Stock Buybacks:

What corporations are not telling you

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Table of Contents

Executive Summary

Trillions of dollars of shareholder wealth have been spent on nonproductive buybacks since rules were liberalized in 1982—and much of it has been wasted. Just since 2010, over $3 trillion of shareholder cash has been withdrawn from corporate accounts and sent to the stock market for buybacks, generating zero tangible benefit for shareholders.

We will establish in this report that stock buybacks are wildly excessive, and that investors are being harmed. Among those harmed include index fund investors, pensions, retirees, and unsophisticated investors. Among those that benefit from buybacks include corporate insiders—primarily executives and boards of directors.

The proximate cause for buyback excess can be traced to two factors, each of which we'll cover in detail in this report:

1. **Rule 10b-18:** This 1982 SEC rule change gave safe harbor to what had previously been considered illegal market manipulation, namely, the open-market purchase of stock by corporations.

2. **Executive incentives**: Executives aggressively pursue buybacks because of poorly designed incentives that focus on short-term metrics, at the cost of long-term value creation.

Compounding the problem for investors is a notable lack of disclosure. Shielded by Rule 10b-18, corporations do not tell shareholders about the risks involved with buybacks, nor is it necessary to ask shareholder permission to engage in buybacks.

The purpose of this report is to inform investors. We'll explain how buybacks are subject to executive conflicts of interests, increase risk for shareholders, and create additional shareholder burdens that have never fully been explained or disclosed.

Findings:

We engaged in a detailed study of buybacks, focusing on the 30 companies in the Dow Jones Industrial Average from 2014 to 2016. We reviewed all relevant disclosures, including 10Qs, 10ks, and proxy statements. A compilation of the data we collected is included the addendum to this report, in Schedule B. Relevant disclosures for all 30 companies is also included in the addendum, in Schedule C.

Here is a summary of our findings, based on the proofs discussed in the corpus of this report as well as our detailed look at the buyback process:[2]

- Buybacks are a wash. No tangible value is conveyed to shareholders as a result of buybacks. Cash is withdrawn (reducing the value of the corporation), which is offset by a stock buyback (the purchase and subsequent retirement of shares). Shareholders receive the rough equivalent of a long-term call option on the stock.

- Buybacks increase risk for both corporations and shareholders. Cash is withdrawn and sent to the stock market, leaving corporations with increased leverage. Of the nonoperational choices available to corporate executives for

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[1] Because of Rule 10b-18, there is no shareholder vote.

[2] We included a summary of proofs in Schedule A, "Theory, Process & Proofs" in the addendum to this report.

excess cash—pay dividends, pile up cash (do nothing), and buybacks—the most aggressive, riskiest choice is a buyback.

- Buybacks are a nonproductive use of capital. There is never a business reason for a buyback. There is also no hope of a payback for the corporation. For almost any other use of capital—mergers, acquisitions, expansion, new products, innovation, etc.—there is at least the possibility of a payback for the corporation.

- Buybacks constrain innovation and reinvestment. Prior to Rule 10b-18 in 1982, corporations reinvested about 50% of their income back into the business to maintain their competitiveness. We found that the Dow 30 companies spent, on average, 126% of their income on buybacks and dividends during 2014-2016, with no income left over for reinvestment. Reinvestment was funded by increases in debt, asset sales, and other balance sheet maneuvers.

- Shareholders are completely shut out of the decision-making process. With legal cover provided by Rule 10b-18 (full and fair disclosure is not required), executives send material amounts of cash to the market for buybacks, without consulting or advising shareholders about the risks involved. Corporations withhold or delay disclosure of material information about their buyback activity.

- Conflicts of interests: We found that decision-makers – corporate executives, including boards of directors – are subject to substantial, undisclosed conflicts of interests to engage in buybacks.

- Misinformation and misrepresentations: We will show you common examples of corporate representations that range from puffery to falsehood. These include buyback claims of “reward,” “value creation,” and “returning cash” or “capital” to shareholders.

- Corporate boards risk a shareholder backlash if and when shareholders grasp what really happens in a buyback, i.e., how it increases shareholder risk, how shareholder burdens increase, how buyback information is not fully explained and disclosed, and how executives are subject to substantial, undisclosed conflicts of interest.

Recommendations:

- Repeal of Rule 10b-18 is long overdue. The rule is harming investors in ways not disclosed or explained to them, as we show in this report. Among those incurring the greatest damage: Index fund investors, pensions, retirees, and unsophisticated investors.

- Corporate disclosures: Whether or not the SEC acts to change Rule 10b-18, corporations should promptly improve disclosures to avoid an investor backlash.

- Incentives are in need of an overhaul. Incentives are anti-innovation and nonproductive due to an overemphasis on near-term metrics, to the exclusion of long-term value creation. Cost-cutting, buybacks and other financial maneuvers are favored by executives who are motivated by lucrative incentives.

Chapter 1. Elements of a Shell Game: Where's the Cash?

Stock buybacks share many of the same attributes as a shell game, each of which we'll cover in detail in this report:

- ✓ A flurry of action (not fully explained to participants)
- ✓ Vanishing cash
- ✓ Swap of cash for something of less value

One way to avoid being victimized in a shell game is to figure out how the game is played. By slowing down the flurry of action and sequencing the game in frame-by-frame increments, one can methodically take apart the process and evaluate each piece to the puzzle.

When it comes to buybacks, this appears to be the best way for investors who want to protect themselves: Take your time to look at and consider each part of the buyback process, to see how it all fits together.

Disclosures concerning buybacks are murky at best, and investors are left to dig and research on their own to find out exactly what's going on when a company engages in a stock buyback.[3] (In Schedule D in the addendum to this report, we teach investors where and how to look up buybacks for any particular company.)

Executives can get away with meager disclosures, as long as the broad exemption granted by the SEC in 1982 remains in place. So it's up to you, as an investor, to independently study buyback schemes. We can assure you it's not an easy subject to master.

With that caveat in mind, let's push forward in pursuit of a better understanding of the buyback process. We're going to look at buybacks from a variety of angles.

Executives have total control over shareholder cash

Imagine if someone had authority over your savings account, and could reach in and take out any amount of cash they desired, without telling you, without seeking your permission, and swap it for something else. Needless to say, you'd be upset.

Your savings account is your property, and you expect your property to be protected, not subject to ad hoc withdrawals. Imagine, too, that upon discovering your cash was withdrawn and replaced by another asset, you find out that the new asset is of lesser value.

That, in a nutshell, is what happens with buybacks.

The Candy Store example

Another angle, same theme: You're a partner in the Candy Store.

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[3] Many companies refer to them as "share repurchases." These terms are interchangeable; for this report, we will use "stock buyback" or simply "buyback."

[4] Rule 10b-18, which allows corporations to repurchase their own stock, by providing "issuers with a 'safe harbor' from liability for manipulation when they repurchase their common stock in the market in accordance with the Rule's manner, timing, price, and volume conditions," according to the SEC. The same rule also allows companies to not disclose buybacks until well after they are executed.

Without telling you or seeking your permission, the Candy Store manager withdraws most of the cash from the business, and uses it to buy out the interest of one of the other partners. The net result: You own a higher percentage of the business.

It might be a good deal, or, maybe it's not. That's not the issue here. The problem is that your employee took it upon himself to withdraw cash that technically belongs to you and used it to buy out one of your partners without first seeking your approval.

There's more: You don't find out about the swap when it happens, but much later, when you get the quarterly results several weeks after the end of the quarter. It's not clearly disclosed, either. The transaction is buried among other details attached to Candy Store financials.

And now for the punch to the gut.

It concerns the manager of the store, the person who regularly told you that he'd look out for you—and that he'd always act in your best interests. In this scenario, it turns out that he scored a personal windfall profit on the deal, something he didn't disclose or explain to you.

Everybody is into buybacks

You might wonder, with 30 out of 30 Dow companies devoted to buybacks during the period that we studied, 2014-2016, why were there no exceptions? Isn't there a company devoted to, say, paying out its rich vein of cash solely through dividends? Or how about debt repayment? Why aren't there companies focused on debt repayment instead of buybacks? (You'll see many examples of companies increasing debt to fund buybacks in pages to follow.)

Why not? It's because executives are not incentivized to do so. This is the easy way to get an incentive bonus when earnings don't grow: Shrink the number of shares through buybacks. Take cash out of the corporation and send it to the stock market for buybacks, and earnings per share go up. It's a metric that routinely determines the bonus for many executives.

The problem: By having unchecked control over buybacks, executives have unchecked control over their own incentive compensation.

We'll pick apart executive incentive plans in Chapter 3, but you can probably already see what's coming. Executives are richly incentivized to pursue buybacks to the exclusion of all else. This is a substantial conflict of interest that's neither disclosed nor explained to shareholders.

What exactly happens in a stock buyback?

Let's start with the basics: When you buy stock, you're buying a legally enforceable claim on the net assets of a corporation. After debts are paid (debt holders have priority), the assets belong to you, the shareholder. It is your property, pro rata. When you buy a share of Starbucks, you become part-owner of a wonderful business, along with thousands of other shareholders. You have a legally enforceable claim on the net assets of Starbucks. It's *your property*.

We want to encourage investors to begin to think and feel like property owners, empowered with the status and property rights that go with it. You are not subservient to

corporate executives who are, to be blunt, your employees. Just like the manager in the Candy Store example, corporate executives work for you.

What about the board of directors? It's the same deal. You're the owner and the board is accountable to you.

The power and status of shareholders as owners was well established before the SEC changed the rules in 1982. Buybacks were appropriately subject to the checks and balances that normally serve to protect property owners.

Before 1982, executives could design a buyback plan, but it required significant hurdles. First, a tremendous amount of disclosure was required, including the number (or at least a range) of shares to be bought, together with a budget and a time frame. And the buyback plan couldn't be put in place until shareholders voted to approve the deal.

But since the 1982 change in rules, there are no longer any checks and balances built into the system.[5] With so-called "open market purchases" (the technical term for buybacks that are the focus of this report) there is no shareholder vote, no accountability, and critical information is kept hidden from shareholders.

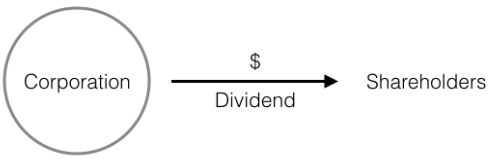
Simplicity is beautiful and buybacks are not

Buybacks are complicated affairs—certainly much more complicated than dividends.

Let's compare the two and you can see for yourself. You'll see how the unnecessary complexity of buybacks plays into our shell game comparison. When there is a flurry of action going on, with no accompanying explanation of the process, it makes for an environment where an unsuspecting participant can be exploited.

The action for both dividends and buybacks begins with the same first step: *A withdrawal of cash from the corporation.*

Shareholders, don't skip the first step without thinking it through: This is your property that's being withdrawn. Cash belongs to you by virtue of your shares in the corporation. Executives can do just about anything with cash in the name of operations; for example, they can squander cash on ill-conceived projects. But that's not the case here.



Dividends and buybacks have nothing to do with operations. When buying back stock, executives are essentially saying that excess cash has accumulated, and it's cash that's not needed to operate the business. Which makes it reasonable for shareholders to carefully scrutinize how it's handled. So-called "excess cash" is the source of both dividends and buybacks.

Dividends are simple: A withdrawal of cash, followed by a distribution directly to shareholders. Cash is not diverted to the stock market, and it doesn't get swapped for a different type of asset.

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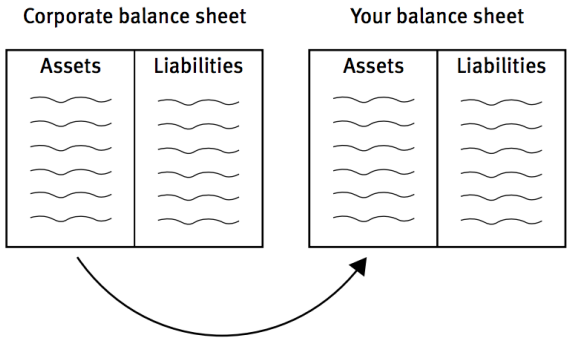
[5] *Profits Without Prosperity*, William Lazonick, 2014

Dividends are clean and simple.

Another way to look at dividends: Your property is merely being shifted from one asset that you own (the corporation) to another asset that you own (your brokerage account). Cash goes from the corporation's balance sheet directly to your personal balance sheet.



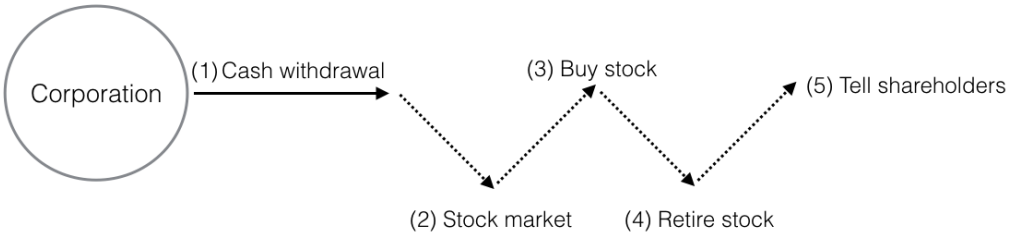
How should you think about risk when it comes to dividends?

Risk increases for the corporation when it pays a dividend. Cash is withdrawn from the business, so it's more leveraged. The cash cushion is smaller than before, increasing risk.

The beauty of a dividend, though, is that you're being compensated for the increase in risk. Even though you own stock in a corporation that suddenly has more leverage, it's okay with you. You've been paid. The cash is in your pocket.

The mechanics of stock buybacks

As you can see below, there are five identifiable steps in the buyback process.



As with dividends, the first step in a buyback is the withdrawal of cash; from there the process is complicated.

Step two: Cash is diverted to the stock market. There, it's soon used to buy stock (step three), after which the shares are retired by the corporation via an accounting book entry (step four).

Step five, the last and final step: Inform the property owners (shareholders). Unfortunately, informing the owners appears to be an after thought, accomplished via difficult-to-find disclosures.[6] And it doesn't happen until weeks after the end of the quarter.

How should you think about risk when it comes to buybacks?

Begin with the first step, which is the same for dividends: The cash leaves the building. You now own shares in a corporation that has more leverage. The cash cushion is not as thick as it was before.

But here's the differentiating factor that sets buybacks apart from dividends. With dividends, you're compensated for the added risk because you've got possession of the cash. You're happy because it's in your pocket, and you're free to spend it or invest it as you see fit. You're even free, if you so desire, to buy more shares in the corporation. It's your choice.

But buybacks work quite differently. Cash is withdrawn and it's not sent to you. Executives have made the choice on your behalf. They've decided that, rather than receiving cash, you'd prefer a stock buyback.[7] So cash gets diverted to the stock market, never to be seen again. The corporation is poorer by the amount of cash that's been withdrawn. And now you own a more highly leveraged asset. But, unlike dividends, you don't get any cash.

Why are buybacks the riskiest strategy for shareholders?

The choices facing executives when it comes to extra cash include (1) paying dividends, (2) pile it up (do nothing), and (3) buybacks. To be sure, there's nothing wrong with a do-nothing strategy. Cash remains in the corporation, so it remains shareholder property; a do-nothing strategy essentially allows it to pile up for later use, like paying down debt, which would lower the corporation's risk.

By choosing buybacks over dividends and a do-nothing strategy, executives are choosing the most aggressive, riskiest alternative, something that is undisclosed and unexplained to shareholders.

It's aggressive because what you get is the rough equivalent of a long-term call option on the stock. Unlike a dividend in which you get cash, you get no immediate tangible benefit from a buyback. It's a future benefit. If the business does well, you're apt to make a higher return, and if the business does not grow, much of the cash spent on buybacks is likely to be unrecoverable.

There is nothing wrong with making an aggressive bet. An aggressive bet, when well placed, is an important weapon in a sophisticated investor's arsenal. The problem with buybacks is that an aggressive bet is being made on your behalf, using cash that

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[6] Of the 30 Dow companies that we reviewed, not one had easy-to-find and thorough buyback disclosures. Instead of piecemeal disclosure, it would be helpful if corporations had a "buyback section" in their 10k with all of the relevant information.

[7] Shareholders are shut out of the buyback decision-making process. Executives, including the board, make a unilateral decision to engage in buybacks, without input from shareholders.

[8] Innovation is always a choice for cash too, a topic we'll cover later in this report. Innovation is part of operations, and here we're focused on non-operational uses of excess cash.

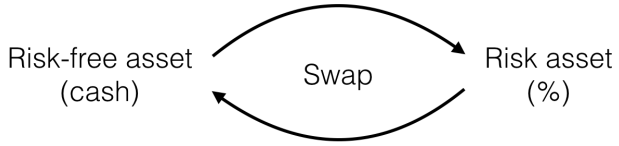
belongs to you, without asking you in advance and without having you sign off on the deal.

So what do you get from the buyback, exactly? Your cash (a tangible asset) is swapped for a different type of asset. You get an intangible asset, a higher percentage ownership in the corporation. We'll look at the swap from four angles.

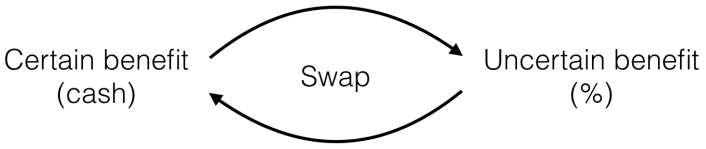
The key action with buybacks: "The Swap"

To compress the steps of a buyback into one, it's ultimately a swap of shareholder cash for an increased ownership percentage. As we said with shell games, it's important to slow down the action and look at it carefully. So let's look at the swap from different vantage points, to facilitate our understanding of the action.

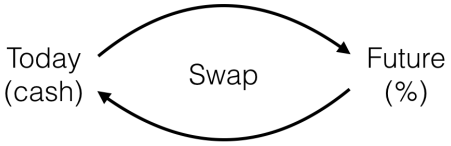
RISK In a buyback, a risk-free asset – cash withdrawn from the corporation – is swapped for a risk asset, an increased ownership percentage for shareholders. It works like a long-term call option.



BENEFIT With cash, you know what you have. It's measurable and certain. It's swapped for something that's speculative, that has no immediate tangible value.[9] You can recover the cash spent on buybacks if and when the business grows in value, and that takes time.



TIMING You can do things right now with cash (e.g., pay bills, make purchases, diversify). Cash has unlimited optionality. You can't pay bills with a percentage. In order to make a percentage useful, you have to reverse the swap, selling stock in order to get cash.



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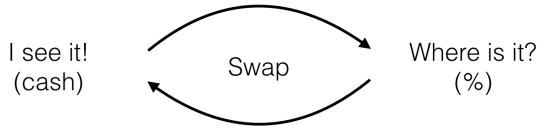
[9] At no juncture in the buyback process is value created for shareholders.

VISIBILITY Before it's swapped in a buyback, cash is visible to the shareholder. If it's in the corporation, you see it on the balance sheet. If it's paid to you in the form of a dividend, you see it on your brokerage statement. With buybacks, you don't know what you get, or when you get it. It doesn't show up on your brokerage statement.



Why can't we just trust corporations to be careful with buybacks?

We couldn't find any evidence that the interests of non-insider shareholders were considered when executives at the Dow 30 companies made plans for buybacks during 2014-2016. Specifically, we couldn't find any comments, or any other indication that executives or board members made buyback decisions in light of the vast diversity of their shareholder bases.

Thousands of different shareholders, with different needs and concerns, own the companies that make up the Dow Jones index. This includes speculative, short-term oriented investors, like certain hedge funds who see buybacks as way to boost the stock. But there are scores of other investors whose voices are being ignored.[10] These include shareholders who don't like buybacks, especially in the current environment, with no controls (checks and balances) in place to protect shareholders.

Dow companies have an incredibly diverse base of shareholders, including pension funds, which have long-tail liabilities. Pensions are more interested in protecting their property than in goosing the stock price through increased leverage. The same goes for many retirees, and other risk-averse conservative investors.

If the 30 companies had sent cash to shareholders, instead of spending it on buybacks during 2014-2016, dividends yields would've averaged over 9% annually at General Electric, McDonald's, and 3M. (We'll discuss the numbers in detail in Chapter 4.)

