

Special Report

US Buybacks: Identifying Winners Amid Slowing Momentum



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US Buybacks – Key Takeaways

Buybacks have been strong catalysts in supporting stock prices

Buybacks have evolved into the primary method for US companies to distribute cash to shareholders over the past two decades. Buybacks by US corporations increased, reaching a peak of \$923 billion in 2022. However, a 22% dip in H1 2023 signals a slowdown amid limited earnings growth and inflated prices. Information Technology firms are at the forefront of this trend, actively engaging in substantial share repurchases. Conversely, the financial sector, experienced a reduction in buybacks in 2022 and might curtail future repurchases to safeguard dividends.

Buyback index outperforms S&P500 equal-weighted index

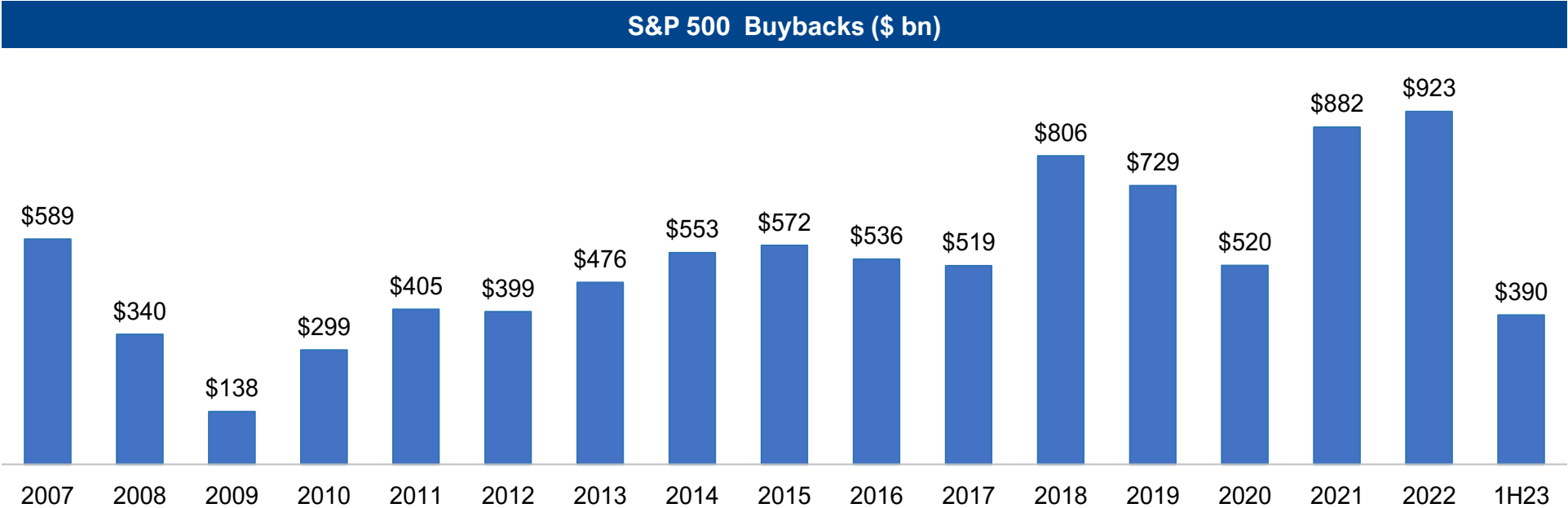
Share buybacks historically show strong returns, with the S&P 500 Buyback Index outperforming the broader S&P 500 for the past decade. The S&P Buyback FCF Index, focusing on high free cash flow-yielding stocks, consistently outperformed the S&P 500 Buyback Index over the last 15 years.

Companies with strong balance sheet and FCF to continue buybacks

We identified companies with a strong track record in buybacks and have a robust balance sheet, favorable ROE, prudent debt management, and a consistent generation of substantial free cash flows. We believe these companies are likely to outperform aligning with the S&P Buyback index's historical outperformance over the broader market.

