp. (BSX, OUTPERFORM, TP 7.00)
Cablevision (CVC)
CF Industries (CF)
Chipotle Mexican Grill, Inc. (CMG, NEUTRAL, TP 450.00)
Cisco Systems Inc. (CSCO, OUTPERFORM, TP 27.00)
Citigroup Inc. (C, OUTPERFORM, TP 48.00)
Diamond Offshore Drilling, Inc (DO)
Discover Financial Services (DFS, NEUTRAL, TP 35.00)
Dollar Tree Inc. (DLTR, NEUTRAL, TP 94.00)
Edwards Lifesciences Corp. (EW, OUTPERFORM, TP 99.00)
Electronic Arts Inc. (EA)
ExxonMobil Corporation (XOM, NEUTRAL, TP 91.00)
F5 Networks (FFIV, OUTPERFORM [V], TP 139.00)
FedEx Corporation (FDX, NEUTRAL, TP 106.00)
Genworth Finl (GNW, NEUTRAL [V], TP 6.00)
Goldman Sachs Group, Inc. (GS, OUTPERFORM, TP 145.00)
Hartford Financial Services (HIG, OUTPERFORM, TP 27.00)
Hewlett-Packard (HPQ, NEUTRAL, TP 30.00)
Intel Corp. (INTC, OUTPERFORM, TP 35.00)
International Business Machines (IBM, NEUTRAL, TP 200.00)
Intuitive Surgical, Inc. (ISRG)
Lorillard Inc. (LO)
Micron Technology Inc. (MU, OUTPERFORM [V], TP 12.00)
Microsoft Corp. (MSFT, OUTPERFORM, TP 38.00)
NextEra Energy Inc. (NEE, OUTPERFORM, TP 66.00)
NRG Energy (NRG, RESTRICTED)
Pfizer (PFE, RESTRICTED)
Philip Morris International (PM, NEUTRAL, TP 90.00)
Procter & Gamble Co. (PG, OUTPERFORM, TP 70.00)
Regions Financial Corporation (RF, OUTPERFORM [V], TP 8.50)
Ross Stores (ROST)
RR Donnelley & Sons (RRD)
Sprint (S, OUTPERFORM [V], TP 4.00)
SUPERVALU INC. (SVU, NEUTRAL [V], TP 4.00)
TJX Cos. (TJX)
Verizon (VZ, OUTPERFORM, TP 45.00)
Visa Inc. (V, OUTPERFORM, TP 140.00)
Wal-Mart Stores, Inc. (WMT, NEUTRAL, TP 58.00)
WW Grainger Inc. (GWW, OUTPERFORM, TP 244.00)

Disclosure Appendix

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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