There are scores of shareholders not getting any of the billions of dollars spent on buybacks. Remember the credit crisis? Lehman Brothers spent $1 billion on buybacks in 2008, just months before they suddenly went under, all the while assuring shareholders that they were solid.

In February 2008, Lehman's CEO Richard Fuld wrote in the company's annual report that "In 2007, Lehman Brothers produced another year of record net revenues, net income, and earnings per share and successfully managed through the difficult market environment."

By the end of the year, however, the company would be out of business. As The

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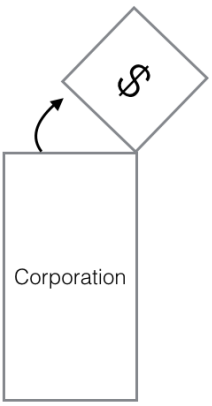
[10] Such as Larry Fink, CEO of BlackRock with over $5 trillion assets under management, and Tim Armour, CEO of Capital Group, with over $1.5 trillion under management.

Economist reported in 2014:[11]

> *In the six months to May 2008, as Lehman Brothers faced a cash crunch that would end in its bankruptcy, it blew $1 billion on buying its shares. In all, America's financial sector repurchased $207 billion of shares between 2006 and 2008. By 2009 taxpayers had to inject $250 billion into the banks to save them.*

Shareholders probably want to know: What else haven't we been told?

Corporations have not told shareholders about the risk inherent in buyback schemes (each and every dollar going into buybacks increases risk[12]), and they've failed to disclose how executives are subject to substantial conflicts of interest when making buyback decisions. So you might be wondering: What else have corporations neglected to explain to shareholders?



Quite a lot, it turns out.

First, it's never been properly explained to shareholders that they don't receive any tangible value from a buyback. Buybacks are a "wash."

A swap of shareholder property is made in a buyback: Cash for a future benefit, an increased ownership interest.

Not disclosed or explained to shareholders: The intrinsic value of a corporation decreases by the amount of cash withdrawn, offset when cash is used to buy and retire stock. In other words, it's a wash.

Proofs: Buybacks are a wash

How do we know that a corporation's value is presumptively lower by the amount of cash withdrawn? There are many proofs: With dividends, especially when they are material, one can readily see the stock price adjust for a cash withdrawal when it goes "ex-dividend." The same is true for any and all property distributions, like when there is a spinoff of a subsidiary or other property distribution, the price of stock adjusts immediately to reflect a lower intrinsic value.

That buybacks result in material withdrawals of cash from corporations is easily evidenced. We'll go into more detail when we share with you three years worth of data (2014-2016) for the Dow 30 companies in Chapter 4. For now, this should suffice to show materiality: On average, the companies in the Dow Average withdrew cash between 2014-2016 for buybacks equal to 11% of their market value.[13]

Normally, an 11% cash withdrawal by a publicly traded corporation will always result in a stock price adjustment to reflect a lower intrinsic value. However, there is a problem with buybacks. Once again, it's the lack of full disclosure that rears its ugly head, and with it,

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[11] http://www.economist.com/news/business/21616968-companies-have-been-gobbling-up-their-own-shares-exceptional-rate-there-are-good-reasons

[12] Cash is withdrawn from the corporation for buybacks, leaving it more leveraged.

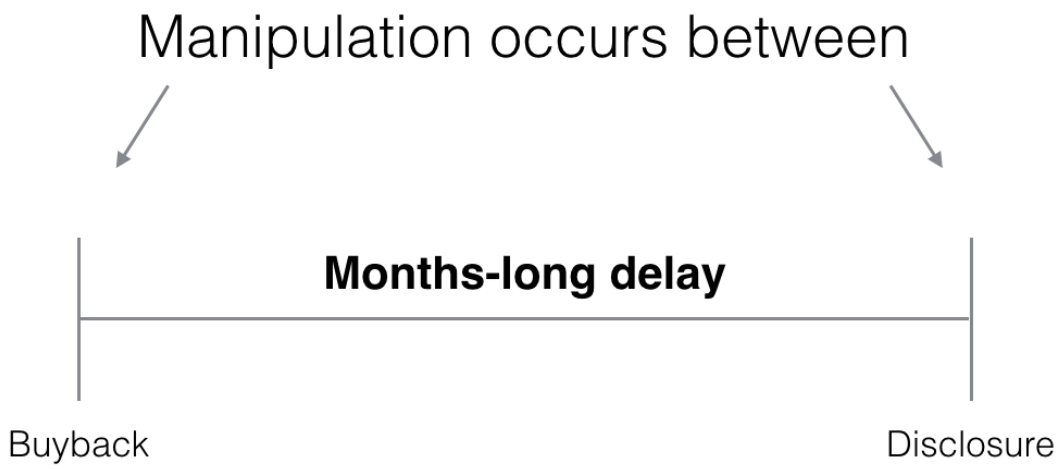
[13] Market value as of the end of 2016.

the potential for market manipulation.

In order to fairly price stocks, the market needs full and complete information. Because corporations fail to disclose buyback activity for months, it means there is a months-long time lag between buybacks and full disclosure. Until the market gets complete information, stocks are inefficiently priced. Another way to say it: prices are temporarily subject to manipulation.

Incomplete information = Price manipulation
(Artificial & temporary demand)

It wouldn't happen with full and fair disclosure, of course. The potential for manipulation only occurs when the market has incomplete information. Here's a graphic to illustrate the problem:



There's much more about buybacks that isn't disclosed. Here, we'll highlight a cause of manifold damage to investors in index funds and to pensions as well. It's an added burden put on the shoulders of investors that corporations have neglected to disclose or explain.

A "timed sale" is required to secure buyback cash

Shareholders, how do you go about realizing the cash spent on buybacks? How, exactly, do you get your hands on it? With dividends, of course, you don't have to do anything. You wake up one day and see a cash dividend deposited in your account.

For the cash spent on buybacks, there is no way to get your hands on it until you execute a timed sale of a portion of your stock. What do we mean by timed sale, and why is it an additional burden on investors?

With buybacks, you get an increased ownership percentage in the stock—but you can't pay your bills with a percentage. A pension can't pay its claims with a percentage, either. The only way to get cash is through a sale of stock.

The timed sale burden: If and when a company grows in value, a shareholder can sell the incremental increase in ownership percentage received in a buyback, and realize the cash.

For slow-to-no growth companies that do buybacks—of which there are many—it may take several years before a timed sale is appropriate. And there are many companies that are shrinking in value that still engage in buybacks, a problem we'll discuss in the next chapter.

There's one more thing you need to know: Until you execute a timed sale, the cash spent on buybacks, to which you rightfully expect a benefit, is unrealized and at risk. In other words, until you properly execute a timed sale, there is always a risk your company will decline in value due to disruption or other issues, and your cash benefit will disappear with it.

Sears, a former member of the Dow Jones Average,[15] is a good example of how shareholder cash can be wiped out. Executives bought back over 1/3rd of the stock from 2005 to 2010, spending about $5.8 billion, often at prices over $130 per share. For long-term shareholders, it has not been a fun ride. Sears has been declining since 2010, with the stock recently trading (May 2017) at $10 per share.

For index fund investors, the problems at Sears illustrate a particular vulnerability to buybacks. Passively managed funds don't have a mechanism in place to avoid or sell a company engaged in excessive buybacks.

Dividends are much kinder to index fund investors. Cash automatically arrives, and it's automatically spread out among index holdings. The problem with buybacks for index fund investors: They're stuck holding the equivalent of a long-term call option, for better or worse. It's often worse.

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[15] Sears was in the Dow Average for 75 years, from 1924 to 1999.

Chapter 2: Companies That Should and Companies That Shouldn't

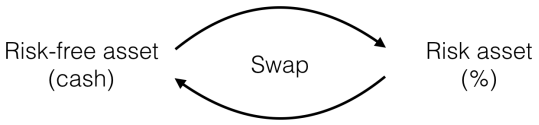
Every single member of the Dow Average bought back stock

For the period that we studied, 2014-2016, one data point is remarkable all by itself, and prompts an emphatic "What is going on?" sort of question. That is the surprising fact that every company in the Dow—a perfect 30 out of 30—saw the need to engage in buybacks during the three-year period we studied, with nary an exception.

It's true, some were more than aggressive than others, and a few skipped a year, but the overwhelming interest in buybacks is startling from a variety of angles.

One obvious (and curious) problem: Among the Dow Average companies that we studied, there are businesses that are clearly shrinking, with declining sales over a period of years. Yet it didn't seem to put a damper on executives' enthusiasm for buybacks. They continued to plow cash into buybacks despite a shrinking business, even though it destroys value for shareholders who are powerless to resist.

Think through what executives at declining companies are doing to shareholders: They're withdrawing cash—a risk-free asset, and an important risk-mitigator—and shipping it to the stock market. Unable to resist because they don't have a vote, or any say in the matter, shareholders receive a higher percentage ownership in a business that's declining. How is that a fair swap?



There aren't any take-backs when cash is sent to the stock market. Cash that's spent on buybacks is cash that's gone forever. The only way to replace buyback cash without selling assets, or taking on debt, is to earn it.

Needless to say, companies in decline have plenty of challenges. Generating fresh cash is one of them, especially in the midst of a turnaround effort, and whatever cash they do get is better used for things like marketing, product development and innovation.

The number of companies at risk is increasing

One thing is certain: The lifespan of today's companies is dramatically shorter now than ever before in modern U.S. history. Research from Richard Foster, a professor at the Yale School of Management, has found that the average lifespan of a company in the S&P 500 was about 67 years in the 1920s.[16] Today, it's about 15 years.

The rapid pace of change in today's economy requires companies to be able to abruptly pivot if they want to survive. Remember Kodak, a former member of the Dow Average? For years, executives ignored clear signals that the industry was shifting away from film, and then they couldn't make the pivot towards digital. In the years leading up to their bankruptcy in 2012, Kodak executives bought back billions in stock. Kodak assured investors that they would make the transition to digital. In 2005 CEO Antonio Perez said,

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16 https://www.theatlantic.com/business/archive/2015/04/where-do-firms-go-when-they-die/390249/

"By 2008, Kodak will be the digital company I came here to run."[17]

Clearly, that didn't happen.

Replacing the Buffett rule on buybacks

The Buffett rule is often cited as a justification for buybacks. The rule, simply stated: Buybacks make sense when "the shares are bought at a price below intrinsic value."[18] Although Buffett has been critical of executives for being "oblivious to price," there is a bigger problem, in our view: It's the rule itself.

From the point of view of corporate executives, it's a friendly rule, and not anything to worry about. In theory, Buffett's buy-when-undervalued policy seems to make sense, but in practice, it's easy to abuse. Any executive can say that, in their opinion, their stock "appeared" to be undervalued at the time of a buyback.

With 30 out of 30 Dow companies participating in buybacks during the three-year period we studied, it's clear that Buffett's buy-when-undervalued constraint is no constraint at all.

Which companies should consider buybacks?

We can't say any company should do buybacks, but more accurately, that certain companies should *consider* buybacks.

And, too, rather than hide behind Rule 10b-18, we'd like to see companies go to their shareholders and ask for their approval before engaging in buybacks, coupled with full and fair disclosure of the risks involved.

So which companies should consider buybacks?

Companies should consider buybacks when their business is both:

Rule #1: Growing organically; and
Rule #2: Competing in a stable vertical (i.e. not a disrupted vertical)

Under the Buffett rule, every corporation in the Dow 30 apparently thinks their stock is undervalued, enough to justify sending shareholder cash to the stock market for buybacks.

Under the proposed framework above, we estimate that approximately 1 in 4 companies will qualify for buybacks under Rule #1. Adding the second rule takes the number of qualifiers even lower, to about 1 in 10 corporations. We'll look at each rule separately.

Rule #1: Only companies "growing organically" should consider buybacks

The motivation here is to protect shareholders, especially in light of their exclusion from the buyback decision-making process. It's a fact of life for shareholders: Conflicted executives are making unilateral buyback decisions. With 100% participation in buybacks by Dow companies during 2014 to 2016, it's fair to say that

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[17] http://www.nytimes.com/2005/09/29/business/kodak-misses-targets-but-says-its-digital-moment-will-come.html

[18] http://www.berkshirehathaway.com/letters/2016ltr.pdf

protecting shareholders from increased risk is not a priority among corporate executives.

One of the most notorious aspects of buybacks is that companies declining in value robotically engage in buybacks, even though it clearly damages shareholders. We found it surprising how many companies with declining revenue, declining income, and a worsening balance sheet (generally evidenced by increasing debt) continue to engage in buybacks.

The proximate cause can be traced to executive incentives. Executives love buybacks because incentive compensation is tied to earnings per share, total shareholder return, and other short-term metrics. To put it bluntly, executives are spending billions (of shareholder wealth) in order to make millions.

Under the Buffett rule, executives can get away with it by claiming their stock appeared to be undervalued at the time of buyback. And very few executives will ever admit that their business is shrinking. Even in the face of consecutive years of revenue decline, pollyannaish executives almost always express confidence that a turnaround is forthcoming.

Under our framework, which requires organic growth before engaging in a buyback, a shrinking business is never a candidate for buybacks. It doesn't matter if the future looks bright to the executive suite, or if they claim a turnaround is just around the corner. Until a reasonable amount of organic growth is established, they should refrain from buybacks to protect shareholders.

Slow-to-no-growth corporations

Investors often express frustration over the billions in cash that is spent on buybacks with the question: *Why isn't my stock going up?*

The answer: It's not supposed to go up. Buybacks create zero tangible value for shareholders. Companies that say buybacks create value for shareholders are being irresponsible. Buybacks do not create value. They give shareholders a more leveraged bet on the stock (like a long-term call option). Though it sounds wonderful at first blush - owning a higher percentage of the business – it only happens because assets have been withdrawn (cash) to pay for that higher percentage.

When a company is not growing, or barely growing by 1 or 2% per year, the odds are not compelling enough to justify the risk of a buyback. It heaps unnecessary risk onto the shoulders of shareholders. Every other alternative – dividends, debt reduction, let the cash pile up, and innovation – represent a better choice for shareholders. Pouring cash into nonproductive buybacks is the most aggressive, riskiest choice that executives can make, and it's particularly true for slow-growth companies.[20]

Rule #2: Only companies competing in a stable vertical should consider buybacks (not a disrupted vertical)

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[19] Executives frequently engage in puffery regarding buybacks and value creation. Many companies have made the unfortunate (and inaccurate) claim that buybacks create value, such as General Electric and Cisco. From the Loews annual report in 2015: "Buybacks were aimed squarely at achieving our number one goal – creating value for Loews shareholders."

[20] Discussed in detail in Ch. 5.

A disrupted vertical is an industry group that is undergoing a paradigm shift, a radical change in the way of doing business. Usually it's a new technology that changes the competitive environment, and then suddenly an entire industry is up for grabs.

An example: The change from film to digital, which eventually crushed Kodak, a member of the Dow Jones Average until 2004. Kodak assured investors that they were preparing for the move to digital, and poured billions of dollars into buybacks.

Steven Sasson, an engineer at Kodak who invented the first digital camera in 1975, spoke to a reporter at The New York Times in 2008 about how his invention was perceived when he showed it to his bosses. "My prototype was as big as a toaster, but the technical people loved it," Sasson said.[21] "But it was filmless photography, so management's reaction was, 'that's cute — but don't tell anyone about it.'"

We recommend corporations refrain from buybacks when the vertical in which they compete is unstable, or "up for grabs" because of disruption. There are too many unknowns when a vertical is being disrupted to justify risking shareholder cash for a long-term call option.[22] It's particularly unfair to shareholders when they have no say in the matter, and when conflicted corporate executives are making a unilateral decision.

Here are three disrupted verticals that currently put several members of the Dow Average at a higher level of risk.

(1) Physical Retail – Disruption has been rolling through the physical retail sector for many years, with the key disrupter being Amazon, because of its lower cost online model. It's worth noting: even before factoring in disruption, physical retailers are already highly leveraged. Debt is magnified by substantial lease commitments, for example. Together with thin margins, and a large fixed cost structure (to pay for all of those buildings), physical retailers should be viewed as highly leveraged businesses with plenty of risk. Amazon's average markup on cost is about 10%, which cannot be matched by any physical retailer, including Wal-Mart, which has an average markup of 34%.

(2) Cloud – It's well established that most computing is moving to the cloud. It's faster, cheaper, and way more efficient to rent computing on a pay-as-you-go basis in the cloud, rather than build expensive on-premise data centers. Cisco, a member of the Dow Average, is struggling to make the transition to the cloud. Their router and switching gear do not appeal to the big cloud providers (Amazon, Microsoft, and Google), who have already moved to software-defined networking and commodity gear. Given the heightened risk, it's a disservice to shareholders of Cisco for the company to ship billions in cash to the stock market for buybacks.[24]

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[21] http://www.nytimes.com/2008/05/02/technology/02kodak.html

[22] A disrupted vertical cannot be defined with precision: We usually don't know who all of the players will be, we don't know he rules (because they're evolving), and the boundaries of the vertical are typically opaque.

[23] Arne Alsin and Worm Capital clients are long Amazon as of May 8, 2017. See the inside cover of this report for complete disclosures.

[24] www.forbes.com/sites/aalsin/2017/04/10/ciscos-board-has-some-explaining-to-do/#4713f41f4e5d

(3) **Energy –** Disruption is gaining momentum in the energy sector. Interest in renewables for energy generation is surging in most key markets, including the Middle East. In Europe, for example, the most valuable energy company is Enel, an Italian-based firm that generates more than 45% of its energy from renewables, according to its 2015 sustainability report. In Denmark, 39% of the country's energy comes from wind farms, and some days it's over 100%, while Germany and other countries have had many days where over 50% of electricity demand has been satisfied by renewables (wind and solar). Many countries are making renewables a priority, which makes for an uncertain competitive environment for oil & gas companies like Exxon Mobil. To the company's credit, it has dramatically slashed share buybacks starting in 2015.

Are there any exceptions to our rule requiring (1) organic growth and (2) a stable vertical? Outside of the Dow Average, in the disrupted retail group, Starbucks and Costco have engaged in modest buybacks while growing organically, to the benefit of shareholders. Starbucks doesn't appear to be in the crosshairs of Amazon, and Costco's super-low 15% markups are competitive with online alternatives.

On the other hand, embarrassingly bad buybacks are common among retailers. Here is a partial list for your review. Executives squandered a ton of cash on buybacks at each of these retailers during 2014-2016. By our calculations, cash losses due to buybacks at these companies ranged from 25% to 75%. As a consequence, their balance sheets are weaker and shareholders are at increased risk.

We applied "buyback ratings" to the Dow 30 companies

Using the two rules articulated above, we applied buyback ratings to each of the Dow 30 companies in the addendum, in Schedule B. The ratings are as of April 2017. Of the 30 companies in the Dow, we rated 3 positive for buybacks, 5 neutral, and 22 negative. Several companies failed the buyback rating test twice—because they compete in a disrupted vertical *and* are struggling with slow-to-no growth.

A reminder about context: Buybacks take place without shareholders having a say in the matter. With no seat at the table when these things are being decided, no shareholder vote, and without full and fair disclosure, our primary interest in applying the ratings was to protect powerless shareholders.

Chapter 3: Why Are Executives Crazy for Buybacks?

With 30 out of 30 members of the Dow Average participating in buybacks during the three-year period that we studied, 2014 to 2016, it's pretty easy to establish the premise of this chapter: The behavior of corporate executives indicates rabid enthusiasm for share buybacks.

Which requires us to ask: Why? What is their motivation?

Before we try to come up with some answers, let's take a closer at the characters in our story, followed by a brief discussion of the setting in which the action takes place.

The cast of characters

Historically, the roles of shareholders (owners) and executives (employees) were well established. Executives were charged with the duty of operating the business. They've always had wide latitude in operations, something that's absolutely essential for a well-functioning business. There's no way executives could function at a high level if owners were leaning over their shoulder, questioning their day-to-day decisions in operating the business.

That much hasn't changed. Management manages operations.

What *has* changed is the role of the owner, or shareholder. Before the SEC changed the rules in 1982, owners were empowered with all of the rights that you'd normally expect. Big decisions, such as how to divide up ownership interests, were wholly the province of shareholders.

Let's define what a buyback really is, in the vernacular, just to give you another perspective. This is the essence of a stock buyback:

> *Owners buy out the interest of other owners, using cash that belongs to owners.*

Which leads to the question: How did executives interject themselves into this picture? How did executives suddenly gain control over *everything*?[25] It's no longer their duty to merely oversee operations, but now, because of their power over buybacks, executives are making decisions about ownership interests and how they're divided up.