Buybacks have been strong catalyst in supporting stock prices

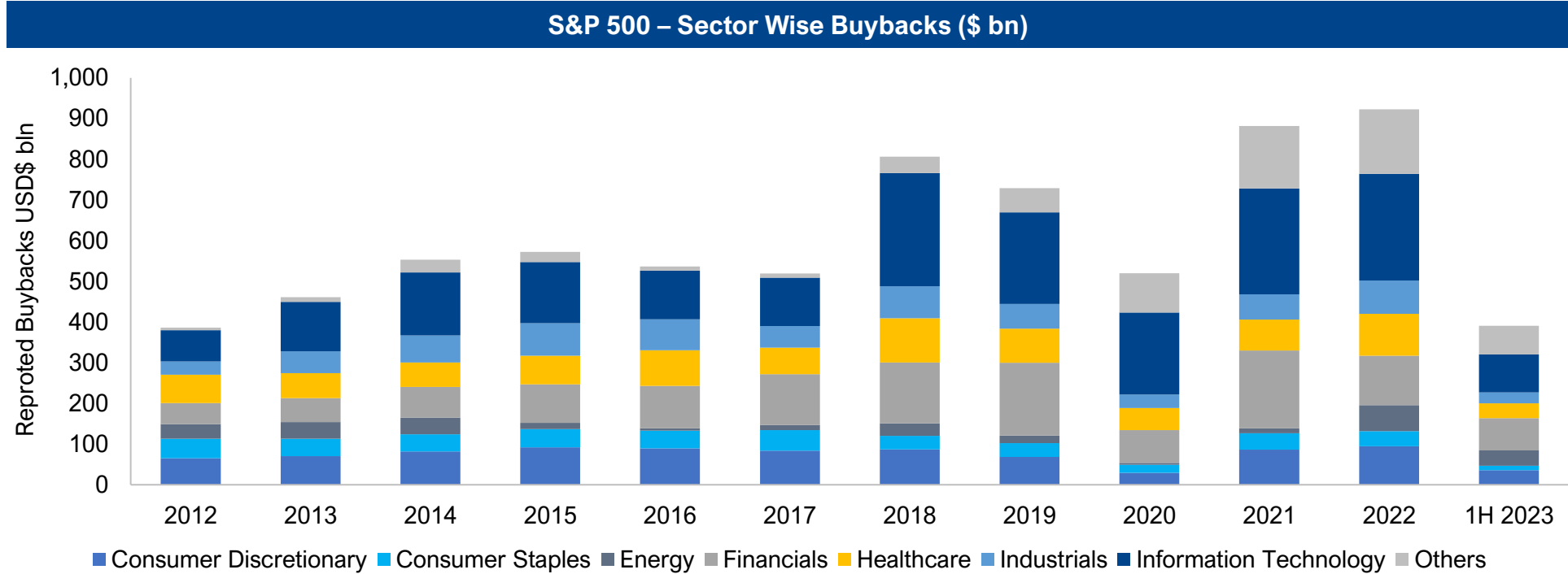
- Buybacks have become the primary method for US companies to return cash to shareholders in the past two decades. During the five-year period leading up to 2022, corporations listed on the S&P 500 Index allocated a substantial \$3.9 trillion towards repurchasing their own shares, surpassing the \$2.5 trillion disbursed in dividends during this period.
- Despite rising interest rates and potential earnings challenges, buybacks announced by S&P 500 companies surged to a record high of US\$923 billion in 2022, registering a notable 8.75% CAGR over the past decade.
- However, this momentum is waning as buybacks have been down 22% in the first half of 2023 compared to the same period last year. The outlook for the rest of the year has become less favorable due to limited earnings growth as well as already inflated prices and valuation.



Source: S&P Global

IT, financials and healthcare constitute more than half of all buybacks

- IT companies aggressively repurchased shares as robust growth, higher profit margins, low CapEx requirement, and high cash balance supported buybacks.
- Buybacks from IT companies have grown 3.4x over the last ten years and represented more than 28% of all buybacks in 2022.
- Financials' buyback declined in 2022 over rising concerns about banks and new regulations. Financials may restrict current buybacks to protect dividends.

