Dividend Payouts Set To Rise As Companies Focus On Shareholders

(NAPSA)—The number of public companies committed to increasing their dividends is growing, as indicated by recent figures from Standard & Poor's. Among the 7,000 publicly owned companies that report dividend information to Standard & Poor's Dividend Record, the number of firms reporting dividend increases for the second quarter of 2006 rose 4.8 percent and 24.8 percent over the same period in 2005 and 2004, respectively. The results of two surveys recently conducted by Eaton Vance also indicate that finance executives at public companies and individual investors share a positive view of dividends.

In the corporate dividend survey sponsored by Eaton Vance and conducted by Penn Schoen & Berland Associates, Inc., it was revealed that 80% of the finance executives polled believe a firm's dividend growth rate gives investors confidence in the company's projected long-term growth potential. In a separate survey, individual investors agreed that companies which pay dividends are predictable cash generators and said they view dividends as a sign of strength.

So, why are dividends becoming an increasingly popular way for corporations to use cash? Investor expectations have also been altered by the 2001 bursting of the Internet bubble and the ensuing five years of muted stock market returns. As a result, investors have begun "looking for total return, stability, and to some degree, corporate governance," said Howard Silverblatt, senior index strategist for Standard & Poor's Index Services Unit and participant in a recent Eaton Vance panel discussion which focused on the results of the two surveys. "We believe companies will continue to increase their dividends but also that a lot more companies are going to start to feel the pressure and start to pay dividends," observed Silverblatt.

The reduced 15 percent tax rate on dividends introduced in the 2003 Tax Act and extended in the 2006 Tax Relief Act, has also increased the charm of dividends. The tax law, along with increased oversight from Sarbanes Oxley implementation, has elevated the value of dividend payments in the view of corporations. At the dividend panel event, Eaton Vance's chief equity investment officer, Duncan W. Richardson, explained that, because of these factors, corporations are likely to continue to use cash for "shareholder-friendly actions," including buying back stock and increasing dividends.

Yet, this trend is not confined to the U.S. alone, as Mark Weinberger, vice chair of Ernst & Young and overseer of that firm's Americas Tax Practice, remarked at Eaton Vance's dividend panel. "It's a global phenomenon. You see this happening in Europe, too," he said. Weinberger explained that European corporations are becoming more shareholder friendly. "They're getting rid of their excess cash on the balance sheets, and they're spending it on their own businesses or returning it to shareholders in some way," he said.

The fact that the dividend payout ratio remains far below historic norms is another reason for optimism. The current payout ratio—which is the percentage of company earnings paid out as dividends—is 29%. From 1950 to 1989, the dividend payout ratio averaged 50 percent and never went below 38%. The only time it dropped to 38% was in 1979, due to a jump in oil earnings. (Source: Peter Bernstein, CFA Institute article, March/April 2005.) Today, poised at an historic low, the ratio is bound to rise, particularly given that a 25-year decline in the number of dividend-paying companies listed on the S&P 500 Index reversed beginning in 2003 and, since then, dividend increases have outnumbered dividend cuts by 30 to 1. (Source: Standard & Poor's)

With all the good news surrounding dividends, many mutual funds are now choosing to invest in dividend-focused stocks. With 15 funds already focused on investing in stocks that pay dividends, Eaton Vance has long understood the value of dividends in long-term wealth accumulation. As Richardson remarked at the firm's recent dividend panel event, "A well-established dividend growth policy sends a strong signal on the strength of the business franchise."

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