Here are two indisputable facts about buybacks:

- ✓ Owners pay 100% of the bill for buybacks. Every nickel comes out of owner cash.[26]
- ✓ Owners absorb 100% of the risk of buybacks.

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[25] Of course, it's because of Rule 10b-18, the SEC rule change in 1982.

[26] Executives are prone to braggadocio when it comes to buybacks. Caterpillar's former CEO in the 2014 annual report said "We rewarded our stockholders with $4.2 billion" in buybacks. Using owner cash to pay for a reward for owners is not a true reward. It's like buying a gift for a friend, using cash from the friend's bank account.

When executives withdraw cash equal to 20% or 30% of owner's property,[27] and send it to the market to be swapped for an increased percentage, it's a material change for owners. In any other business realm, a swap of this sort would be unthinkable without owner permission.

We emphasize the term "owner" rather than shareholders to make a point. Employees (executives) have effectively usurped power from owners (shareholders). The essence of a buyback transaction is the same as it was pre-1982 (owners buying out owners, using owner cash), but today, buyback transactions are at the whim and discretion of employees. And, unfortunately, the employees making buyback decisions are subject to substantial, undisclosed conflicts of interest.

Because of Rule 10b-18, employees have the authority to make these decisions, without any oversight by owners. They are not required to ask owners what they think of buybacks, and they don't have to make full and fair disclosure.

The setting for the story

Buybacks were relatively rare before 1982. Back then, executives didn't have unfettered access to corporate cash for the purposes of engaging a buyback. They could design a buyback plan, but they'd have to take it to the owners for their approval, accompanied by plenty of disclosure, including a budget, time frame and a targeted price range.

Look at how common buybacks were prior to the SEC rule change 1982. Here is the breakout between dividends and buybacks for years 1979-1981, right before the rule change in 1982.

Year	Buybacks ($ in billions)	Dividends ($ in billions)
1979	$4.8	$45.1
1980	$5.0	$50.7
1981	$6.7	$56.6
Total	$16.7	$152.3
Total Ratio (3 years): 10 % buybacks vs. 90% dividends		

Compare that to the last three years of the Dow 30.

[27] Twenty to 30% is common when viewed over a five-year period. McDonald's has done 20% in just the last two years. It gets even crazier when you look at the long-term. Since 2000, Exxon has taken out cash equal to 3/4 of its current value. Former member of the Dow, Hewlett-Packard (now two companies), has taken out cash equal to 120% of the current value its now-two companies combined.

Year	Buybacks ($ in billions)	Dividends ($ in billions)
2014	$208.9	$136.8
2015	$188.9	$147.2
2016	$182.7	$151.4
Total	$580.5	$435.4
Total Ratio (3 years): 57 % buybacks vs. 43% dividends		

We identify the SEC rule change in 1982 as being a proximate cause for much of the buyback excess that we're documenting in this report, but it's worth noting, as we make clear elsewhere in this report, it's tough to criticize the SEC for what they did back in 1982.

It's all about context: The SEC was trying to do the right thing in 1982, in light of a stock market in which it seemed that nobody wanted to buy stock. The market was at the tail end of a 16-year bear market. The backdrop was so bad that the SEC rule change *sort of* makes sense: If nobody wanted to buy shares, they may as well allow corporations to buy their own shares.

Checks and balances really do work

During the period 2014-2016, the 30 members of the Dow Average shipped an average of 70% of their earnings to the stock market for buybacks. Some shipped more than 100%.

What were buybacks like before the SEC changed the rules in 1982? Instead of using 70% of earnings for buybacks, less than 5% was used for buybacks before 1982.[28]

With no accountability, no oversight, and unchecked power in the executive pseudo-ownership group,[29] how are the *real* owners (shareholders) supposed to resist? Are shareholders doomed to subservience to the executive suite forever? If executives choose to plow 100% of earnings into buybacks, are the real owners supposed to remain quiet and simply accept their fate?

Here's one reason why the current environment is dangerous. By controlling the number of shares bought via buybacks, executives have the ability to control their own incentive compensation. Over half of the S&P 500 have either "per share" metrics, or similar "total shareholder compensation" metrics that make buybacks alluring from an incentive standpoint, according to a 2015 Reuters investigation.[30]

What do proxies say?

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[28] *Profits Without Prosperity,* William Lazonick, 2014

[29] It's worth noting that buybacks are not consistent with business theory: Shareholders contribute capital for operations, not for executives to use for buybacks.

[30] http://www.reuters.com/investigates/special-report/usa-buybacks-pay/

We've reviewed proxies for all thirty members of the Dow Average. Contrary to the piecemeal, scattered tidbits of disclosure for buybacks, incentives are disclosed in mind-numbing detail in proxies, with a lot of sophisticated-sounding acronyms.

Take a look at Cisco, for instance.

Performance Criteria	Pay for Performance Results		
	FY 2014 Grant	Financial Goal Multiplier (Operating Cash Flow / EPS [1]) (50%)	Relative Total Shareholder Return Multiplier (50%)
Earned PRSUs = Target PRSUs x ((50% x Average Financial Goal Multiplier) + (50% x Relative TSR Multiplier))	FY 2014	94%	71%
	FY 2015	113%	
	FY 2016	109%	
	Result	105%	71%
	PRSUs Earned	88% of Target	

From our review of proxies, a couple of observations: We couldn't find any company that incentivizes innovation or long-term value creation. Nor did we find any incentives for a do-nothing strategy, or a pile-up-the-cash strategy. Not that we expected as much.

In our review of proxies, we did find two things that are alarming from a shareholder perspective.

(1) Per share incentives are clearly ripping off shareholders

Every "per share" incentive that an executive gets paid on, whether it's earnings per share or cash flow, or anything else, is unfair and exploitive to owners. We found many cases where executives are generating quite a windfall in incentive compensation based on per share targets. For instance, earnings per share factors heavily into the composition of executive pay.

Incentives should not be based earnings *per share,* or any other per share metric. The share count is irrelevant in determining the effectiveness of executives at their primary job: operations. By making incentives based on earnings per share, it exploits owners, and largely without their knowledge.

Why are per share incentives exploitive of owners? It's because buybacks are bought and paid for by owners. Not only do owners pay 100% of the cost, owners also absorb 100% of the risk of buybacks. It doesn't make any sense for executives to get extra compensation for something that's wholly borne by owners.

The responsibility of executives is to manage and improve operations. There is no theoretical basis for executives to exert control over the division of ownership interests, or to get involved in investing owner cash in the stock market.

Because executives completely control buybacks, by virtue of the SEC rule change in 1982, it means they effectively have control over the number of shares. By withdrawing cash from the corporation and shipping it to the market for buybacks, they're able shrink the shares outstanding. It gives them unchecked power over determining earnings per share, which in turn gives them unchecked power to determine their own incentive

compensation.

A shareholder fights back at 3M and is shot down

We saw an informed shareholder offer a well-thought out and reasoned appeal to the 3M company, to cease including per share calculations in incentives. Here's a section from his proposal in 2015:

> Our Company spent $5.7 billion on share buybacks in 2014, but only $1.8 billion on research and development, and $1.5 billion on capital expenditures. Our Company's Chairman, CEO and President, Inge Thulin received $20.1 million in total compensation in 2014, including $4.7 million in performance shares. The performance goal for these awards includes earnings per share growth, a financial ratio that can be inflated by stock buybacks.

The shareholder's proposal was solid on both theory and process. Nonetheless, 3M summarily rejected it, and urged shareholders to reject it:

> *The Board believes it is not in the best interests of 3M or its stockholders for the Board to adopt a policy that the Company shall exclude the impact of share repurchases when determining senior executive incentive compensation.*
>
> *Your Board of Directors recommends that you vote "AGAINST" this proposal.*

The 3M shareholder proposal wasn't even a binding order, it was more or less a suggestion, and yet the shareholder's proposal received no respect.

(2) Executive incentives are anti-innovation

It's important for investors to understand that innovation takes time, and generally requires upfront investment that hurts near-term operating performance. It's a big problem for old guard companies that want to be competitive with the young upstarts. Incentives at old companies are designed to optimize earnings, cash flow and other metrics in the short-term (one year or less).

Which gives the young upstarts, the challengers to the old way of doing business, an opportunity to gain a foothold. Instead of being encumbered by the need to hit quarterly and annual profit targets, they approach business with an "anything goes" mentality, a willingness to try just about anything.

The old guard companies find it difficult to pivot and compete, burdened by legacy incentives that are built around maximizing short-term metrics. It's especially true in a disrupted vertical. Disruption within an industry group is effectively *a* "land grab" competition. The young upstarts are winning in just about every disrupted vertical because their business models are designed for a land grab, while old guard companies fall behind because their business models are optimized for short-term earnings.

An old guard company may boast about their ten-year track record of earnings, but it may not be worth much in a disrupted vertical. Product is more important than PE ratios when the competition is an up-for-grabs free for all. And product requires innovation, something that we did not see incentivized in the proxies of Dow companies.

Innovation means a company has to be willing to take chances, to radically pivot a business model when necessary. Among old guard companies in the Dow Average, incentives aren't designed to give executives this sort of luxury. Their mandate is clear: Hit short-term earnings targets.

General Motors prefers buybacks to innovation

We'll provide empirical proof that buybacks harm innovation in the next chapter when we take a look at the data we compiled. First, an example of how buybacks take precedence over innovation at General Motors, a member of the Dow Average from 1925 to 2009.

Just a few years after taking a government bailout (the government lost $11 billion in bailing out General Motors[31]) the company's executives suddenly saw the need to pour billions of dollars into a stock buyback program.

Buybacks at GM do not meet our test, by the way, since the car industry is in the midst of disruption, with electric cars—and soon, automated cars—coming onto the scene. In our view, there is too much uncertainty about how disruption will play out in the automobile group to justify risking shareholder cash on buybacks.[32]

GM executives made a choice to pursue buybacks, spending over $16 billion on buybacks from 2012-2016 (30% of the value of the company as of 2016), with another $5 billion announced in 2017.

Instead of spending on stock buybacks, which creates zero jobs and has zero payback for the business, GM could have invested in and built four Gigafactories, each of which would have created more than 20,000 new jobs (counting ancillary construction and related industries), with benefits that would inure to GM (via control of the supply chain for batteries) that would last for several decades.

Instead of pursuing job-creating opportunities in electric cars and Gigafactories, GM executives chose nonproductive buybacks, and outsourced most of their electric car and battery production to South Korea and China.

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[31] http://www.reuters.com/article/us-autos-gm-treasury-idUSBREA3T0MR20140430

[32] Arne Alsin and Worm Capital clients are long Tesla as of May 8, 2017. See the inside cover of this report for complete disclosures. Read our opinion column in Forbes: https://www.forbes.com/sites/aalsin/2017/03/14/why-general-motors-has-already-lost-to-tesla/#3e1573673ccb.

Chapter 4: The 30 Members of the Dow Average: What the data shows

On any given day, in any given month, buybacks are not a huge deal. But over time, as we're going to show you in this chapter, they add up to really big numbers.

In our study, we found many companies in the Dow Average engage in robotic buyback plans, sending cash to the stock market on a regular basis, without apparent concern for the price-to-value spread. Over the years, these "robo-buybacks" end up being a substantial effort relative to cash balances, the level of debt, income, and sales.

The net result: Material changes to property are taking place without full disclosure to owners and without owners signing off or otherwise agreeing to the deal.

We'll highlight a few companies in each section below, but it doesn't mean they were the worst offenders. Rather than select extremes, we tried to highlight some of the more interesting stories.[33]

(1) **What percentage of shareholder's property value was withdrawn from the corporation and sent to the stock market?**

For the three-year period we added up the total amount of cash devoted to buybacks, for each member of the Dow Average, and divided it into the market value of the company, as of the end of 2016.

In other words, shareholders, what percentage of your property value was taken out in the form of cash, and sent to the stock market during 2014-2016?

The average for all 30 members of the Dow Average: 11%

Boeing	21%
General Electric	18%
3M	14%
Goldman Sachs	16%
McDonald's	20%

What we're trying to illustrate here is that buybacks are a really big deal to owners. Buybacks *are* material, important events. And because they involve substantial changes to owner property (a reduced cash cushion, more debt leverage), buybacks warrant full disclosure to shareholders, as well as their prior agreement.

In any other business venue, including for businesses that are local and small, employee withdrawals of cash for purposes of a swap would never be sanctioned, not without owners being fully informed and agreeing to the swap in advance.

Of the companies above, only Boeing has demonstrated decent growth in their business. The others are either contracting or struggling to grow. As we've pointed out in this report, buybacks increase risk for shareholders, and should be avoided by companies that are struggling to grow.

With 18% of property value (i.e. market cap) spent on buybacks at General Electric it is

[33] The complete data for all 30 companies is in the addendum to this report, in Schedule B.

worth emphasizing: There is *no* value created when a company engages in a buyback - it's a wash at the time of buyback. The benefit for shareholders is wholly future-based, and speculative: If the business performs well over time, the long-term call option will pay off in a higher return.

Further, all buybacks are a fundamentally nonproductive use of capital. They don't create jobs, they don't expand a business, they don't protect shareholders. A buyback increases shareholder risk[35] even though shareholders don't agree to it in advance, or participate in the decision to do a buyback. And it adds to the shareholder burden because it requires additional action in order to secure a benefit (a timed sale).

(2) **Instead of sending cash to the stock market for buybacks, what if Dow companies sent the cash directly to shareholders? What would have been the average yield during 2014-2016? What would have been the cumulative yield?**

Corporate assets are the *property of shareholders*. Dividends make sense from a property owner's perspective. Cash is withdrawn and sent directly to the owner. The process couldn't be simpler.

Buybacks, on the other hand, involve a cash withdrawal and a series of steps, eventually resulting in a swap. This is done without owner permission, and without owner knowledge at the time of the swap. Owner cash (a tangible asset) is swapped for a different type of asset—an increased ownership percentage (an intangible asset).

During the three-year period we studied, plenty of cash was withdrawn from corporations, with 43% of it paid directly to shareholders in the form of dividends, and 57% sent to the stock market for buybacks.

So we asked: What if all of the cash (100%) that was withdrawn had been shipped directly to shareholders? What if executives didn't spend anything on buybacks, but instead chose only cash dividends? What would have been the average yield for the three-year period? And what would have been the cumulative yield?

	Avg Yield	3-Year Cumulative
Boeing	9.6%	28.7%
General Electric	9.3%	28.0%
Merck	6.5%	19.4%
3M	7.0%	21.0%
P&G	5.9%	17.7%
American Express	8.2%	24.6%
Goldman Sachs	7.2%	21.5%
McDonald's	9.9%	29.7%
Average	**8.0%**	**23.8%**

The cash yields above are exceedingly attractive in the current environment. They are much higher yields than anything obtainable in the bond market (except for the riskiest junk bonds). Many investors, including those that are disadvantaged by buybacks, such

[35] Contrast buybacks with dividends. Dividends are risk-free and certain, with an immediate payoff. Buybacks involve risk, and an uncertain, delayed payoff.

as index fund investors, or retirees and pensions, would welcome such yields. They're certainly more attractive than the dividend yields they actually received (about 3%, on average).

We tried to select stable businesses for the table above. Other companies, such as Cisco, were not listed because they're embroiled in a high-risk disrupted vertical, and their core business is declining.[36] We're showing you companies that appear to have a decent chance of maintaining a high dividend.

Don't be fooled on the subject of dilution, by the way, a topic we'll take up in a later chapter. Shareholders in the companies above have to deal with about 2% annual dilution, whether or not there is a buyback. Buybacks serve to cover up dilution, but dilution happens anyway.

(3) **What percentage of total sales for 2014-2016 was devoted to buybacks?**

Here we wanted to know how much of every dollar of sales goes into buybacks. At Disney, for example, over the last three years, 13 cents of every dollar of revenue went to the stock market for buybacks.

Apple	18%
Cisco	12%
Disney	13%
Pfizer	11%
McDonald's	27%
3M	16%
AmericanExpress	13%

Needless to say, the levels above are quite high, and likely unsustainable. Can Apple really justify putting 18 cents out of every dollar of revenue into buybacks?

And then there is McDonald's, which sent 27% of its gross revenue to the stock market for buybacks during the three years we studied. This appears to be unsustainable. The company has suffered declining sales during 2014-2016, coincident with mushrooming debt (up 83% over the three year period).

(4) **What percentage of total income during 2014-2016 was spent on buybacks?**

We wanted to know how much companies were spending on buybacks as a percentage of income. So we added up their total income for the three years, 2014-2016. This is the percentage of their three-year cumulative income that was sent to the stock market for buybacks:

Nike	87%
Caterpillar	95%
Pfizer	70%
3M	97%
Microsoft	74%

Nike grew organically at an impressive rate, but the rest of the names did not. Caterpillar has been in a tailspin—and the subject of a recent accounting investigation—while Pfizer, 3M, and Microsoft are struggling to grow their businesses.

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[36] https://www.forbes.com/sites/aalsin/2017/04/10/ciscos-board-has-some-explaining-to-do/#52fcda0b4e5d

Microsoft is in the throes of major disruption because of cloud computing, and there's no way to know how they'll emerge. They're behind in some important areas, and margins are under pressure. What they'll look like in ten years is anybody's guess.

With Microsoft in a disrupted vertical and undergoing radical change, why back up the truck and load more risk on top of shareholders? Insiders appear to be enamored with buybacks, but what about other shareholders?

Microsoft has a broad cross-section of investors: Has the company considered, for example, the needs of index fund investors, who can't make a timed sale to access buyback cash? Do they think about retirees who likely prefer cash dividends to a quasi long-term call option? What about pensions? Pensions are investors for the long haul—the best, most loyal owners of stock. But they can't pay pension claims with an increased percentage. In order to access buyback cash, pensions have to reverse the swap made by Microsoft executives, selling stock to get cash.

Maybe Microsoft will succeed—and maybe they won't. The issue is moot for our purposes. We're just pointing out that the IT environment in which Microsoft competes has changed dramatically, and risk has increased with it. Devoting large chunks of cash to buybacks (while taking on debt) is an aggressive move, especially when shareholders have not been fully informed as to the costs and benefits – and *risk*.

(5) Innovation: How much cash is available for reinvestment after buybacks and dividends?

Income provides cash for two things: (1) reward for shareholders through dividends, and (2) reinvestment back into the business, to maintain competitiveness.

Prior to Rule 10b-18 in 1982, about 50% of income was reinvested back into corporations, to maintain their competitiveness.

The popularity of buybacks in recent years has resulted in a new phenomenon, one that appears to be unsustainable: Plowing 100% of cash income into dividends and buybacks, leaving no cash income for reinvestment.

On average, the 30 Dow companies during 2014-2016 spent 126% of income on dividends and buybacks. Which means there was no cash income left over for reinvestment (innovation). Of course, these companies still engaged in reinvestment, but the dollars came from other sources, such as increased debt, asset sales and other balance sheet maneuvers.

Boeing	176%
Caterpillar	175%
General Electric	354%
Merck	151%
Pfizer	158%
3M	147%
Proctor & Gamble	129%
Dupont	131%
Home Depot	162%
United Technologies	123%
Microsoft	132%
McDonald's	214%

(6) Here are some companies that significantly increased debt (unsustainable) and were active in buybacks

The question is not whether or not these companies can handle an increased debt load. It's that these levels of debt growth are unsustainable, especially when debt is engaged for a fundamentally nonproductive activity (buybacks). If debt were incurred to expand a factory, or to launch a new product line, a company could look forward to a potential payback. Buybacks don't produce any sort of payback for corporations.

We compared debt at year-end 2016, to the level of debt at the beginning of 2014, the beginning of the three-year period that we studied.

3M	147%
Cisco	89%
Intel	57%
Home Depot	120%
Microsoft	223%
Johnson and Johnson	68%
UnitedHealth Group	73%

When a company sends piles of cash to the stock market for buybacks, it materially changes the character of the owner's property. In the cases above, it involves taking on substantial debt leverage.

Even if this were a smart idea, shouldn't such a plan be cleared with the owners first? Shouldn't owners have a seat at the table when significant decisions affecting their property are being made?