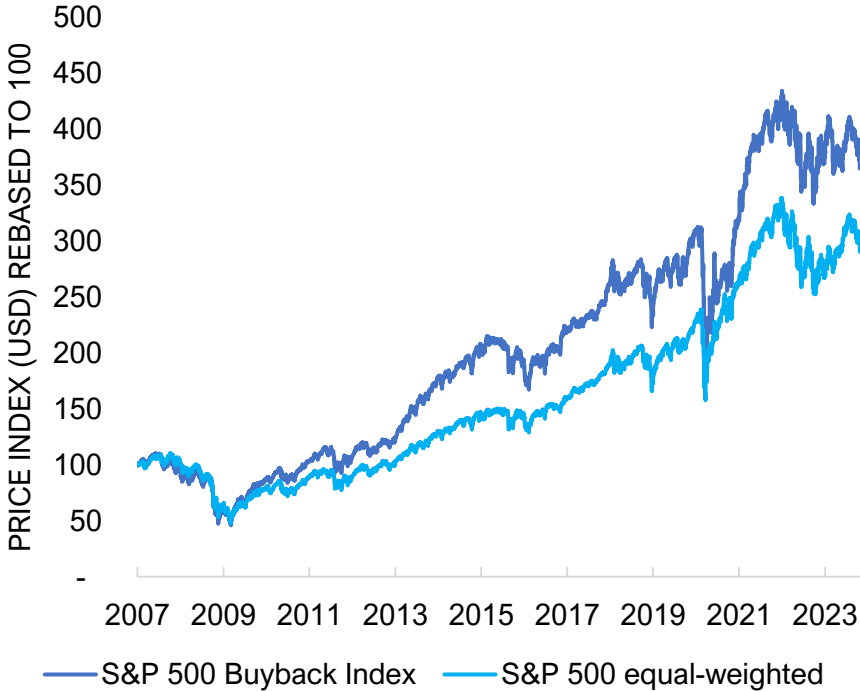


Source: S&P Global

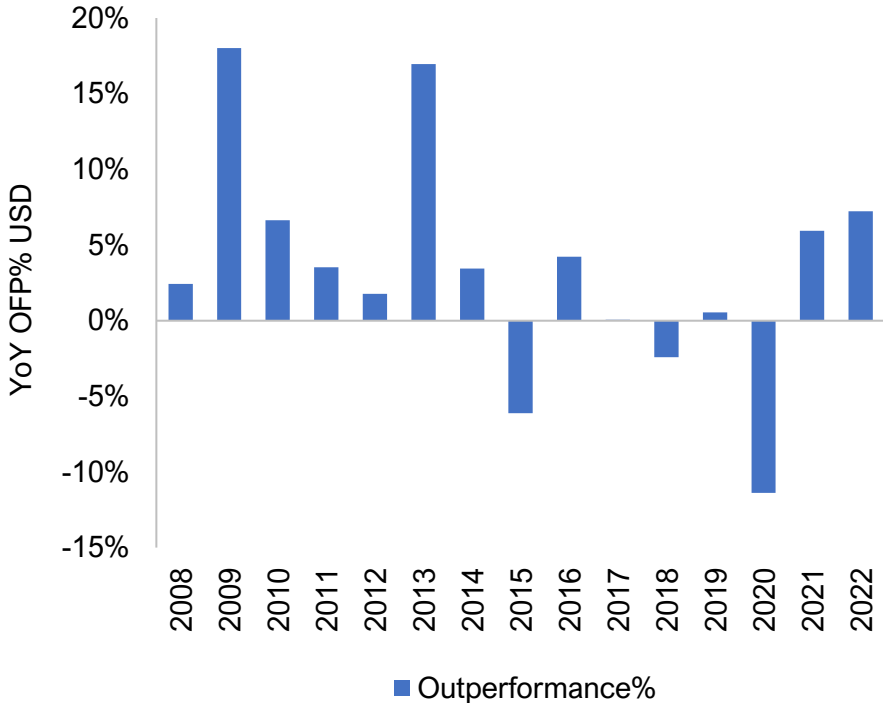
Buyback index outperforms S&P500 equal-weighted index

- Historically, companies engaged in share buybacks have consistently generated superior returns.
- Since 2007, the buyback index has delivered annualized US dollar returns of 8.1%, outperforming the S&P500 equal-weighted index by 1.4%.
- The buyback index has outperformed S&P 500 in 12 of the past 15 years.

