RAYMOND JAMES®

SHARE REPURCHASE PROGRAMS

Understanding best practices and how a share repurchase program can benefit your company

For publicly traded companies – both large and small – the use of a share repurchase, or stock buyback, program offers many benefits. Before engaging a financial firm such as Raymond James to set up a share repurchase program for your company, it would be helpful to know about the technical aspects as well as the best practices. This white paper provides an overview of such details and will assist you in your discussions when getting started.

PROFILE OF COMPANIES THAT ENTER INTO A SHARE REPURCHASE PROGRAM

There is no typical profile for a company that may participate in a share repurchase program. Companies vary in terms of market capitalization size, balance sheet composition and industry sector. Generally however, companies that participate are carrying cash on the balance sheet in excess of what is needed to fund daily operations and growth opportunities. Although some companies who carry debt on their balance sheet choose to repurchase shares, sometimes even borrowing the money to fund a repurchase, when the cost of the financing is attractive in comparison to the accretion generated through the buyback. In addition, participants of buyback programs are often seasoned public companies rather than a company that has only been trading for a short time.

KEY TAKEAWAYS

Publicly traded companies of all market cap sizes and industry sectors often participate in share repurchase, or stock buyback, programs.

Generally, companies that participate in share repurchase programs are carrying cash on the balance sheet in excess of what is needed to fund daily operations and growth opportunities.

One benefit of a buyback program is that reducing the number of shares outstanding can be accretive to a company's earnings per share, making the company more attractive to investors.

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WHAT IS A BUYBACK AND WHY DO IT?

Essentially, a buyback occurs when a company purchases stock on the open market with the intent of removing those shares from the total outstanding. A company should consider the following reasons for entering into a share repurchase program:

- Reducing the number of shares can be accretive to earnings per share, making the company more attractive to investors
- Companies often engage in a buyback program to offset the dilution from employee equity compensation awards
- Appease shareholders seeking to have excess capital returned
- A buyback can help companies to manage capital structure – the debt to equity balance

UNDERSTANDING THE RULES OF A SHARE REPURCHASE PROGRAM

When engaging in a stock buyback, companies must adhere to the Securities and Exchange Commission's (SEC) Rule10b-18. Essentially, companies must establish a program that falls within four conditions of the rule. These conditions cover the manner of purchase, the time of the repurchases, the prices paid and the volume of shares repurchased.

Companies also need to consider corporate trading windows when repurchasing stock. Most publicly traded companies have a policy that restricts trading in company shares (a "blackout policy") beginning two weeks prior to the quarter end through 48 hours after earnings are released publicly. What if, however, the price was falling during this time frame due to market conditions, and you as an executive managing the buyback program want to be able to buy during the closed period?

To address this issue, it is recommended that corporations wrap their share repurchase program into a rule 10b5-1 plan, which allows for defined purchases during a closed trading period. This allows a company to participate in the market during the blackout while providing a safe harbor against insider trading claims.

10b-18 DEFINED

- **Manner of purchase:** The company must purchase shares through a single broker or dealer during a single day.
- **Timing:** A company with an average trading volume less than $1 million per day or a public float value below $150 million is unable to trade within the last 30 minutes of trading. Companies with higher average-trading-volume and public float value can trade up until the last 10 minutes.
- **Price:** The company must repurchase at a price that does not exceed the highest independent bid or the last transaction price quoted.
- **Volume:** The company cannot purchase more than 25% of the average daily volume as measured over the previous four weeks.
- **Block Exclusion:** The company may make one "block" purchase per week and not be subject to the 25% volume limitation, provided the "block" purchase is the only Rule 10b-18 purchase made on that same day.

BEST PRACTICES

- The best way to manage a buyback is always to be prepared. Even if you're not ready to get in the market just yet, put a 10b5-1 plan in place so you are covered when an opportunity arises.
- Consider block executions under the 10b-18 exemption when the opportunity presents itself if the stock price is at an attractive level, especially for less liquid companies.
- If a buyback is the best use of capital at the time, get aggressive during periods of stock price weakness.
- Provide some discretion with regard to the actual number of shares to be repurchased at various price points to enable the trader to better manage the achieved execution price (typically accomplished through a clause in the plan that allows a range +/- 10% to 20% above or below the volume targets within the trading algorithm).

EXECUTING SHARE REPURCHASE PROGRAMS

When engaging in a stock buyback program, companies should partner with financial firms such as Raymond James that have a full suite of capital markets capabilities including: research, investment banking, as well as sales and trading platforms. Most publicly traded companies have a number of firms serving as lenders and capital market partners. Oftentimes, companies work with their credit providers for buyback execution along with one or two capital market partners that are not lenders, but provide high quality research coverage and support within the institutional investor arena. Some companies choose to work their buyback execution through one exclusive partner, while others rotate their execution through several providers.

Suggested advice: Leverage the expertise of a tenured buyback specialist team to determine the optimal capital management strategy and proper execution best suited for your company.

No matter your goal of engaging in a stock repurchase program – to return capital to shareholders or offset equity compensation dilution – investors generally perceive them as a positive move designed to benefit shareholders. Working with an experienced execution partner will help you design and structure a program that is right for your company and maximizes value creation for you and your shareholders.

10b5-1 DEFINED

A rule established by the Securities and Exchange Commission (SEC) that allows publicly traded corporations and their employees to transact in company stock through a written plan that defines a number of shares, price points and timing for trades. Such a plan allows for companies to transact through blackouts while providing an affirmative defense against accusations of insider trading.

Meet our team, and learn how the experts at Raymond James can provide customized solutions for your business at RJCES.com.

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