Of course, because of the SEC rule change in 1982, executives and corporate boards have free rein to engage in this sort of property-changing behavior, and shareholders are powerless to resist.

Chapter 5: A Brief Look at the Betting Action

Investing is a probability-based exercise. If you're an active investor, you're making bets on what you think is a likely outcome, given the situation, while simultaneously weighing a variety of risks against an estimated reward. None of it is certain, nothing is assured. If you're a serious investor, all you can say is that you do your best to make smart, informed bets.

In particular, risk is a really big deal when making bets. It's critical to recognize where risk abides, and to accurately size up its potential. That's because your probability for success is never 100%—not even close.

Things can (and do) go wrong. Just take a look at Lehman Brothers spending $1 billion on buybacks in the months before they collapsed. Or the $207 billion spent on buybacks by financial companies from 2006-2008, most of it lost.

So let's look at buybacks in that context: Just what sort of bet is management making with shareholder cash? Are corporate executives making smart, informed bets? When we look at how and where executives place their bets, is there any evidence they're considering how it will affect shareholders?

Insiders take care of themselves, to be sure, but are they also concerned about the effect of buybacks on non-insiders like retirees and pensions? Do corporate insiders realize that non-insiders --- such as index fund investors, pensions, and retirees --- are relying on them to act in good faith?

While the subject matter of the table below concerns buybacks, the focal point is cash. Both dividends and buybacks begin with a cash withdrawal from a corporation. It's your property, shareholders, and it merits having you ask the question: *What ultimately happens to my cash with buybacks?*

Executives make the choice

	Dividends	Do-nothing	Buybacks
Where's the cash?	Shareholder's pocket	Still in corporation	Cash is gone
Risk	Lowest risk for shareholders	Lowest risk for corporation	Highest risk for both shareholders and corporation

Let's review what happens to excess cash under three alternatives available to executives: To declare a dividend, to do nothing, and to repurchase shares.

Choice #1: Pay a Dividend (most conservative)

Dividends aren't much of a gamble. While your ownership in the corporation is now more leveraged, and hence riskier, you've been compensated for that risk. That's because a

dividend merely involves shifting cash from the corporate balance sheet to your personal balance sheet, always a happy event.

What's great about dividends is that cash just shows up in your brokerage account. No further action is required on your part. You don't have the pressure of an additional decision. You don't have to worry about a timed sale at some distant point in the future. You've got possession.

And there's the freedom that goes with possession. With the cash you receive from a dividend, you're the one making choices now. You're free to do whatever you want, whenever you want. You can buy more shares in the corporation. Or you can diversify. It's up to you.

Choice #2: Do nothing (Rip Van Winkle strategy)

To "do nothing" with excess cash is a choice available to corporate management. Nobody forces executives to ship cash to the stock market for buybacks. And they're not required to send a dividend check to shareholders, either. In situations where corporate executives are uncertain, perhaps because of less-than-clear competitive conditions, there is no shame with employing a do-nothing strategy for a period of time.

From a shareholder's perspective, letting the cash stack up is a less risky bet than buybacks. The pile of cash still technically belongs to shareholders because of their share ownership.

We reconstructed the buyback history of a former Dow Average member (until 2013), Hewlett-Packard, going all the way back to 2000. We asked the question: What if the board of directors back in 2000 had taken a Rip Van Winkle nap on the buyback issue, and had only recently awoken. What would they find? How big would the pile of cash be if they had not done a single buyback since 2000, and refrained from doing anything else with the cash?

In case you're not familiar with HP, a very brief recap. The advent of the cloud in 2006 greatly disrupted their business. They were late with their own cloud offering (2013), and quietly closed it two years later. They've since been trying to financially engineer their way to prosperity, splitting into two companies, HPE and HPQ.[37] Both businesses are struggling as corporate computing continues to move to the cloud, shrinking what's left of the HP business.

So if Rip had been in control of the board back in 2000, what would the combined HP look like today?

The two HP companies would have a $78.5 billion pile of cash, which is more than what the companies are currently worth, which is $63 billion as of May 2017.

Dilution: Without any buybacks since 2000, Hewlett shareholders would've been diluted (roughly 2% per year), so the share count would be higher today. But the dilutive effect doesn't compare to the stack of cash that's been squandered on buybacks, worth more than both Hewlett companies combined.

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[37] Hewlett Packard Enterprise and The Hewlett-Packard Company.

Choice #3: Repurchase stock

Among the three alternatives, this the most aggressive bet executives can make. That's because cash is withdrawn from the corporation (making it a riskier holding), and shareholders don't receive any of it. It has been sent to the stock market, never to be seen again.

Shareholders, this should get you riled up: An aggressive bet is being made without your permission, without you even being consulted, and it's being done with your property, with excess cash that belongs to you.

Making it worse is that key risks are not explained or disclosed to you. One more slap: Corporate executives don't bother to tell shareholders about buybacks for months after the transactions take place, even though the data is readily available.

Investors: Beware of the "confidence trick"

"The shell game is portrayed as a gambling game, when in reality it is a confidence trick" (Wikipedia)

Shareholders, you've been conditioned to believe in buybacks. Everybody assures you that buybacks are a good deal for shareholders. But if you see and understand the flurry of action with buybacks – *and if there were full and fair disclosure by corporations* – then it might not be so easy to get you to go along with the process.

Buybacks are a type of confidence trick. On a superficial level, they do sound wonderful. What's not to like about owning an increased percentage of your favorite business? After taking a detailed, slow look at what's really happening with buybacks (as we're trying to do with this report) you should realize that what sounds amazing at first blush, doesn't quite match up to expectations.

The timed sale requirement: Who does it hurt most?

To get cash from a dividend requires no effort by a shareholder. The cash simply arrives in your brokerage account, the result of a direct distribution, straight from the corporation to you.

On the other hand, cash spent on buybacks is difficult for shareholders to get their hands on. Shareholders have to reverse the swap that executives made on their behalf. In a buyback, executives swap cash for stock, giving shareholders an increased ownership percentage. To get your hands on buyback cash means you have to reverse the swap, selling stock to get cash.

This "burden" can't be avoided. You can't pay your bills with a percentage, of course. The first step: you have to get lucky with your increased percentage. Which happens when the value of your corporation increases after a buyback. Second, you need to properly time a sale of the incremental increase in your share holdings.

Only by executing a timed sale can an investor get any of the cash spent on buybacks. Until a timed sale is executed, cash spent on buybacks is unrealized and at risk.

The timed sale requirement is a burden for all shareholders, and for these investors, in particular:

- Index fund investors
- Pensions
- Retirees
- Unsophisticated investors

Index funds: There is no mechanism in place to execute a timed sale. Index fund investors are stuck holding the rough equivalent of a long-term call option for the duration. Contrast that with a dividend, where the cash received automatically gets diversified into all of the companies in the index.

Pensions: Ranking among the most loyal long-term investors, pensions hold stocks for decades because of their long-tail liabilities. Pensions can't pay pensioners with an ownership percentage. The added burden of properly executing a timed sale makes their job more complicated.

Retirees: Like with pensions, a retiree can't pay living expenses with a higher ownership percentage. To access the cash spent on buybacks, retirees have to reverse the swap that corporate executives executed on their behalf, selling stock to get cash.

Unsophisticated investors: The simplicity of a dividend, which requires no further action on the part of investors (cash just shows up), is better suited for these investors. Complicating matters for unsophisticated investors is that they don't know what they get with buybacks, or when they get it.

Look at your brokerage account statement and it tells you exactly when a dividend shows up, and how much you got. Look at the same statement and it doesn't tell you anything about your benefit from a buyback. You can't tell how much you received, or when you received it.

Chapter 6: Corporations Are Making Misleading Statements About Buybacks

The SEC rule change in 1982 (Rule 10b-18) gives corporations legal cover from the threat of being sued over “open-market purchases” (the technical term for buybacks). It’s the reason why buyback disclosure is far from comprehensive. Corporations don’t have to provide much disclosure because they aren’t legally required to do so.

We reviewed annual reports and accompanying disclosures for all thirty companies in the Dow Average. Collecting the data wasn’t easy. Scattered tidbits are the norm in buyback disclosures, and it requires a lot of effort to put all of the pieces together.[38]

It would be better if corporations disclosed all relevant data in one section of their annual report, a “buyback section” that contains all of the quarterly purchases, prices paid, cumulative data and so forth, as well as a detailed history of management’s performance record.

Also essential is disclosure about shareholder risk and the added burdens placed on shareholders. And because executives are making unilateral decisions to do buybacks, without input or consultation or approval from owners, it’s important that executives fully disclose any and all conflicts of interests.

Misleading disclosures: There is no return of cash in buybacks

Despite the claims below, cash is not returned to shareholders via buybacks.

> **From 3M:** “We have a long record of returning cash to shareholders. And last year we returned nearly $8 billion to shareholders through dividends and share repurchases.”
>
> **Intel:** “The total cash returned to shareholders through dividends and repurchases in 2015 was $7.6 billion.”

Buybacks begin with a cash withdrawal from a corporation --- just like a dividend, which *does* involve a return of cash to shareholders. But in a buyback, cash is not returned to shareholders; rather, cash is diverted to the stock market where it’s swapped for shares.

While the “return” of cash misrepresentation is quite common, we did find one exception.[39] This is a more accurate portrayal of what happens in a buyback. Instead of cash being returned to shareholders, it’s “spent.”[40]

> **Apple:** “During 2016, the Company spent $29 billion to repurchase shares.”

In addition to misrepresenting the return of cash or capital, look at how corporations fail to give you a breakdown between dividends and buybacks. It’s not clear how much went into each:

> **Home Depot:** “Over the course of the year, we returned over $10 billion dollars to our shareholders in the form of dividends and share repurchases.”

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[38] Our compilation of data for 2014-2016 is in the addendum, Schedule B.

[39] See how each of the 30 Dow companies described buybacks in Schedule C.

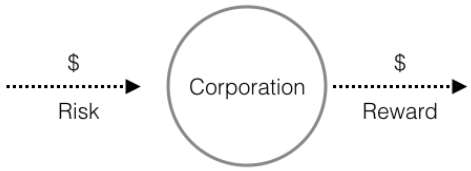
[40] In our view, an even more accurate description than "spent" is to say cash was “swapped” for stock, or swapped for an increased ownership percentage.

> **Wal-Mart:** "Last year we were able to return more than $10 billion to shareholders through dividends and share repurchases."
>
> **Pfizer:** "We returned $13.1 billion to our shareholders through dividends and share repurchases."

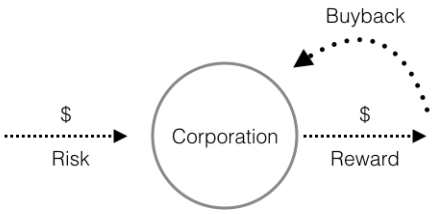
The breakdown between dividends and buybacks is material information and should be readily disclosed. It's important to owners: One involves the return of cash (dividends), and the other involves a swap for a different type of asset, and increased risk.

A perpetual cycle of risk

Investors pay cash (risk $) for shares of a corporation, in the hope and expectation of a payoff. The payoff happens when: (1) the corporation's assets increase in value and/or (2) there are distributions to the investor (reward $).



Here is the problem with buybacks: Owners are not informed, nor are they asked for their input. Yet their reward dollars are recycled back into risk dollars.



Executives can't point to any business theory or logic or any other rationale to justify doing buybacks without shareholder permission. Property that is withdrawn from a corporation belongs to shareholders, and anything other than a direct distribution to shareholders would be illegal—*but for Rule 10b-18*. Absent Rule 10b-18, fundamental property rights would never sanction a swap of assets unless owners are first consulted and approve the deal.

Since many companies today appear to be engaged in "robo-buybacks"—buying back shares no matter the price, quarter after quarter, year after year—they're putting shareholders onto what appears to be a perpetual cycle of risk. It's like a merry-go-round, with reward dollars (cash) being withdrawn but never returned to shareholders.

Instead, they're recycled back into risk dollars.

An obvious problem for shareholders: Corporations don't live forever. They have a limited life expectancy, especially in an economy marked by disruption. Recycling cash back into more risk is a questionable strategy in a rapidly changing business environment.

One example of "corporations don't live forever:" *Airline stocks*.

If you're one of the millions of people who have invested in an S&P 500 index fund, you own shares in Delta, United, and American Airlines. Just in case you're not familiar with the risk of owning an airline, each and every major airline has been bankrupt at some point since 2000. But that hasn't stopped executives at Delta, United and American from going bonkers for buybacks in recent years. They've swapped your property—cash that belongs to you—for more risk.

American Airlines, for example, after emerging from bankruptcy in 2013, withdrew cash equal to 40% of its value during the three-year period we studied (2014-2016), and sent the cash to the market for buybacks.[41] Executives at American Airlines could've paid shareholders a 40% cash dividend instead of doing a buyback, something that would've been welcomed by index funds, pensions and retirees. But the cash was sent on a one-way ticket to the stock market, increasing risk for shareholders without their consent.

Conflating dividends and buybacks misleads investors

Most of the Dow 30 companies mix dividends and buybacks together in their disclosures, reporting to shareholders as if they were the same thing.

> **Exxon:** "Shareholder distributions were $15.1 billion in the form of dividends and share repurchases."
>
> **General Electric:** "We returned $30.5 billion to investors through dividends and share buyback."
>
> **Merck:** "During 2016, the Company returned $8.6 billion to shareholders through dividends and share repurchases."

The problem with lumping together dividends and buybacks is that they're not even close to the same thing. Cash dividends deliver a tangible asset that you can see and spend and use. Cash is also risk-free, immediate, and measurable. Buybacks involve added risk, with a speculative, future benefit that can only be estimated.

Here's what it would look like if corporations told shareholders exactly what happens in a buyback:

> **Sample (our words):** "We sent $3 billion in cash to shareholders via a dividend. In addition we withdrew $5 billion in cash and sent it to the stock market, where we used it to repurchase and then retire stock, giving shareholders an increased ownership percentage as a result."

Buybacks do not create value -- they are a wash

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[41] American added $4.4 billion in debt to help pay for the buyback.

Buybacks are a wash, as we established early in this report (with proofs), with additional supporting material in the addendum to this report, in Schedule A, "Theory, Process & Proofs." Even though buybacks do not create value,[42] it doesn't stop corporations from making such claims. Below, we underline claims of value, an all too common and unfortunate occurrence in corporate disclosures:

> **Johnson & Johnson:** We consider "prudent ways to return value to shareholders such as share repurchase programs."
>
> **McDonald's:** "We evaluated opportunities to further drive shareholder value." We "expect to return $30 billion to shareholders for the three-year period ending 2016."
>
> **Proctor & Gamble:** (Referring to both dividends and buybacks[43]): "In total, P&G delivered nearly $16 billion of value for shareholders."

Proctor & Gamble: An example of limited disclosure

We've looked at numerous after-the-fact buyback disclosures. Now let's turn our attention to a before-the-fact disclosure from Procter & Gamble's annual report in 2015:

> "We have announced our intention to return $70 billion to shareowners over the next four years" through dividends and buybacks.

At the time of the announcement, P&G's market cap was $220 billion, so the "return" of $70 billion represented about 1/3 of shareholder property value.

- Note how executives don't disclose how much will go into dividends versus share buybacks. It's completely at the executive's discretion.
- Shareholder property is undergoing a substantial change. In accounting, we say this is "material," and in any other realm of business a material change to ownership like this would not happen without input from owners, and without owners first approving the deal.
- With a dividend, cash does get returned to shareholders. But contrary to Proctor and Gamble's representation, there is no return of cash when it's used to fund a buyback. Cash is diverted to the stock market, where it is ultimately swapped for an increased percentage.

Then there's the timeliness of disclosures: Slower than snails

Even though they have possession of the data in real-time, corporations take their time in getting buyback information to investors. For instance, we asked a representative from Goldman Sachs in February 2017 for their 2016 buyback numbers, but were told that would be impossible. "Please note that this information will be included in our 10-K / Annual Report which should be filed in a matter of weeks," the company said

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[42] Value is created for shareholders when a business grows in value. The number of shares is relevant to the stock price, not to the determination of business value.

[43] See Sch. C for Proctor & Gamble's disclosure.

in an email. “Please check our website in the coming weeks for the relevant disclosure.”

The language they use in official reports is ambiguous, at best.

On page 2 of their 2015 annual report, Goldman Sachs writes, "Over the same four-year period, we returned approximately $25 billion in capital to our shareholders, increased dividends per common share by 44 percent and reduced our basic share count by 14 percent."

The bank didn't list its buyback figures until the fine print on page 49.

For all companies, there is no real-time reporting of buyback activity (or anything close). We’re left to wait for SEC filings several weeks after the end of a reporting period. With a dividend, there’s no guesswork. Cash suddenly appears on your brokerage statement and you know what you have.

Here are a few more things that go undisclosed by all 30 corporations in the Dow Average:

Timed sale requirement: When cash is returned to you in the form of the dividend, you don’t have to do anything. It is deposited in your brokerage account and no further action is required.

When cash is sent to the stock market for buybacks, shareholders don’t get any of it.

If you’re fortunate to own a growing business, you might be able to make a timed sale within a matter of months. With slow-growing companies, you may have to wait several years for an appropriate time to sell. And if the business turns down in a permanent way, you may not be able to secure any of the cash spent on buybacks.

Timed sales are an additional burden not explained to shareholders by corporations, but they are important. Unless and until you properly execute a timed sale, the cash spent on buybacks is unrealized and at risk.

Conflicts of Interest: Put yourself in the shoes of executives for a minute. They have a limited amount of time to pursue monetary rewards. They look at their incentives and gauge what they need to do. Many of them have earnings per share targets (EPS) or other total shareholder return targets, which, if they hit, will yield a life-changing windfall. All they have to do is hit those targets.

Here’s one illustration from a 2015 Reuters investigative report into buybacks:[45]

> When health insurer Humana Inc. reported worse-than-expected quarterly earnings in late 2014 – including a 21 percent drop in net income – it softened the blow by immediately telling investors it would make a $500 million share repurchase.
>
> In addition to soothing shareholders, the surprise buyback benefited the

[44] This is an onerous burden on unsophisticated investors, in particular. Index fund investors are also at a disadvantage since there is no mechanism in place at index funds to make timed sales; they’re passively managed. As a result, investors in index funds are stuck holding a quasi long-term option for the duration.

[45] http://www.reuters.com/investigates/special-report/usa-buybacks-pay/

> company's senior executives. It added around two cents to the company's annual earnings per share, allowing Humana to surpass its $7.50 EPS target by a single cent and unlocking higher pay for top managers under terms of the company's compensation agreement. **Thanks to Humana hitting that target, Chief Executive Officer Bruce Broussard earned a $1.68 million bonus for 2014.**

There are two ways for executives to increase earnings per share. One is to increase business income. For many companies in the Dow Average, it's tough to grow earnings. Moribund growth and other issues often get in the way.

Executives have discovered another way to increase EPS that doesn't require higher business earnings: Raid the corporate cash trove and send it to the stock market for buybacks. By lowering the number of shares, executives are able to meet their earnings targets and obtain their incentive compensation.

Chapter 7: Common Reasons Offered To Justify Buybacks

In this chapter we're going to evaluate five common reasons offered to justify buybacks.

But before we do, we're going to spend a bit more time on the shell game comparison. It will complete the comparison, which includes a flurry of action, vanishing cash, and now, *a swap of cash for something of less value*.

Proof: Corporations have a serious delivery problem

Without the legal shield provided by Rule 10b-18, corporations would have a serious delivery problem with buybacks, one that might involve liability and possible damages.

Cash that belongs to shareholders is withdrawn from corporate bank accounts and, instead of being delivered directly to shareholders (like it is with a dividend), the cash is diverted to the stock market for purposes of a swap.

There are two key problems, in our view:

(1) **Delay in delivery –** Buybacks involve a swap of cash for something of less value. The proof is in the delayed delivery: Shareholders clearly do not receive full value based on the time value of money principle, as we'll explain below.

(2) **Identification issues** – Shareholder cash (a tangible asset) is swapped for a different type of asset, an intangible asset (an increased ownership percentage), which has different risk characteristics. Because buybacks don't show up in brokerage statements, there are identification issues, i.e., How much did I get? When did I get it?