S&P Buyback Index vs S&P 500 Equal-weighted Index



S&P Buyback Index vs S&P 500 Equal weighted index - Outperformance

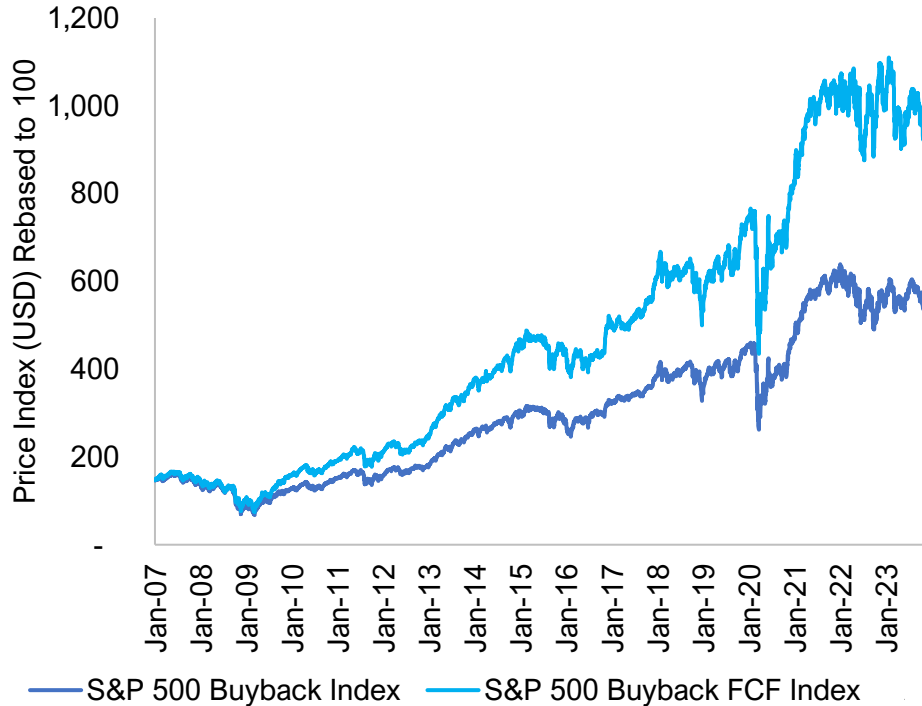


Source: S&P Global, Eikon

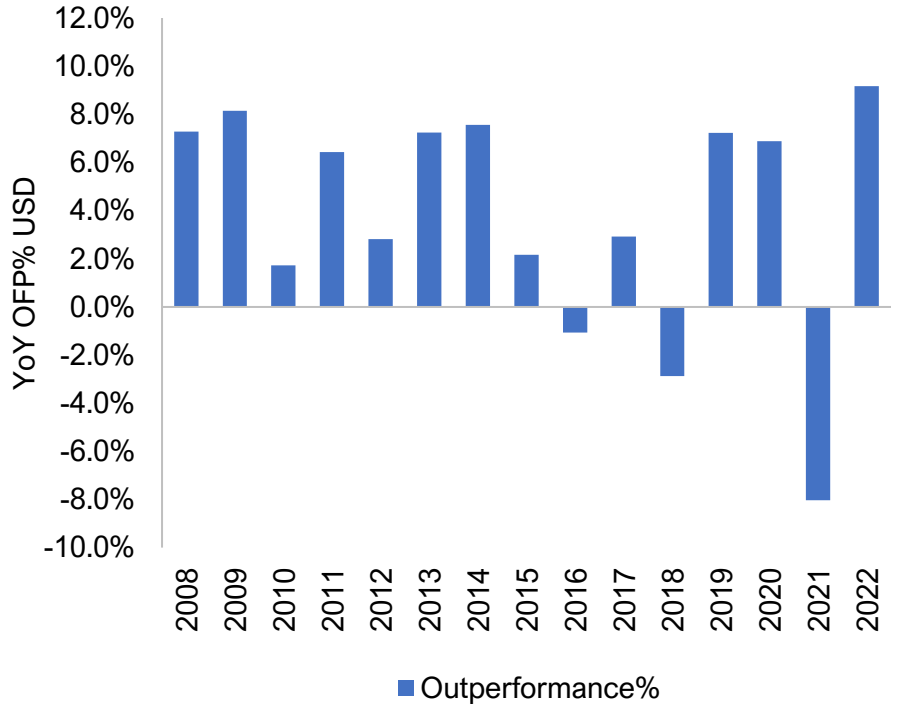
Buybacks supported by strong FCF tend to outperform

- The S&P Buyback FCF Index, which measures the performance of the top 30 stocks with the highest free cash flow yields in the S&P 500 Buyback Index, outperformed (11.6% CAGR) the S&P 500 Buyback Index (8.1% CAGR) since 2007.
- The S&P Buyback FCF Index has outperformed the S&P Buyback Index in 12 of the last 15 years.

S&P 500 Buyback FCF vs Buyback Index Returns



S&P Buyback FCF vs S&P 500 Buyback- Outperformance

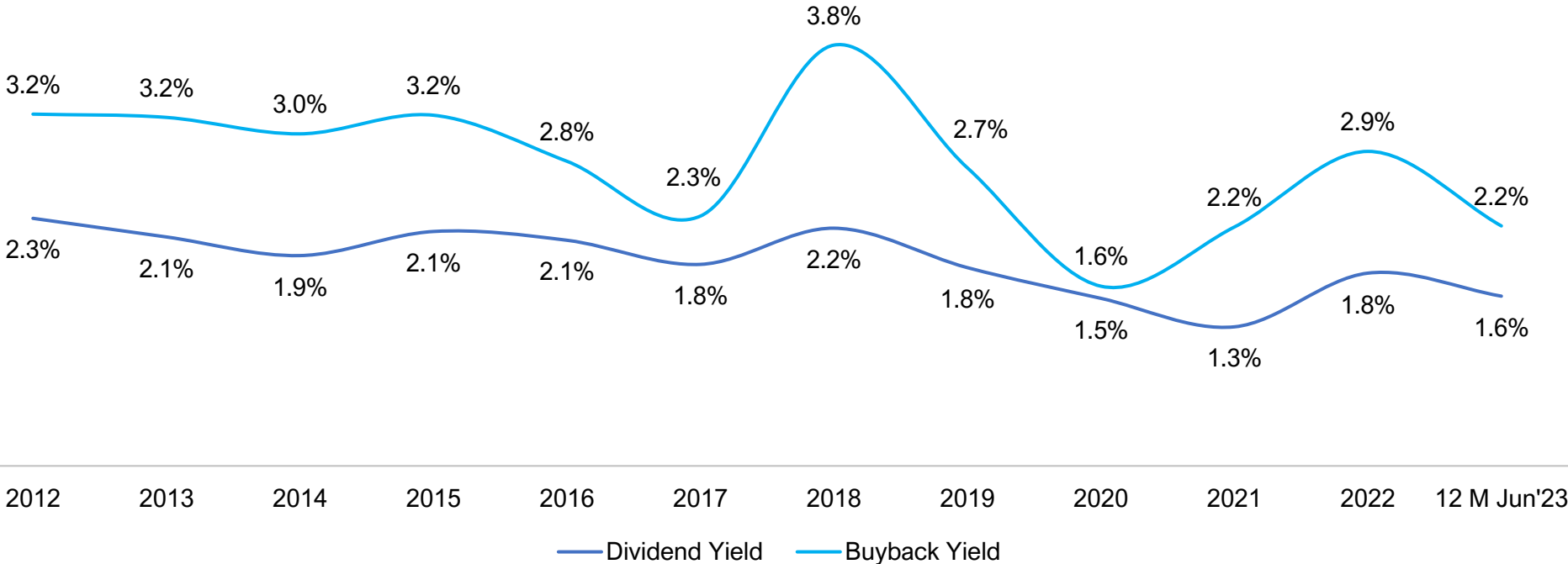


Source: S&P Global, Eikon

Contracting buyback yield amid economic concerns

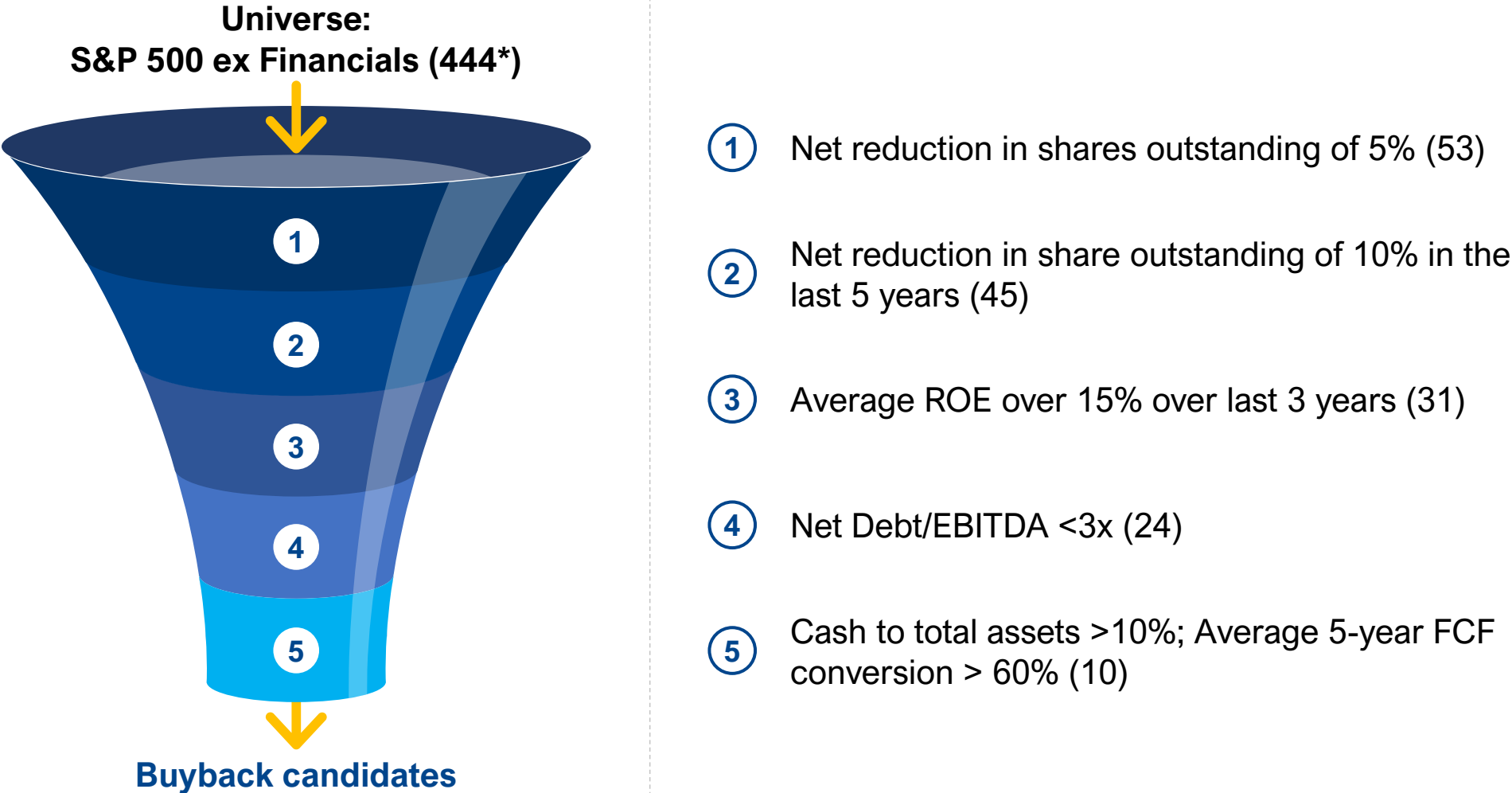
- Buyback yield rebounded to 2.9% in 2022 from its COVID low. However, the potential for a recession, high-interest rates, and changing tax treatment related to buybacks may lead companies to restrict dividends and buybacks.
- Elevated valuation and companies anticipating earnings pressure might prioritize retaining cash over buybacks as they reassess their capital allocation strategy.

S&P 500 – Dividend and Buyback Yield



Source: S&P Global

Screening buyback candidates with strong balance sheet and cash flow



* denotes the number of companies post screening criteria

Buyback stocks