The lack of disclosure causes delivery issues

With buybacks, shareholders are not informed when cash gets sent to the market, they're not informed when they receive a benefit (when shares are retired via book entry), and they generally don't know how much they get or when they get it.[46]

Because of the delay in disclosure, a dollar spent on buybacks offers no utility to shareholders until months after the actual transaction. Lost utility requires a discount: If you don't know how much you get, or when you get it, or if there is any sort of delay in transferring an asset, it has to be discounted.

Let's put a bigger number on it, to help explain the point: If $30,000 is going to be paid to you today, or four months from now, it does not have the same value (generally referred to as the time value of money). The later date means you don't get the full utility of your asset until a future date. That's why it has to be discounted.

Another complicating factor: We're not just talking about $30,000 today versus $30,000 in four months, because what is being delivered with buybacks is a *different type of asset*. With dividends, you get cash. It's a tangible asset that you can see and touch and spend. With a buyback, it's an intangible asset, a percentage increase that is the

[46] Dividends show up on your brokerage statement. Buybacks do not.

functional equivalent of a long-term call option.

Let's move on, and tackle the five most common reasons offered to justify buybacks. We'll start with an easy target.

(1) "Buybacks are a signal to the market"

When 30 out of 30 companies in the Dow Average are active participants in buybacks, there isn't any distinguishing signal. It's a common activity. Everybody's doing buybacks.

A small coterie of corporate executives might imagine "signal sending" has an impact on the market. It doesn't. Compare what biased and often conflicted executives bring to the table, to the intellectual heft of the market. Executives are busy with operations, and they shouldn't be expected to have any special talent for understanding market forces. Underpinning the market, on the other hand, are thousands of independent thinkers who are actively competing with one another to make bids and to set ask prices.

The stock market is super-competitive because it's made up of lots of independent, sophisticated investors. That's why you don't see mistakes too often, and if you do, it's generally because the market has incomplete information. When a company misses earnings targets by a wide margin, for example, you might see a 3-5% adjustment in the stock price, and perhaps up to 10%. But you rarely see an enormous dive, of, say, 25 to 50%.

It's for good reason: the collective smarts of thousands of market participants. They're good at setting and adjusting bid/ask prices. And they don't need or pay attention to signals from executives.

(2) "Because shares are undervalued"

Here, theory meets practice, and theory loses. The theory: Buybacks should be considered when the intrinsic value of a company exceeds the stock price by a reasonable margin. It appears to be sensible theory, except it's too easy to abuse. Any executive can say their stock was undervalued when they engaged in a buyback.

In our study, we found no evidence among the Dow 30 companies to suggest executives actively consider intrinsic value when engaging in buybacks.

If executives were really paying attention to the price-to-value spread, buybacks would be relatively rare, and intermittently applied. But that's not what the evidence shows. With 30 out of 30 of the Dow Average companies actively engaged in buybacks during 2014-2016, we didn't observe any hesitation to repurchase shares, no matter the price.

That buybacks are robotically applied, quarter after quarter, year after year, with no apparent regard to price and value, suggests there are other motivations behind executive enthusiasm for buybacks. It's a problem we've discussed throughout this report, beginning with the first chapter: Executive incentives are a proximate cause of much of the excess we observe in buyback programs.

Another way to say it: Executives are subject to substantial, undisclosed conflicts of interest to engage in buybacks.

(3) "Buybacks cover dilution"

This one is easy to knock down. Dilution happens anyway. A buyback program doesn't fix dilution. It just covers it up.

What causes dilution, and will it ever go away? Executive incentives are the primary cause of dilution, and no, they're not going away. Our complaint isn't about incentives per se, but that current incentives are not aligned with the interests of shareholders, which is to increase long-term business value.

It doesn't increase business value when a corporation puts cash into buybacks, a nonproductive activity, instead of launching a new line of business, or expanding into new markets. These, at least, offer the potential for income down the road. Buybacks offer no such promise. From a business point of view, the return on investment with a buyback is always zero. There is no payback with buybacks.

It doesn't increase business value when debt is taken on so that more cash can be devoted to buybacks. It might provide a temporary bump to the stock price, but if it does, it's only because the market has incomplete information. Once the market recognizes what's really going on, stock prices adjust.

It's important to underscore how increases in earnings, or earnings per share, do not automatically equate with increases in business value. Increases in debt, forgoing innovation or expansion, and falling behind in a disrupted vertical are ways a business may be losing intrinsic value, even with higher earnings per share.

(4) "Buybacks generate a tax benefit"

The claim that buybacks offer a tax benefit is often dressed up with fancy-sounding terminology, such as: "Buybacks are a more tax efficient way to return capital to shareholders."

What backs up this claim is that the receipt of a dividend is a taxable event, and, depending on your tax bracket, may result in a tax as high as 20% if you're in the highest tax bracket. For those with stock holdings in a pension or IRA or other tax-qualified account (like a 401k), there is no tax.

So dividends are a taxable event, while a stock buyback is not. Does that automatically make it a "more tax efficient way to return capital"?

To nail down this issue we'll look at it from multiple vantage points.

First, you don't get cash (a tangible asset) from a buyback, you get an intangible asset, a higher ownership percentage. As we've explained, the only way you can actually get your hands on the cash that's been spent on buybacks is to effect a "timed sale" of a portion of your stock. Until you effect a timed sale, the cash spent on buybacks is unrealized and at risk.

And what happens when you effect a timed sale to get cash? It's a taxable event, taxed at capital gains rates, which, for most taxpayers, is at a similar rate as a dividend.

To better understand what we're saying, focus on the happy event of cash arriving in your pocket. With a dividend, it just shows up, and when it does, its taxable. With buybacks, you don't get a dime of cash until you sell a portion of your stock. When you sell, cash happily arrives in your pocket, and that's a taxable event.

So when fans of buybacks point to the "tax efficiency" of buybacks, they're not pointing to *savings*, they're just saying that you don't pay up front, that taxes are a later event. And in both cases, the taxable event coincides with the receipt of cash.

More to think about: The myth of equivalency

It's worth pointing out, that $1 of dividends does not equal $1 devoted to buybacks. In addition to the delay in delivery, there's risk involved with buybacks. It's pretty simple: If the business is shrinking in value, you always prefer a cash dividend to a buyback. Taxes are not a consideration.

If the business is slow-to-no growth, it's the same. Remember, you receive zero tangible value from a buyback. The transaction is a wash. It can take many years before it's possible for shareholders to recoup the cash that's been spent on buybacks in a slow-to-no growth business.

A cash dividend received today is much more appealing than a speculative return that's years into the future. The so-called tax benefit - which is merely a deferral, and not a savings – is not enough to make buybacks more appealing.

Where you might consider the timing benefit for taxes: When a business is growing organically. In such a case, it's possible to justify the added risk of not having cash in hand.

(5) Buybacks are more flexible than dividends

Executives are understandably reluctant to commit to high dividends. They don't know if they'll have sufficient cash to continue a high dividend in future years. Who knows what next year might bring?

Here's how one observer explained it at Quora:[47]

> "Buybacks are discretionary. Once you start paying a dividend one year, investors tend to expect a dividend next year. So paying out a dividend is often considered a long-term commitment, whereas a buyback is completely discretionary and can be stopped if, for example, management is able to identify an alternative use of cash that may generate even better returns."

This is a lousy excuse for buybacks. Of course no CEO would want to commit to paying out high dividends for the long-term. Who knows what the future brings, right? But it doesn't follow that the only solution is to pour cash into buybacks.

By using one's imagination, it's possible to come up with all sorts of alternatives to fixed

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[47] https://www.quora.com/Why-would-a-company-buy-its-own-shares

high dividends that do not include buybacks. For example, pay two types of dividends.

Explain to shareholders that you're paying a regular dividend each and every quarter that shareholders can count on. In addition, once a year, declare a second type of dividend, perhaps calling it a profit-sharing dividend.

You're not committing to it each year, but if times are good, and the company is solid, send the cash directly to shareholders.

Chapter 8: Who's to Blame?

Rooted in common law that goes all the way back to the early 1600s is the notion of "adverse possession."

Adverse possession, or a related version called "squatters rights" is a legal way for trespassers to take title away from property owners. One of the keys to making an adverse possession claim is that trespassers make use of the property *in full view of owners*. If property owners see what's happening to their property, and they don't do anything about it, they lose their property under certain conditions.

Adverse possession is still in place today, in all sorts of forms, codified with different rules and requirements in various states. Though it primarily involves real estate, it's a useful lesson for what happens to shareholders with buybacks.

Property owners lose in adverse possession cases through sheer indifference. They "sleep on their rights," by not protesting when someone is wrongfully using their property.

We've been encouraging investors to think like property owners throughout this report. Rightful owners of property have to stand up and be heard, and actively protest the misuse of their property. Being quiet doesn't solve anything.

It's probably naive to hope the SEC will suddenly act on their own volition with respect to buybacks, and reverse the 1982 rule change. Nothing is likely to improve unless and until shareholders make their voices heard. Which is the purpose of this report, to empower shareholders by fully briefing them on all of the key issues, including a detailed look at the process underlying buybacks.

To further help interested investors, we've attached "Theory, Process & Proofs" in the addendum to this report (Schedule A). Shareholders who wish to protest buybacks will want to review this summary. Take note how corporations are in a particularly weak position. They're not able to point to any theory or principle to justify their behavior, and so they hide behind the legal shield accorded them under Rule 10b-18.

Protesting buybacks is a challenge

Before they get out of the gate, aggrieved shareholders need to know what they're up against. Investors have been conditioned for many years to believe in buybacks. Everybody in the market has been subjected to a consistently delivered message, that buybacks are good, that they're just another way to "return capital to shareholders." For many years, investors have been trained and conditioned to accept them—by executives, by boards of directors, and by just about everybody else who has a hand in the cookie jar.

The second problem for shareholders who choose to resist excessive buybacks is that basic property rights have been taken away. It's not like shareholders did anything wrong to deserve it, either. Shareholders weren't abusing their position back in 1982. They didn't violate some code of conduct.

The SEC rule change in 1982 (Rule 10b-18) was an ad hoc change, intended to help the stock market when it badly needed help. But in trying to help the market, the SEC disenfranchised shareholders. And that's a really big deal. Losing the right to vote on buybacks means shareholders don't have a platform on which to stage a protest.

If Disney shareholders don't like the fact that their company spends 13 cents out of every dollar of sales on buybacks, what can they do about it? Without a vote on buybacks, how do Disney shareholders protest? For that matter, without full and fair disclosure about the scale of Disney's buyback effort, do shareholders even know about it?

What about McDonald's? If McDonald's shareholders get frustrated with management's unrepentant love for buybacks, what can they do?[48] Over the last three years, McDonald's sent a stunning 27 cents out of every revenue dollar to the stock market for buybacks. That represents a huge amount of cash that has "left the building," never to be seen again.

Without a vote, the shareholders of McDonald's, like shareholders everywhere, are completely shut out of the buyback process and effectively silenced.

So, how exactly do shareholders resist, anyway?

We have some ideas, including a plan of action that we'll discuss in the next and final chapter of this report. We just want to emphasize that any effort on the part of shareholders starts from way behind. With a generation of investors conditioned to accept buybacks as the norm, and with property rights crippled by Rule 10b-18, it's like we're in a 100-yard race, and we have to start 20 yards back.

Who should we blame for buyback excess?

We're going to spread blame around, to executives, to corporate boards, and to the SEC rule change in 1982. But first, like with the legal problem of adverse possession, we begin by looking in the mirror, at the one ultimately responsible.

Nobody can protect the interests of a property owner quite like the property owner himself. No other party will care quite as much. No other party will be as passionate. Or as resolute.

So before we start pointing fingers at executives and boards and such, it's important to remember: As shareholders, what is at issue here is *our property*. It's up to us to protect our property. We're getting stepped on because we're allowing ourselves to get stepped on.

Executives

Executives might say they're acting in the shareholder's best interests when they engage in buybacks, but it's not what we observed. Executives have been acting in their own best interests. They're incentivized to chase earnings per share targets, among other short-term metrics, and that's what they do.

Put yourself in their situation.

Busy with operations, they don't have time to think critically about stock buybacks from a shareholder's perspective. As you've seen and understood from reading this report, it's not an issue you can instantly understand.

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[48] In 2015, Scott Stringer, the New York City comptroller, complained that McDonald's buybacks did not create long-term value value for the company, and as such, hurt pensioners.

It won't cure buyback excess if we simply slap the wrist of executives and tell them to behave themselves. As we pointed out at the very beginning of this report, a proximate cause of buyback excess can be traced to misaligned incentives. The carrots that executives chase are not aligned with the interests of long-term shareholders.

Given the way incentives are designed, around per share targets and other short-term metrics, executives are subject to a powerful conflict of interest. All we have to do is look at the underlying incentives and we already know which "door" the executives are going to choose.

Boards of Directors

Boards have to accept more blame than executives, in our view. Boards are the ones who come up with misaligned, misguided incentives that sanction short-term thinking at the expense of long-term value creation.

Corporate boards risk a shareholder backlash if and when shareholders grasp what's really happening with respect to buybacks, i.e., how risk increases, how shareholder burdens increase, how buyback information is not fully explained and disclosed, and how executives are subject to substantial, undisclosed conflicts of interest.

Yes, it's true that the SEC rule change in 1982 protects boards from liability. But do corporate boards really want to hide behind that shield? Don't they want to be helpful to shareholders? Don't they realize that they have a duty to serve *all* of their shareholders, not just a handful of insiders?

Boards of directors serve a broad cross-section of constituents. Their job isn't limited to keeping the top corporate executives happy and motivated. They're obligated to thousands of shareholders with widely divergent needs and concerns.

That includes investors in index funds, who are at a decided disadvantage by buybacks. Index funds are not equipped to make timed sales to access the cash spent on buybacks. As a result, index investors are stuck holding a quasi long-term option, for better or worse.

What about retirees? They're generally less concerned about dilution – which happens anyway – and more interested in high dividend yields. You can't pay living expenses with a percentage ownership interest. It requires a timed sale to access buyback cash.

What about pensions? Pensions are the most loyal shareholders in the galaxy. Unlike hedge funds, which are here today, gone tomorrow, the nature of pension liabilities means pensions are shareholders for the long-term.

Unsophisticated investors, in particular, are disadvantaged by buybacks. These investors rely on corporate boards to do the right thing with their property. They trust boards to represent the interests of all shareholders, not just a handful of insiders.

Boards have not properly explained or disclosed the effect of buybacks on shareholders. They haven't explained how cash is being swapped for something that gives shareholders zero tangible benefit, and that acts like a long-term call option. It's not explained to shareholders that buybacks are a wash, that by sending cash to the stock market for buybacks, they are increasing risk for shareholders.

The Securities and Exchange Commission

Conditions in the stock market back in 1982 were pretty nasty. That the SEC tried to do something to help the market back then is understandable, considering the dire straits of the stock market. With 15% yields in corporate bonds, and double-digit yields from government bonds, it's no wonder that investor interest in stocks was at a generational low.

Here's a famous cover from Business Week in 1979, the "Death of Equities."

The BusinessWeek cover wasn't even the low point for stocks. Three years later, stocks went from bad to worse, losing another 25% in a gut-wrenching tailspin, and by 1982, the bear market was an incredible 16 years old.

Context *is* important. It's why the SEC rule change in 1982 (Rule 10b-18) sort of makes sense. It's certainly understandable that the SEC was motivated to try something, no matter how desperate.

But why is Rule 10b-18 still in place today? Do we really need it when conditions are quite the opposite? Today, yields in the bond market are paltry. Bonds just aren't a compelling alternative when compared to stocks.

Thirty-five years later, it's important to ask: What is the purpose of keeping Rule 10b-18 on the books?

If Rule 10b-18 doesn't help or benefit investors, who does it benefit? If it doesn't protect investors from harm, who is it protecting?

Chapter 9: Solving the Problem: A Plan of Action

It's an exciting new world for business

We're in the midst of an unprecedented and historic upheaval in business, one in which just about everything is in the process of being disrupted. The Internet has created a Cambrian, up-for-grabs competition that's likely to last well into the next decade. It's fabulously healthy for the economy because it ushers in new ideas and lots of innovation.

Most importantly, disruption involves looking at established processes with a blank sheet of paper, as if we're starting over. We look afresh at everything, as if we were to begin anew. It prompts fundamental, ground floor questions about buybacks, such as:

- Is our current buyback system really a good thing for shareholders?
- If we started over, would we design an incentive system like the one in place?
- Would we really give executives unfettered access to shareholder cash for buybacks, without any checks and balances?

Most investors are unaware of how much unbridled authority that corporate executives have with respect to buybacks. They're genuinely surprised to learn of the complete absence of checks and balances, and of how powerless shareholders truly are. For example, most investors don't know that until 1982 so-called "open-market purchases" (buybacks) were illegal, considered a form of market manipulation.

Isn't it time to bring a "blank sheet of paper" to buybacks?

Throughout this report, we've reminded you of how property rights have been taken away from shareholders as a result of the SEC rule change in 1982. The consequence: Our ability to protect our property has been severely crippled.

Without full and fair disclosure and, in particular, without a shareholder vote on buybacks, it's really difficult to effect change. We've been disenfranchised because of a rule change that has outlived its usefulness. We've been disenfranchised without cause, without having done anything to deserve it.

At a bare minimum, we need the restoration of a shareholder vote on any and all buybacks.

A vote would give us a way to resist excessive buybacks, a way to let executives know that owners are watching, providing a necessary check and balance to the system. And it would require full and fair disclosure, something that does not happen today.

We've got theory and process on our side. Executives and corporate boards may attempt to convolute and distract on the issue of buybacks, but it won't work if investors grasp the theory and process explained in this report. Just like with a shell game, if you thoroughly understand the process, if you slow down the flurry of action so you can see exactly what's going on, you won't be fooled.

Will you help?

We hope you agree that being quiet on the stock buyback issue won't solve anything.

Just like with adverse possession, our property is at risk when we're indifferent to what's going on.

The bottom line: Nothing is going to change unless and until shareholders (owners) stand up and speak. There are too many hands in the cookie jar, too many people making easy money because of buybacks for the system to fix itself.

In no particular order, there are many ways you can help.

- ✓ Spread the word to anyone who will listen. Share our report with others. You will find that very few investors are well informed on buybacks, although interest in the issue appears to be growing.

- ✓ Get educated on the issue. The more you learn, the better you can defend your property. We used the shell game comparison for just that reason. Slow down the action, see the cash disappear, consider the swap that's involved. Look at annual reports, and you'll see how just how meager disclosure really is.[49] And check out the addendum to this report, especially Sch. A, "Theory, Process & Proofs."

- ✓ Write to the SEC. If the SEC hears from enough disgruntled shareholders, it's possible they'll do something. Historically, the SEC has stood for full disclosure, for a level playing field, and for disadvantaged investors.

  Write to: Chairman Jay Clayton, U.S. Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090

- ✓ Write corporate boards and attach our report. On both theory and process, they're in a weak position. For shareholders who are willing to challenge executives, there are all sorts of issues you can choose from, such as: Why is so much cash being devoted to buybacks without the owner's consent? Why hide behind SEC rule 10b-18? Why not disclose basic information that's easy to find simply because it would be helpful to owners?

- ✓ Contact your congressman and senators.

More ways to build your knowledge on stock buyback and incentive issues:

- ✓ Forbes: We write a regular series of columns on the issues of buybacks, executive incentives and disruption.[51]

- ✓ Reuters did a superb three-part investigative series on buybacks.[52]

- ✓ We highly recommend William Lazonick's piece at Harvard Business Review, Profits Without Prosperity.[53]

- ✓ Look for more reporting on the buyback issue. We're aware of many reporters who are actively looking into the problem.

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[49] In the addendum to this report (Schedule C), we've included one page from the annual reports of each of the Dow Average companies, so you can see how they approach disclosure.

[50] A "buyback page" in the annual report would be most welcome; one that summarizes all of the relevant data including management's performance record.

[51] http://www.wormcapital.com/publications/

[52] http://www.reuters.com/investigates/special-report/usa-buybacks-cannibalized/

[53] *Profits Without Prosperity*, William Lazonick, 2014

Finally, we send out a monthly email to those who want to stay up-to-date on the buyback issue and executive incentives. Contact us if you'd like to receive our monthly update.

Arne Alsin, Founder, Worm Capital
Eric C. Markowitz, Worm Capital
Daniel Crowley, CFA, Worm Capital
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Schedule A: Theory, Process & Proofs[1]

Theory: Why theory is important: Because executives can't justify buybacks based on any generally accepted business theory. Instead, theory is unequivocally on the side of shareholders who choose to resist buybacks.

Process: Why process is important: Because buybacks are akin to a shell game. Just like with a shell game, by slowing down the process into understandable increments, investors are better able to see what's really happening.

- ✓ A flurry of action (not disclosed or explained to participants)
- ✓ Vanishing cash
- ✓ Swap of cash for something less valuable

Proofs: Why proofs are important: For many years, investors have been subjected to misinformation and misrepresentation about buybacks. The proofs equip investors with accurate information to help them fight back against excessive buybacks.

Theory & Process

Buybacks, defined: *Owners buying out the interests of other owners, using owner cash.*

Process: Executives are making decisions that rightfully belong to owners. Buybacks change ownership interests in a material way, without the knowledge and consent of owners.

Corporations are not protecting shareholders (owners):

1. Increased risk is not disclosed or explained
2. Conflicts of interest are not disclosed
3. The timed sale requirement is not explained or disclosed
4. Corporations withhold/delay disclosure of material information

The process does not protect shareholders (owners)

- No checks and balances are in place to protect owners
- No vote or permission from owners
- Full and fair disclosure is not even attempted

Basic Business Theory: Shareholders contribute risk dollars, which are intended for operations, not for buybacks.

Executives cannot point to any theory to justify diverting reward dollars to the stock market for purposes of a swap. What shareholders actually receive through a buyback is <u>not a return of capital</u>, but a recycling of reward dollars back into risk dollars (i.e., like a merry-go-round).

Theory: Business income generates cash for both reward (for shareholders) *and* reinvestment (for the corporation).

Prior to Rule 10b-18 in 1982, corporations reinvested about 50% of their income back into the business to maintain their competitiveness.

The Dow 30 companies we studied used 126% of income over a three-year period (2014 - 2016) for reward (buybacks and dividends), resulting in a capital deficit for reinvestment.

Corporations added considerable debt, engaged in asset sales, and other financial maneuvers in order to fund their reinvestment budgets.

[1] Corporations are provided legal cover from being sued by the SEC Rule change in 1982 (Rule 10b-18). Specifically, the provision provides corporations with a "safe harbor" against anti-fraud violations.

Theory: Buybacks are a nonproductive use of capital, generating zero payback for the corporation.

For corporations, just about every other alternative to buybacks offers the possibility of a future payback: Acquisitions, new factories, product development, expansion, etc. While a dividend does not offer a payback for the corporation, it mitigates risk for owners (i.e., it puts cash in their pocket).

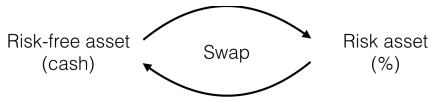
Theory: Which companies should consider buybacks?

Only companies where there is (#1) organic growth and that (#2) operate in a stable vertical (not a disrupted vertical).

Companies that are slow-to-no growth and/or competing in a disrupted vertical should refrain from buybacks because of the increased risk for shareholders.

Perpetual cycle of risk (merry-go-round):

Buybacks result in the recycling of reward dollars back into risk dollars, without shareholder's knowledge and consent, and without full and fair disclosure.



Corporate executives engage in a swap (cash for percentage) that puts shareholders in a riskier position than they would be otherwise. This unilateral executive action (without owner approval) is not supported by business theory.

Per share incentives rip off shareholders and have no support in business theory

- ✓ Buybacks are 100% paid for by shareholders
- ✓ The risk of buybacks is 100% borne by shareholders.

Manipulation potential: When earnings are difficult to grow, earnings per share can be increased through buybacks, which shrink the denominator.

$$\text{EPS} = \frac{\text{Earnings}}{\text{\# of Shares}}$$

Executives add no value with buybacks:

Cash is sent to the market to repurchase stock. This requires no skill or effort. Theory says executives are responsible for operations; therefore, incentives should be based on operations. Buybacks have nothing to do with operations: *There is never a business reason to do a buyback.*

Theory & process: Shareholders do not receive full value in buybacks

In a buyback, $1 of cash is swapped for less than $1 of value. This is caused by the months-long and unnecessary delay in disclosing buyback information to shareholders.

Because of the time value of money, it means shareholders are getting less than full value. The only solution is real-time (or near real-time) disclosure of buybacks to shareholders.

On shareholder risk, theory and process:

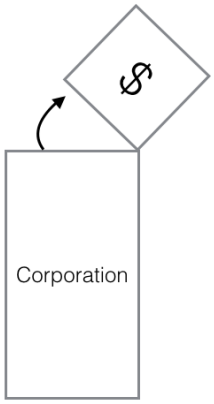
Theory: Buybacks fundamentally change the character of shareholder property, making it riskier (less cash cushion, more leverage). It's material, too, as shown in our study. Cash equal to 11% of shareholder value, over a three-year period, was withdrawn from corporations and swapped for an intangible, risk asset (equivalent to a long-term call option).

Process: Corporations do not disclose or explain the heightened risk to shareholders, nor do they disclose to shareholders substantial conflicts of interests that executive decision-makers are subject to. It's fair to say that shareholders (owners) are shut out entirely from the buyback decision-making process.

Proofs

1) BUYBACKS ARE A WASH

No tangible value is transferred to shareholders via buybacks. Cash is withdrawn from a corporation (reducing value), offset by a repurchase of shares. Evidence that buybacks are a wash include: Any and all fully disclosed distributions of cash or property. The market always adjusts stock prices for distributions, making them a wash, e.g. dividends, spinoffs, property distributions, etc.



With cash taken out, it's also easy to prove increased risk for shareholders (less cash = more leverage).

2) BUYBACKS HARM INNOVATION

This happens when:

Reward dollars > Income

Business theory: Income generates cash for reward (for shareholders) and for reinvestment back into the corporation, to maintain its competitiveness.

Prior to Rule 10b-18 in 1982, corporations reinvested about 50% of their income back into the business to maintain their competitiveness.

Problem: When 100% of income is being used for reward, underinvestment is an inevitable consequence. In our study, 126% of income was devoted to reward; reinvestment dollars were obtained through increased debt, asset sales, and other balance sheet maneuvers that are unsustainable over the long-term.

3) SHAREHOLDERS DO NOT RECEIVE FULL VALUE

Shareholders do not receive full value from buybacks based on the time value of money principle. The months-long time delay in informing owners is prima facie ("on its face") evidence that full value is not conveyed.

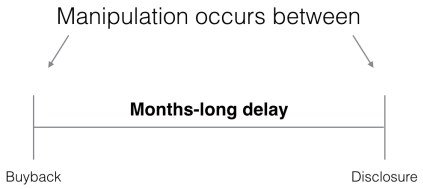
There's more: Shareholders receive a different type of asset (intangible asset), with different risk characteristics. Because buybacks don't show up in brokerage statements, there are identification issues (How much did I get? When did I get it?).

In addition, management misrepresents what shareholders actually receive, calling buybacks a "reward," or a "return of capital," and saying they are "creating value" through buybacks. Executives fail to explain what actually happens in a buyback, that a risk-free asset (cash) is swapped for a risk asset (which acts like a long-term call option). They don't disclose or explain how buybacks increase leverage in the corporation, and increase risk for shareholders.

4) MANIPULATION OF STOCK PRICES

Incomplete information = Price manipulation
(Artificial & temporary demand)

Market prices always adjust for cash withdrawals from corporations when it has complete information (dividends, spinoffs, property distributions, etc.). Because buyback information is hidden from the market, it creates artificial and temporary demand for stock.



The months-long time delay between a buyback and disclosure is clear evidence of price manipulation (artificial and temporary demand for stock). Price is manipulated until the market can "catch up," which happens after accurate and complete information is made public.

Insiders have an information advantage over other investors that they can exploit in their personal portfolios (selling while the corporation is buying). Insiders are uniquely aware of the timing and scope of buybacks. They know when and how much cash will be devoted to buying back stock.

Schedule B: Dow 30 Companies, 2014 - 2016

	2014	2015	2016	BUYBACK RATING	Market cap 2016	Total BBs	Total Dividends	Total Dividends + Buybacks	% of income devoted to buybacks and dividends	% of Property	3 year yield	Avg Yield	Cash	% Cash	LT Debt	% Debt	3 Yr. Sales	% Sales	3 Yr. Income	% Income	3 Year Sales Change	3 Year Income Change	3 Year Debt Change
Apple	*$ in billions*																						
Buybacks	$45.00	$35.25	$29.72		$640	$109.97	$34.84	$144.81	95.71%	17%	**22.6%**	**7.5%**	$67.0	164%	$75.4	146%	$625	18%	$138.6	79%	25%	23%	344%
Dividends	$11.13	$11.56	$12.15	Neutral																			
Boeing																							
Buybacks	$6.00	$6.75	$7.00	Neutral	**$95**	$19.75	$7.50	$27.25	56.88%	21%	**28.7%**	**9.6%**	$10.0	198%	$9.6	206%	$281	7%	$15.5	127%	9%	7%	19%
Dividends	$2.20	$2.50	$2.80																				
Caterpillar																							
Buybacks	$4.24	$2.03	$0.02	NEG	**$54**	$6.29	$5.18	$11.47	56.84%	12%	**21.2%**	**7.1%**	$7.2	87%	$22.8	28%	$141	4%	$6.5	96%	-30%		-15%
Dividends	$1.62	$1.76	$1.80																				
GE																							
Buybacks	$1.90	$23.70	$21.43	NEG	**$265**	$47.03	$26.66	$73.69	28.50%	18%	**27.8%**	**9.3%**	$48.0	98%	$136.0	35%	$614	8%	$21.0	224%	-17%	-38%	-55%
Dividends	$8.85	$9.30	$8.51																				
Exxon																							
Buybacks	$13.20	$4.00	$0.00	NEG	**$365**	$17.20	$36.20	$53.40	109.55%	5%	**14.6%**	**4.9%**	$3.7	108%	$42.8	9%	$827	2%	$58.5	29%	-42%	-75%	521%
Dividends	$11.60	$12.10	$12.50																				
Cisco																							
Buybacks	$9.84	$4.83	$4.47	NEG	**$151**	$19.14	$12.60	$31.74	86.96%	13%	**21.0%**	**7.0%**	$65.8	7%	$24.5	20%	$146	13%	$27.6	69%	1%	8%	89%
Dividends	$3.76	$4.09	$4.75																				
Coca-Cola																							
Buybacks	$4.16	$3.56	$3.68	NEG	**$178**	$11.40	$17.13	$28.53	73.75%	6%	**16.0%**	**5.3%**	$22.2	16%	$29.7	12%	$132	9%	$21.0	54%	-10%	-24%	54%
Dividends	$5.35	$5.74	$6.04																				
Merck																							
Buybacks	$7.70	$4.19	$3.43	NEG	**$158**	$15.32	$15.41	$30.73	66.06%	10%	**19.4%**	**6.5%**	$14.3	29%	$24.3	17%	$120	13%	$20.3	75%	-9%	26%	18%
Dividends	$5.17	$5.12	$5.12																				
Pfizer																							
Buybacks	$5.00	$6.16	$5.00	NEG	**$191**	$16.16	$20.87	$37.03	62.92%	8%	**19.4%**	**6.5%**	$17.9	34%	$31.4	20%	$151	11%	$23.3	69%	2%	-37%	3%
Dividends	$6.61	$6.94	$7.32																				
Intel																							
Buybacks	$10.79	$3.00	$2.59	Neutral	**$170**	$16.38	$13.90	$30.28	110.30%	10%	**17.8%**	**5.9%**	$17.1	18%	$20.7	14%	$171	10%	$33.4	49%	13%	7%	57%
Dividends	$4.41	$4.56	$4.93																				
Walmart																							
Buybacks	$6.68	$1.02	$4.11	NEG	**$215**	$11.81	$18.62	$30.43	157.74%	5%	**14.2%**	**4.7%**	$8.7	12%	$44.0	2%	$1,444	1%	$48.0	25%	3%	-14%	6%
Dividends	$6.14	$6.19	$6.29																				

	2014	2015	2016	BUYBACK RATING	Market cap 2016	Total BBs	Total Dividends	Total Dividends + Buybacks	% of income devoted to buybacks and dividends	% of Property	3 year yield	Avg Yield	Cash	% Cash	LT Debt	% Debt	3 Yr. Sales	% Sales	3 Yr. Income	% Income	3 Year Sales Change	3 Year Income Change	3 Year Debt Change
Johnson and Johnson																							
Buybacks	$7.12	$5.29	$8.98	NEG	**$312**	$21.39	$24.54	$45.93	104.51%	7%	**14.7%**	**4.9%**	$41.9	13%	$22.4	24%	$216	10%	$48.0	45%	1%	20%	68%
Dividends	$7.77	$8.15	$8.62																				
3M																							
Buybacks	$5.65	$5.24	$3.57	NEG	**$105**	$14.46	$7.46	$21.92	68.43%	14%	**20.9%**	**7.0%**	$2.8	187%	$10.7	49%	$92	16%	$15.0	96%	-3%	7%	147%
Dividends	$2.22	$2.56	$2.68																				
P&G																							
Buybacks	$6.01	$4.60	$5.73	NEG	**$214**	$16.34	$21.64	$37.98	77.41%	8%	**17.7%**	**5.9%**	$13.4	34%	$19.0	24%	$217	8%	$29.4	56%	-21%	-11%	0%
Dividends	$6.91	$7.29	$7.44																				
Verizon																							
Buybacks	$0.00	$5.13	$0.00	NEG	**$212**	$5.13	$25.60	$30.73	143.18%	2%	**14.5%**	**4.8%**	$2.9	177%	$105.4	5%	$384	1%	$44.0	12%	4%	-42%	18%
Dividends	$7.80	$8.54	$9.26																				
Travelers																							
Buybacks	$3.33	$3.22	$2.47	NEG	**$34**	$9.02	$2.23	$11.25	88.89%	27%	**33.1%**	**11.0%**	$0.3	1073%	$5.9	55%	$81	11%	$10.0	90%	6%	-18%	-5%
Dividends	$0.73	$0.74	$0.76																				
Nike																							
Buybacks	$2.63	$2.53	$3.24	POSITIVE	**$84**	$8.40	$2.72	$11.12	87.23%	10%	**13.2%**	**4.4%**	$5.5	46%	$2.0	127%	$91	9%	$9.7	87%	28%	53%	67%
Dividends	$0.80	$0.90	$1.02																				
United Healthcare																							
Buybacks	$4.01	$1.20	$1.28	POSITIVE	**$151**	$6.49	$5.41	$11.90	159.66%	4%	**7.9%**	**2.6%**	$13.2	9%	$25.8	5%	$472	1%	$19.0	34%	50%	29%	73%
Dividends	$1.36	$1.79	$2.26																				
American Express																							
Buybacks	$4.39	$4.48	$4.43	NEG	**$68**	$13.30	$3.42	$16.72	97.73%	20%	**24.6%**	**8.2%**	$25.0	18%	$47.0	10%	$104	13%	$16.3	81%	-3%	1%	3%
Dividends	$1.04	$1.17	$1.21																				
Chevron																							
Buybacks	$4.41	$0.21	$0.65	NEG	**$202**	$5.27	$23.95	$29.22	80.77%	3%	**14.5%**	**4.8%**	$7.0	75%	$46.1	0%	$440	1%	$23.6	22%	-50%	0%	115%
Dividends	$7.93	$7.99	$8.03																				
Disney																							
Buybacks	$6.53	$6.10	$7.50	Neutral	**$165**	$20.13	$6.88	$27.01	98.67%	12%	**16.4%**	**5.5%**	$4.6	133%	$16.5	37%	$156	13%	$26.7	76%	23%	22%	29%
Dividends	$1.51	$3.06	$2.31																				
Dupont																							
Buybacks	$2.00	$2.35	$0.92	NEG	**$62**	$5.27	$4.59	$9.86	76.06%	9%	**15.9%**	**5.3%**	$6.0	39%	$8.1	29%	$78	7%	$7.5	70%	-31%	-12%	-24%
Dividends	$1.70	$1.55	$1.34																				

	2014	2015	2016	BUYBACK RATING	Market cap 2016	Total BBs	Total Dividends	Total Dividends + Buybacks	% of income devoted to buybacks and dividends	% of Property	3 year yield	Avg Yield	Cash	% Cash	LT Debt	% Debt	3 Yr. Sales	% Sales	3 Yr. Income	% Income	3 Year Sales Change	3 Year Income Change	3 Year Debt Change
Home Depot																							
Buybacks	$8.55	$7.00	$7.00	Neutral	**$163**	$22.55	$7.80	$30.35	61.78%	14%	**18.6%**	**6.2%**	$2.2	318%	$20.9	33%	$251	9%	$18.8	120%	18%	56%	120%
Dividends	$2.24	$2.53	$3.03																				
United Technologies																							
Buybacks	$1.50	$10.00	$2.25	NEG	**$88**	$13.75	$6.30	$20.05	81.15%	16%	**22.8%**	**7.6%**	$7.2	139%	$21.7	46%	$172	8%	$16.3	85%	-8%	-10%	10%
Dividends	$2.05	$2.18	$2.07																				
Goldman Sachs																							
Buybacks	$5.47	$4.14	$7.25	NEG	**$101**	$16.86	$4.84	$21.70	101.20%	17%	**21.5%**	**7.2%**	$11.5	36%	$197.0	2%	$25	66%	$22.0	77%		-8%	17%
Dividends	$1.45	$1.68	$1.71																				
IBM[1]																							
Buybacks	$13.68	$4.61	$3.50	NEG	**$154**	$21.79	$14.43	$36.22	113.20%	14%	**23.5%**	**7.8%**	$8.5	54%	$34.7	13%	$254	9%	$41.0	53%	-19%	-30%	6%
Dividends	$4.27	$4.90	$5.26																				
JP Morgan																							
Buybacks	$4.76	$5.62	$8.10	NEG	**$310**	$18.48	$21.76	$40.24	171.47%	6%	**13.0%**	**4.3%**	$24.0	23%	$270.0	2%	$158	12%	$69.0	27%	5%	-6%	8%
Dividends	$6.99	$7.87	$6.90																				
McDonald's																							
Buybacks	$3.20	$6.10	$11.17	NEG	**$101**	$20.47	$9.51	$29.98	46.63%	20%	**29.7%**	**9.9%**	$1.2	508%	$25.9	24%	$77	27%	$14.0	146%	-12%	-16%	83%
Dividends	$3.22	$3.23	$3.06																				
Microsoft																							
Buybacks	$7.32	$14.44	$15.97	NEG	**$486**	$37.73	$29.77	$67.50	75.56%	8%	**13.9%**	**4.6%**	$113.0	13%	$40.7	35%	$264	14%	$51.0	74%	9%	-23%	223%
Dividends	$8.88	$9.88	$11.01																				
Visa																							
Buybacks	$4.12	$2.91	$7.16	POSITIVE	**$180**	$14.19	$3.54	$17.73	99.83%	8%	**9.9%**	**3.3%**	$10.0	29%	$16.0	18%	$42	34%	$17.7	80%	28%		
Dividends	$1.01	$1.18	$1.35																				

Arne Alsin and Worm Capital clients are short IBM as of May 8, 2017. See the inside cover of this report for complete disclosures.

Schedule C: Disclosure for 30 Dow Companies

A Note To Our Readers:

On the following pages, we highlight how each company in the Dow 30 Average discloses buyback information to shareholders. This isn't a grading system; rather, we felt it important to highlight to readers the challenges of reporting on buyback information itself.

Because there is no standard, government-regulated approach for disclosing buyback information to shareholders, it's up to each company to decide exactly where and how this information is disclosed. Our analysis reveals a wide range of disclosure tactics: some companies highlight buyback and dividend information in the opening pages of their annual reports—while others bury the information deep into their annual 10-Ks.