We prefer following companies that have a strong balance sheet and healthy cash flow and can reward shareholders by returning excess cash through buybacks, even in a difficult environment.

Company Name	Ticker	Market Cap (\$ Bn)	Cumulative Buybacks in 5Y (\$ mn)	ROE 3Y Avg	Net Debt/ EBITDA	Cash/ Assets	5Y avg. FCF Conversion	FCF Yield TTM
Booking Holdings	BKNG	109	22,245	42%	(0.0)	52%	137%	6.8%
Nucor Corp	NUE	39	7,179	37%	0.2	17%	84%	15.5%
eBay Inc	EBAY	21	24,325	52%	0.6	12%	255%	10.6%
NVR Inc	NVR	20	4,954	42%	(0.7)	46%	100%	8.7%
Pultegroup Inc	PHM	19	2,712	27%	0.4	12%	70%	16.8%
Steel Dynamics Inc	STLD	18	3,840	45%	0.2	12%	69%	12.6%
Expeditors International	EXPD	17	2,761	39%	(1.7)	36%	101%	7.6%
CF Industries	CF	15	2,617	41%	0.1	21%	132%	14.4%
Fox Corp	FOX	14	4,601	16%	1.0	18%	129%	7.3%
Ralph Lauren Corp	RL	8	2,216	17%	0.0	21%	120%	6.8%

Source: Eikon



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