For example, a comparison of Microsoft and JP Morgan:

Microsoft Annual Report 2016

Microsoft 2016 Annual Report

Microsoft

Quarter Ended	September 30	December 31	March 31	June 30	Fiscal Year
Fiscal Year 2016					
High	$ 48.41	$ 56.85	$ 55.64	$ 56.77	$ 56.85
Low	$ 39.72	$ 43.75	$ 48.19	$ 48.04	$ 39.72
Fiscal Year 2015					
High	$ 47.57	$ 50.05	$ 47.91	$ 49.54	$ 50.05
Low	$ 41.05	$ 42.10	$ 40.23	$ 40.12	$ 40.12

SHARE REPURCHASES AND DIVIDENDS

Share Repurchases

On September 16, 2013, our Board of Directors approved a share repurchase program authorizing up to $40.0 billion in share repurchases. The share repurchase program became effective on October 1, 2013, has no expiration date, and may be suspended or discontinued at any time without notice. This share repurchase program replaced the share repurchase program that was announced on September 22, 2008 and expired on September 30, 2013. As of June 30, 2016, $7.1 billion remained of our $40.0 billion share repurchase program. All repurchases were made using cash resources.

We repurchased the following shares of common stock under the above-described repurchase plans:

(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Year Ended June 30,		2016		2015		2014 [a]
First quarter	89	$ 4,000	43	$ 2,000	47	$ 1,500
Second quarter	66	3,600	43	2,000	53	2,000
Third quarter	69	3,600	116	5,000	47	1,791
Fourth quarter	70	3,600	93	4,209	28	1,118
Total	294	$ 14,800	295	$ 13,209	175	$ 6,409

(a) *Of the 175 million shares repurchased in fiscal year 2014, 128 million shares were repurchased for $4.9 billion under the share repurchase program approved by our Board of Directors on September 16, 2013 and 47 million shares were repurchased for $1.5 billion under the share repurchase program that was announced on September 22, 2008 and expired on September 30, 2013.*

The above table excludes shares repurchased to settle statutory employee tax withholding related to the vesting of stock awards.

Dividends

In fiscal year 2016, our Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Paymer
			(In millions)	

JP Morgan Chase Annual Report 2015 - page 283

At December 31, 2015, 2014, and 2013, respectively, the Firm had 47.4 million, 59.8 million and 59.8 million warrants outstanding to purchase shares of common stock (the "Warrants"). The Warrants are currently traded on the New York Stock Exchange, and they are exercisable, in whole or in part, at any time and from time to time until October 28, 2018. The original warrant exercise price was $42.42 per share. The number of shares issuable upon the exercise of each warrant and the warrant exercise price is subject to adjustment upon the occurrence of certain events, including, but not limited to, the extent to which regular quarterly cash dividends exceed $0.38 per share. As a result of the Firm's quarterly common stock dividend exceeding $0.38 per share commencing with the second quarter of 2014, the exercise price of the Warrants has been adjusted each subsequent quarter, and was $42.284 as of December 31, 2015. There has been no change in the number of shares issuable upon exercise.

On March 11, 2015, in conjunction with the Federal Reserve's release of its 2015 Comprehensive Capital Analysis and Review ("CCAR") results, the Firm's Board of Directors has authorized a $6.4 billion common equity (i.e., common stock and warrants) repurchase program. As of December 31, 2015, $2.7 billion (on a settlement-date basis) of authorized repurchase capacity remained under the program. This authorization includes shares repurchased to offset issuances under the Firm's equity-based compensation plans.

The following table sets forth the Firm's repurchases of common equity for the years ended December 31, 2015, 2014 and 2013, on a settlement-date basis. There were no warrants repurchased during the years ended December 31, 2015, 2014 and 2013.

Year ended December 31, (in millions)	2015	2014	2013
Total number of shares of common stock repurchased	**89.8**	82.3	96.1
Aggregate purchase price of common stock repurchases	**$ 5,616**	$ 4,760	$ 4,780

The Firm may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate repurchases in accordance with the common equity repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity during periods when it would not otherwise be repurchasing common equity – for example, during internal trading "blackout periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan established when the Firm is not aware of material nonpublic information. For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 5: Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities, on page 20.

As of December 31, 2015, approximately 195 million unissued shares of common stock were reserved for issuance under various employee incentive, compensation, option and stock purchase plans, director compensation plans, and the Warrants, as discussed above.

Note 24 – Earnings per share

Earnings per share ("EPS") is calculated under the two-class method under which all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities based on their respective rights to receive dividends. JPMorgan Chase grants restricted stock and RSUs to certain employees under its stock-based compensation programs, which entitle recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock; these unvested awards meet the definition of participating securities. Options issued under employee benefit plans that have an antidilutive effect are excluded from the computation of diluted EPS.

The following table presents the calculation of basic and diluted EPS for the years ended December 31, 2015, 2014 and 2013.

Year ended December 31, (in millions) except per share amounts)	2015	2014	2013
Basic earnings per share			
Net income	**$ 24,442**	$ 21,745	$ 17,886
Less: Preferred stock dividends	**1,515**	1,125	805
Net income applicable to common equity	**22,927**	20,620	17,081
Less: Dividends and undistributed earnings allocated to participating securities	**521**	543	524
Net income applicable to common stockholders	**$ 22,406**	$ 20,077	$ 16,557
Total weighted-average basic shares outstanding	**3,700.4**	3,763.5	3,782.4
Net income per share	**$ 6.05**	$ 5.33	$ 4.38
Diluted earnings per share			
Net income applicable to common stockholders	**$ 22,406**	$ 20,077	$ 16,557
Total weighted-average basic shares outstanding	**3,700.4**	3,763.5	3,782.4
Add: Employee stock options, SARs and warrants[a]	**32.4**	34.0	32.5
Total weighted-average diluted shares outstanding[b]	**3,732.8**	3,797.5	3,814.9
Net income per share	**$ 6.00**	$ 5.29	$ 4.34

(a) Excluded from the computation of diluted EPS (due to the antidilutive effect) were certain options issued under employee benefit plans. The aggregate number of shares issuable upon the exercise of such options was not material for the year ended December 31, 2015, and 2 million and 6 million for the years ended December 31, 2014 and 2013, respectively.

(b) Participating securities were included in the calculation of diluted EPS using the two-class method, as this computation was more dilutive than the calculation using the treasury stock method.

JPMorgan Chase & Co./2015 Annual Report 283

Microsoft, in the opening pages of its annual report, breaks down exactly how much stock was repurchased in each quarter for the over the previous two years. JP Morgan, on the other hand, does not list this information until page 283 in its annual report, and does not disclose exactly how much stock was repurchased in each quarter.

Importantly, and as noted in this report, many companies also conflate buybacks and dividends when reporting financials. For instance,Walmart says in its annual report "[W]e were able to return more than $10 billion to shareholders through dividends and share repurchases..." We feel this language is unacceptably vague; for purposes of clarity, companies should break down the ratio between buybacks and dividends.

The following pages are taken from the most recent annual reports or 10Ks for each company. At time of reporting this information (March 2017) most companies had not yet published 2016 annual reports, so Worm Capital used the most recent available reports.

Apple 2016 10k

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Annual Report on Form 10-K ("Form 10-K") contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of this Form 10-K under the heading "Risk Factors," which are incorporated herein by reference. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Part II, Item 8 of this Form 10-K. All information presented herein is based on the Company's fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to the Company's fiscal years ended in September and the associated quarters, months and periods of those fiscal years. Each of the terms the "Company" and "Apple" as used herein refers collectively to Apple Inc. and its wholly-owned subsidiaries, unless otherwise stated. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Overview and Highlights

The Company designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications. The Company's products and services include iPhone®, iPad®, Mac®, iPod®, Apple Watch®, Apple TV®, a portfolio of consumer and professional software applications, iOS, macOS™, watchOS® and tvOS™ operating systems, iCloud®, Apple Pay® and a variety of accessory, service and support offerings. The Company sells and delivers digital content and applications through the iTunes Store®, App Store®, Mac App Store, TV App Store, iBooks Store™ and Apple Music® (collectively "Internet Services"). The Company sells its products worldwide through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and value-added resellers. In addition, the Company sells a variety of third-party Apple compatible products, including application software and various accessories through its retail and online stores. The Company sells to consumers, small and mid-sized businesses and education, enterprise and government customers.

Fiscal 2016 Highlights

Net sales declined 8% or $18.1 billion during 2016 compared to 2015, primarily driven by a year-over-year decrease in iPhone net sales and the effect of weakness in most foreign currencies relative to the U.S. dollar, partially offset by an increase in Services. In April 2016, the Company announced a significant increase to its capital return program by raising the expected total size of the program from $200 billion to $250 billion through March 2018. This included increasing its share repurchase authorization from $140 billion to $175 billion and raising its quarterly dividend from $0.52 to $0.57 per share beginning in May 2016. During 2016, the Company spent $29.0 billion to repurchase shares of its common stock and paid dividends and dividend equivalents of $12.2 billion. Additionally, the Company issued $23.9 billion of U.S. dollar-denominated term debt and A$1.4 billion of Australian dollar-denominated term debt during 2016.

Fiscal 2015 Highlights

Net sales rose 28% or $50.9 billion during 2015 compared to 2014, driven by a year-over-year increase in iPhone net sales. iPhone net sales and unit sales in 2015 increased in all of the Company's reportable operating segments. The Company also experienced year-over-year net sales increases in Mac, Services and Other Products. Apple Watch, which launched during the third quarter of 2015, accounted for more than 100% of the year-over-year growth in net sales of Other Products. Net sales growth during 2015 was partially offset by the effect of weakness in most foreign currencies relative to the U.S. dollar and lower iPad net sales. Total net sales increased in each of the Company's reportable operating segments, with particularly strong growth in Greater China where year-over-year net sales increased 84%.

In April 2015, the Company announced a significant increase to its capital return program by raising the expected total size of the program to $200 billion through March 2017. This included increasing its share repurchase authorization to $140 billion and raising its quarterly dividend to $0.52 per share beginning in May 2015. During 2015, the Company spent $36.0 billion to repurchase shares of its common stock and paid dividends and dividend equivalents of $11.6 billion. Additionally, the Company issued $14.5 billion of U.S. dollar-denominated, €4.8 billion of euro-denominated, SFr1.3 billion of Swiss franc-denominated, £1.3 billion of British pound-denominated, A$2.3 billion of Australian dollar-denominated and ¥250.0 billion of Japanese yen-denominated term debt during 2015.

Boeing - Annual Report 2016

Total company revenues rose 6 percent in 2015 to a record $96.1 billion, and new orders for our market-leading products and services worth $83 billion sustained our backlog at a near-record total of $489 billion.

Core earnings per share of $7.72* for the year reflected strong operating performance across the company, offset by charges taken on the KC-46A tanker and 747 programs. Core operating earnings reached $7.7 billion*, and operating cash flow increased 6 percent year-over-year to $9.4 billion.

We also continued our balanced cash deployment strategy by repurchasing 47 million shares for $6.8 billion and paying $2.5 billion in dividends. In December 2015, based on our consistently strong cash generation and positive outlook, the Boeing board of directors raised our share repurchase authorization to $14 billion and increased the quarterly dividend 20 percent.

Boeing Commercial Airplanes reported record revenue of $66 billion in 2015 fueled by an industry-record 762 deliveries that extended our global market-share lead for a fourth consecutive year. By capturing an additional 768 net new airplane orders valued at $57 billion, we held our record unit backlog at nearly 5,800 airplanes worth some $432 billion; that's approximately seven years of production at current rates. Full-year operating margins were 7.8 percent.

Our market leadership in twin-aisle airplane programs was punctuated in 2015 with deliveries of an industry-record 135 787s from our production centers in Everett, Washington, and North Charleston, South Carolina. At the end of February, cumulative 787 deliveries totaled 380 airplanes to 43 customers. Market demand for the 787 is extensive and broad based as its game-changing capabilities continue to improve the way the world flies. For example, thanks to the 787's unprecedented combination of range and fuel efficiency, airlines flying it soon will operate more than 90 new nonstop routes between cities that previously haven't had nonstop service.

Demand also remains strong for our next new twin-aisle airplane, the 777X, which has a backlog of 306 orders from six customers and is on track for first delivery in 2020. Ensuring a smooth production transition between today's 777 and the 777X is a top priority. Our confidence in efficiently bridging between the two models is high, given our backlog of more than 200 current-model 777s, ongoing market demand and a strong value proposition for customers. In addition, in 2015, we began introducing fastener automation technology on the 777 program to reduce cost and flow time in assembly. We are maturing this technology on the current production line before transitioning it to the 777X.

In the highly competitive single-aisle market, the 737 family reached 588 net new orders and 495 deliveries in 2015, with a total program backlog at year-end of nearly 4,400 airplanes. The first 737 MAX test airplane rolled out of the factory on schedule in December 2015 and in January 2016 began its flight test program with a successful first flight. The highly fuel-efficient new 737 MAX has won nearly 3,100 orders since launch from a diverse set of the world's best airlines. We are on track to deliver the first 737 MAX, to Southwest Airlines, in the third quarter of 2017.

The outlook for our commercial airplane business remains positive as favorable passenger traffic trends and airline profitability forecasts continue to drive healthy global demand for new airplanes. To meet this demand, profitably build out our backlog and absorb new orders, our commercial airplane output will grow by approximately 30 percent over the next five years based on previously announced production rate increases. The 737 rate will rise from 42 per month today to 47 per month in 2017, followed by 52 per month in 2018 and 57 per month in 2019. The 787 will increase to 12 per month in mid-2016 and 14 per month later this decade. Boosted by a 2015 order from FedEx Express for 50 freighters, the 767 program will increase production to two per month in 2016 and 2.5 per month in late 2017.

Overall, the commercial airplane market represents a substantial growth opportunity, with a combination of fleet expansions and replacement demand expected to drive the need for more than 38,000 airplanes worldwide over the next 20 years. This ongoing demand, coupled with our record unit backlog, reinforces our production rate plans and positions us for significant revenue, earnings and cash growth in the years ahead.

Boeing Defense, Space & Security had another strong year in 2015 — with solid revenue, healthy margins and progress on numerous key milestones. Revenues totaled $30.4 billion, and operating margins grew to 10.8 percent. We delivered 186 aircraft, along with 15,787 weapons systems and four satellites. New orders reached $27 billion, resulting in a solid year-end backlog of $58 billion. International customers represented roughly one-third of revenue and 40 percent of current backlog.

*Non-GAAP measures. See page 123.

We are aggressively moving through this tough business cycle focusing on cost management, innovation and producing the highest quality products, including our Tier 4 emissions offerings, in the safest factories possible.

As a result of these efforts and ongoing restructuring, our balance sheet is strong. During 2015, we bought back $2 billion of shares and increased the quarterly dividend by 10 percent. We ended the year with a 39.1 percent Machine, Energy & Transportation (ME&T) debt-to-capital ratio and $6.5 billion of enterprise cash, which gives us the financial strength to manage now and prepare for future opportunities. We have paid higher dividends for 22 consecutive years, and since 2007 our cash dividend has more than doubled. Maintaining our dividend is a priority use of our cash.

One area that continues to frustrate us is inventory turnover. We have seen our top line decrease by $19 billion – almost 30 percent – since 2012. Our inventory declined $2.5 billion in 2015 and, while it's difficult to improve efficiencies when so many plants run on interim schedules, overall, it's a favorable report on the status of our Lean journey. We'll continue to focus on this as we see more opportunity for upside in terms of inventory and asset turnover efficiency.

Our captive finance company, Cat Financial, is not only a great business, it's also a great example of our integrated business model. It's been proven through several ups and downs, and its key metrics are in line with long-term averages. Past dues actually improved last year and were down to 2.14 percent at the end of 2015, compared with 2.17 percent at the end of 2014. Cat Financial is healthy, well managed and risk is very much under control. It's also proven to be a bit countercyclical. In 2015, Cat Financial represented 6 percent of our sales and revenues; in the deep recession of 2009 it peaked at 9 percent. It's also important to know that we "stick to our knitting" with Cat Financial and provide financing only to Caterpillar customers and Cat dealers.

Continued Restructuring

We've continued to take costs out of our business to align with lower demand, including a painful but necessary major restructuring announced in September 2015, which is in addition to significant restructuring that's been occurring since 2013. Our team moved quickly once we determined a recovery was unlikely in 2016. Our first step was a voluntary early retirement program. We followed that with involuntary workforce reductions for a total workforce reduction of about 5,000 in 2015, and we plan a total reduction of 10,000 by the end of 2018. At the end of 2015, our workforce was down more than 24,000, or about 17 percent, from its 2012 peak.

Through the end of 2015, we have already reduced about 4 percent of our manufacturing square footage. We plan further closures and consolidations affecting about 20 facilities around the world, impacting more than 10 percent of our manufacturing square footage by the end of 2018. We anticipate approximately $1.5 billion of annual cost reductions through this major restructuring and, because we acted quickly, we'll recognize roughly half of that in 2016.

Where We're Headed

Our board is an actively engaged, full partner reviewing and supporting our strategy and the actions we're taking. We're restructuring to remain strong now and become even stronger tomorrow, because this down cycle is not permanent.

World population growth will continue to drive increased demand for energy, commodities, infrastructure and transportation – all of which require the power, endurance and sophistication of Cat® equipment. With our strategic focus on the long term, and the prudent steps we're taking now, we'll be prepared to take full advantage of recovery when it comes.

You can read even more about our investments for the future in this report. I've already mentioned overall cost reductions, how Lean manufacturing is improving our quality, safety and efficiency, and that we're maintaining research and development spending.

You can also read about our sustainability accomplishments and goals in the Caterpillar 2015 Sustainability Report, *What We've Built. What We're Solving*. A few of the highlights in that report include how our products bring traditional, renewable and alternative energy options to urban, rural and remote communities across the world. We do this, for example, through distributed power systems, which improve energy access while emitting fewer greenhouse gases than traditional power grid systems. Additionally, we have been remanufacturing our products for more than 40 years, returning them to same-as-when-new condition, and this conserves natural resources.

Service. The company's U.S. commercial paper is rated A-1+ by Standard & Poor's and P-l by Moody's. All of these ratings denote high-quality, investment-grade securities.

The company's future debt level is dependent primarily on results of operations, the capital program and cash that may be generated from asset dispositions. Based on its high-quality debt ratings, the company believes that it has substantial borrowing capacity to meet unanticipated cash requirements. During extended periods of low prices for crude oil and natural gas and narrow margins for refined products and commodity chemicals, the company can also modify capital spending plans to provide flexibility to continue paying the common stock dividend and also remain committed to retaining the company's high-quality debt ratings.

Committed Credit Facilities Information related to committed credit facilities is included in Note 19 to the Consolidated Financial Statements, Short-Term Debt, on page 56.

Common Stock Repurchase Program In July 2010, the Board of Directors approved an ongoing share repurchase program with no set term or monetary limits. The company did not acquire any shares under the program in 2015. From the inception of the program through 2014, the company had purchased 180.9 million shares for $20.0 billion.

Capital and Exploratory Expenditures

Capital and exploratory expenditures by business segment for 2015, 2014 and 2013 are as follows:

	2015			2014			2013		
Millions of dollars	U.S.	Int'l.	Total	U.S.	Int'l.	Total	U.S.	Int'l.	Total
Upstream	**$ 7,582**	**$ 23,535**	**$31,117**	$ 8,799	$ 28,316	$37,115	$ 8,480	$ 29,378	$37,858
Downstream	**1,923**	**513**	**2,436**	1,649	941	2,590	1,986	1,189	3,175
All Other	**418**	**8**	**426**	584	27	611	821	23	844
Total	**$ 9,923**	**$ 24,056**	**$33,979**	$ 11,032	$ 29,284	$40,316	$ 11,287	$ 30,590	$41,877
Total, Excluding Equity in Affiliates	**$ 8,579**	**$ 22,003**	**$30,582**	$ 10,011	$ 26,838	$36,849	$ 10,562	$ 28,617	$39,179

Total expenditures for 2015 were $34.0 billion, including $3.4 billion for the company's share of equity-affiliate expenditures, which did not require cash outlays by the company. In 2014 and 2013, expenditures were $40.3 billion and $41.9 billion, respectively, including the company's share of affiliates' expenditures of $3.5 billion and $2.7 billion, respectively.

Of the $34.0 billion of expenditures in 2015, 92 percent, or $31.1 billion, was related to upstream activities. Approximately 92 percent and 90 percent was expended for upstream operations in 2014 and 2013, respectively. International upstream accounted for 76 percent of the worldwide upstream investment in 2015, 76 percent in 2014 and 78 percent in 2013.

The company estimates that 2016 capital and exploratory expenditures will be $26.6 billion, including $4.5 billion of spending by affiliates. This planned reduction, compared to 2015 expenditures, is in response to current crude oil market conditions. Approximately 90 percent of the total, or $24.0 billion, is budgeted for exploration and production activities. Approximately $9 billion of planned upstream capital spending is for existing base producing assets, which include shale and tight resource investments. Approximately $11 billion is related to major capital projects currently underway, and approximately $3 billion relates to projects yet to be sanctioned. Global exploration funding accounts for approximately $1 billion. The company will continue to monitor crude oil market conditions, and will further restrict capital outlays should current oil price conditions persist.

Worldwide downstream spending in 2016 is estimated at $2.2 billion, with $1.6 billion for projects in the United States.

Investments in technology companies and other corporate businesses in 2016 are budgeted at $0.4 billion.

Noncontrolling Interests The company had noncontrolling interests of $1.2 billion at both December 31, 2015, and December 31, 2014. Distributions to noncontrolling interests totaled $128 million and $47 million in 2015 and 2014, respectively.

Pension Obligations Information related to pension plan contributions is included on page 64 in Note 23 to the Consolidated Financial Statements under the heading "Cash Contributions and Benefit Payments."

Cisco - Annual Report 2016

Lastly, we are co-developing solutions with and for our web-scale and service provider customers. This approach has contributed to double-digit year-over-year revenue growth in our business with the largest web-scale service providers in fiscal 2016.

Moving Quickly and Positioning for the Future

Over the last year, I formed an Executive Leadership Team that combines continuity in key positions, with both the elevation of next-generation Cisco leaders and the addition of world-class talent from outside. In addition, to better align around the areas that are critical to our customers' needs, we have simplified our Engineering organization. These moves have been critical in enabling us to increase the pace at which we are innovating and to simplify our portfolio for our customers and how we go to market.

We have also continued to manage our portfolio by optimizing our cost base in lower growth areas so as to invest further in key priority areas such as security, IoT, collaboration, next-generation data center, and cloud. These areas are delivering the most value for our customers and, we believe, will drive our future growth and create long-term value for our shareholders.

Fiscal 2016: Strong Execution Driving Profitable Growth

We executed well despite a volatile environment in fiscal 2016 and produced solid financial results. Revenue for the year was $49.2 billion. Product revenue was over $37.2 billion, and Services revenue was $12.0 billion. Not including the set-top box business, which we divested during the fiscal year, revenue grew 3% year over year. Deferred revenue was $16.5 billion, up 8% year over year. The recurring portion of product deferred revenue related to software and subscription businesses grew 33% year over year, reflecting our efforts to drive more recurring revenue streams. This shift is particularly evident in our Security portfolio—close to 50% of which we now deliver through software or as a service—and our Collaboration portfolio, all of which we are committed to delivering from the cloud. We are working to move more of our revenue to a software-based and subscription-based model and to accelerate this shift across our entire product portfolio.

We also remain disciplined and focused on continuing to drive operational efficiencies and productivity to achieve profitable growth. In fiscal 2016, this resulted in strong operational leverage and increased margins.

Net income was $10.7 billion, up 20% from fiscal 2015, while earnings per share on a fully diluted basis reached a record $2.11, up 21% from fiscal 2015.

Our balance sheet remains strong, with total assets at the end of fiscal 2016 of $121.7 billion, representing a 7% increase from the end of fiscal 2015. Cash, cash equivalents, and investments were $65.8 billion, and we generated $13.6 billion in operating cash flow. We returned $8.7 billion to shareholders, composed of $3.9 billion in share buybacks and $4.8 billion in dividends. We remain firmly committed to returning a minimum of 50% of our free cash flow to shareholders annually.

Focusing on Our People and Culture

The results we have been able to drive would not be possible without the dedication and commitment of our employees. As a digital business, we are able to provide the tools for our people to be more mobile, connected, and engaged. One of the things about which I'm most proud is that, as a company, we consistently use our technology and expertise to tackle some of the world's biggest challenges and accelerate global problem solving. I truly believe there has never been a better time for us to effect positive change in the world.

Our Time Is Now

We believe we have an unprecedented opportunity to chart a new course for our customers, delivering innovation across the network, security, collaboration, next-generation data center, and the cloud, to help them solve problems and achieve their objectives. We are transforming our business from products and architectures to a platform model, and we are working to make sure that everything we offer is available both on premises and in the cloud. We are evolving our organization and our culture so we are able to move more quickly and simplify at every turn, building on the success of the last 30-plus years.

With all of this in place, in fiscal 2017 you can expect us to continue to focus on our strategic priorities as we aim to drive profitable growth regardless of market conditions. We are excited to build on the momentum we have generated over the past fiscal year and for the opportunities that lie ahead.

Thank you for your continued support.

Chuck Robbins

Chief Executive Officer

October 19, 2016

Disney 10k 2016

The Company currently expects its fiscal 2017 capital expenditures will be approximately $0.5 billion higher than fiscal 2016 capital expenditures of $4.8 billion due to increased investments at our domestic parks and resorts partially offset by decreased investments at our international parks and resorts.

Other Investing Activities

During fiscal 2016, acquisitions totaled $850 million due to the acquisition of a 15% interest in BAMTech and an 11% interest in Vice. In addition, the Company made $109 million of contributions to joint ventures and investment purchases and paid $74 million in premiums for foreign currency option contracts in connection with our commitment to acquire two new cruise ships.

During fiscal 2015, contributions to joint ventures totaled $151 million and proceeds from the sale of investments and dispositions totaled $166 million.

During fiscal 2014, acquisitions totaled $402 million due to the acquisition of Maker Studios, and proceeds from the sales of investments and dispositions of assets totaled $395 million.

Financing Activities

Cash used in financing activities was $7.0 billion in fiscal 2016 compared to $5.5 billion in fiscal 2015. The net use of cash in the current year was due to $7.5 billion of common stock repurchases and $2.3 billion in dividends, partially offset by net borrowings of $2.9 billion.

Cash used in financing activities of $7.0 billion was $1.5 billion more than the cash used in fiscal 2015. The increase in cash used in financing activities was driven by:

Increases due to:

- Higher common stock repurchases of $1.4 billion ($7.5 billion in the fiscal 2016 compared to $6.1 billion in fiscal 2015)
- Lower contributions from non-controlling interest holders (zero in fiscal 2016 compared to $1.0 billion in fiscal 2015)

Partially offset by decreases due to:

- Lower dividend payments of $0.8 billion as a result of moving from an annual dividend to a semi-annual dividend. In fiscal 2015, we paid our full year fiscal year 2014 dividend and the first half of the fiscal 2015 dividend. In the current year, we paid the dividend for the second half of fiscal 2015 and the first half of fiscal 2016.
- Higher net borrowings of $0.2 billion ($2.9 billion in fiscal 2016 compared to $2.7 billion in fiscal 2015)

Cash used in financing activities was $5.5 billion in fiscal 2015 compared to $6.7 billion in fiscal 2014. The net use of cash in fiscal 2015 was due to $6.1 billion of common stock repurchases and $3.1 billion in dividends, partially offset by net borrowings of $2.7 billion and contributions from noncontrolling interest holders of $1.0 billion.

Cash used in financing activities of $5.5 billion in fiscal 2015 was $1.2 billion lower than cash used in fiscal 2014. The decrease in cash used in financing activities was driven by:

Decreases due to:

- Higher net borrowings of $2.1 billion ($2.7 billion in fiscal 2015 compared to $0.6 billion in fiscal 2014)
- Higher contributions from non-controlling interest holders ($1.0 billion in fiscal 2015 compared to $0.6 billion in fiscal 2014)

Partially offset by an increase in dividend payments of $1.6 billion as a result of moving from an annual dividend to a semi-annual dividend and an increase in the per share dividend related to fiscal 2014.

Dupont Annual Report 2016

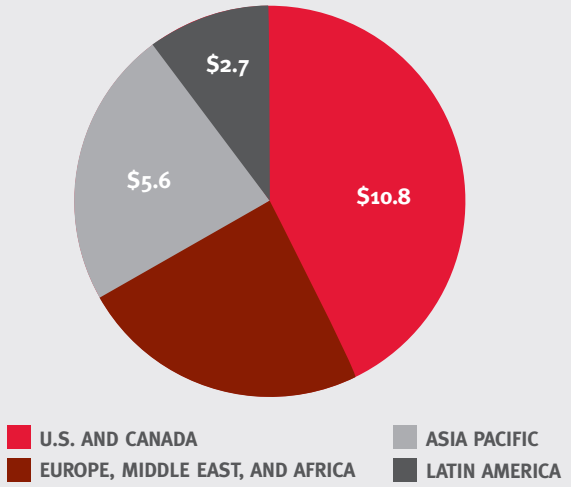
A world leader in science and innovation, DuPont continues to work toward sustainable, renewable and market-driven solutions for some of our biggest global challenges. We are helping to provide healthy food for people everywhere, decreasing dependence on fossil fuels, and protecting life and the environment.

For more than two centuries, our ability to meet the changing needs of our customers and society through world-class science and innovation has been the key to our success. DuPont's current transformation will position each of our businesses with a clear focus and allow us to deliver superior solutions and choices for our customers. For additional information about DuPont and its commitment to inclusive innovation, please visit dupont.com.

2015 NET SALES BY REGION

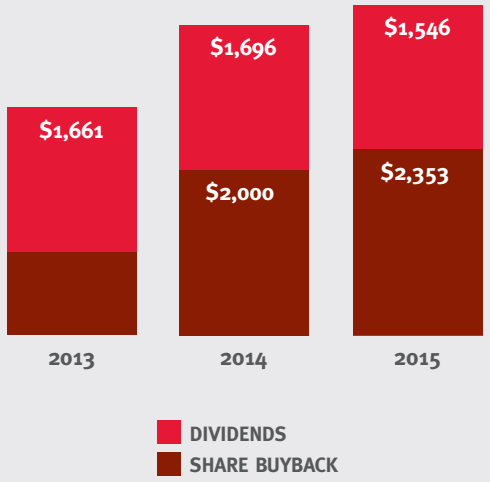
Consolidated net sales based on location of customers

[U.S. DOLLARS IN BILLIONS]

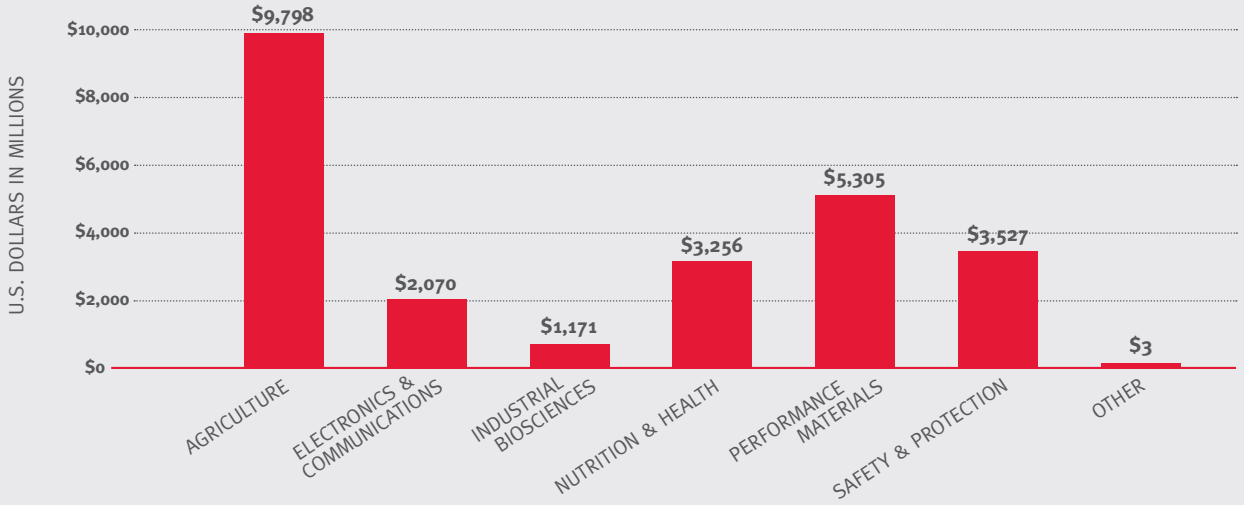


CAPITAL RETURNED TO SHAREOWNERS

[U.S. DOLLARS IN MILLIONS]



2015 SALES BY SEGMENT



To Our Shareholders

Exxon Annual Report - 2015

ExxonMobil creates shareholder value by providing industry leadership to meet one of the world's greatest challenges – supplying the energy needed to advance global economic prosperity in a safe, secure, and environmentally responsible way. The oil and gas business is cyclical, driven by the supply-and-demand balance. Technological innovations and significant investments have unlocked an abundance of energy supply, including North America's unconventional resources. At the same time, global economic growth has slowed, leading to a market that is oversupplied, resulting in today's lower energy prices.

Yet, even in the midst of these short-term challenges, we maintain a longer-term view for our strategic decisions and business plans, underpinned by our *Outlook for Energy*, an annual assessment that is shared publicly. A rising world population and burgeoning middle class, along with anticipated economic progress, will drive 25-percent growth in energy demand from 2014 to 2040. Fueling this global expansion will require substantial new sources of energy across all resource types along with further advances in technology and continued capture of ever-improving energy efficiency. By improving access to reliable and affordable energy, we can help reduce poverty and advance living standards for billions of people. Therefore, ExxonMobil continues to innovate and selectively invest through the cycle to supply these long-term growth markets and create value for our shareholders.

Our longer-term view also helps us meet another important aspect of the energy challenge: doing our part to minimize impacts to the environment. ExxonMobil views climate change as a serious risk. As with every aspect of our business, we approach these risks with the highest level of integrity and thoughtful action. ExxonMobil has studied climate change for almost 40 years. We were among the first to seriously study the possibility of links between the use of fossil fuels and impacts to the environment, and we have and continue to collaborate and share our research with leading scientific institutions, both governmental and nongovernmental; top universities; the United Nations; and other public stakeholders.

ExxonMobil is uniquely suited to compete effectively throughout the cycle, and our strong balance sheet positions us to pursue new opportunities in today's challenging market.

ExxonMobil continues to support advanced research to progress climate science and develop breakthrough technologies as well as participate in constructive dialogue on policy options with nongovernmental organizations, industry, and policymakers. In our operations, we remain focused on increasing energy efficiency and minimizing flaring, venting, and fugitive emissions, and we are implementing reduction technologies, such as cogeneration and carbon sequestration. Products we produce, such as cleaner-burning natural gas, also help to reduce global emissions.

Our 2015 results demonstrate the capabilities of our world-class workforce and the resilience of our integrated businesses. We achieved strong safety and environmental performance, reflecting an unwavering commitment to operational excellence and effective risk management. Despite a volatile and challenging energy landscape, we delivered solid financial results, highlighted by earnings of $16.2 billion and a return on capital employed that, while reflecting bottom-of-cycle conditions, nonetheless consistently leads competition.

The scale and integrated nature of our cash flows along with diligent cash management provide unparalleled financial strength, allowing us to confidently and prudently invest through the business cycle while paying a reliable and growing dividend to our shareholders. Capital and exploration expenditures were $31.1 billion, $7.4 billion below 2014, reflecting cost savings in a rapidly changing market, capital efficiencies, and timely completion of several major projects. By continuing our disciplined investment programs at levels appropriate to the current environment, we capture significant savings and position our assets for better financial performance. Shareholder distributions were $15.1 billion, in the form of dividends and share purchases to reduce shares outstanding, and included a 5.8-percent increase in quarterly dividends per share. This marked the 33rd consecutive year ExxonMobil has increased the dividend, further differentiating ourselves from competitors.

Our Upstream business continues to demonstrate exceptional project development capabilities. Production volumes of 4.1 million oil-equivalent barrels per day were up 3 percent from 2014, reflecting investments in new development growth. We started up six major projects in 2015, adding nearly 300 thousand barrels per day of working interest production capacity. These include two capital-efficient subsea tiebacks offshore West Africa – Kizomba Satellites Phase 2 in Angola and Erha North Phase 2 in Nigeria – as well as an expansion of the Kearl oil sands development in Canada. These projects started up ahead of schedule and on or below budget.

GE Annual Report 2016

LETTER TO SHAREOWNERS

LEADING A DIGITAL INDUSTRIAL ERA

Your company delivered in a year of sluggish growth and geopolitical surprise. There is deep skepticism toward the ideas that powered economic expansion for a generation, with concepts like innovation, productivity, and globalization being challenged and protectionism on the rise. We're in an era when some very basic assumptions about the global economy are being tested — an era when trust in big institutions is so low that the most valued "strategy" is simply change in any form. For an American company, our country is diverging from the rest of the world. We will be less of a leader in trade. Meanwhile, we are stripping away years of bad regulatory and economic practices to promote competitiveness.

GE is filled with business leaders, not philosophers. We understand that the best companies don't make decisions based on what they hope for, but rather on the facts they see. We win by being a valuable, global company and by engaging members of every community we operate in all over the world. We play to our fundamental strengths. We have the world's best industrial businesses that compete in large markets. We add enterprise strength through what we call the GE Store. We are building a culture that is simpler, faster, and more accountable.

Positioning GE to win has required change. Every leader talks about change, but most are just managing momentum. This is a luxury we didn't have in GE. We refocused the company to be in businesses where we can lead while investing in new capability to capture future growth. We want GE to be essential to our customers, investors, and the world.

Over the last decade, we transformed the GE portfolio, increasing the portion of earnings from our industrial businesses from about 45% to 90%. We strengthened our competitiveness through investments in technology, globalization, and efficiency. In the past year, we sold most of GE Capital assets at good prices, integrated Alstom — our largest industrial acquisition — and announced plans to merge our Oil & Gas business with Baker Hughes, creating a broad industry leader. These are "once-in-a-lifetime" deals for most companies. We did them all in one year.

At the same time, we are investing in disruptive innovation that will drive industrial productivity in the future. We have established two new businesses — GE Digital and GE Additive Manufacturing — that are in the early stages of value creation for GE investors.

1. Margins excluding the impact of Alstom
2. Excluding the impact of foreign exchange

The challenge for any company is to invest in the future while delivering results. We have challenged ourselves to hit aggressive financial goals as we transform GE.

EXECUTING A PIVOT

Our team expects to expand earnings while changing the portfolio and investing in growth. We try to do this without making excuses for the economic environment. We seek to grow earnings per share (EPS) ahead of our industrial peers. We drive efficiency, targeting improvement in margins and reducing working capital. We are returning a substantial amount of capital to investors through dividends and buyback.

In 2016, we made progress on our goals, hitting $1.49 EPS, up 14%, but were short of our expectations. Our cash flow from operating activities (CFOA) was $30 billion, up 83%. We returned $30.5 billion to investors through dividends and share buyback. Alstom, an important acquisition, delivered $0.05 in incremental earnings. We sustained our investment in new products, continuing to win in the marketplace and finished the year with $321 billion in backlog, a record.

Our Industrial operating profit and Verticals earnings were $17.5 billion, flat from the previous year. Over the past five years, our profit growth has averaged 6%. Organic growth was up 1%, while operating margins declined slightly.[1] We grew gross margins by 40 basis points[1] and reduced working capital by more than $3 billion. Oil & Gas markets continued to be tough, and earnings there declined by 37%.[2] The rest of our portfolio grew by 8%.[2] Normally, we expect our diversified model to shrug off headwinds in one market and continue to achieve our goals. In 2016, we simply couldn't outrun pressure in the resource

Goldman Sachs Annual Report 2015

Lloyd C. Blankfein
Chairman and
Chief Executive Officer
(right)

Gary D. Cohn
President and
Chief Operating Officer
(left)

In this year's letter to our shareholders, we cover a wide array of topics, including an overview of our financial profile, a review of our strong and diverse client franchise, as well as our thoughts on the forward outlook, particularly how we are thinking about navigating these uncertain times.

Financial Profile

As we manage our financial profile, our strategy is predicated on carefully delineating between structural and cyclical factors affecting our businesses. Accordingly, in 2015, we continued to adjust our franchise to address structural changes in the regulatory environment, and we will continue to do so as needed. From a cyclical perspective, it certainly feels like the cycle has been prolonged, particularly as interest rates in many parts of the world remain at — or even below — zero, and growth and deflation concerns, among other worries, have persisted.

It is important to remember that cycles do turn, even if the timing of such inflections may be difficult to predict. As we look to deliver value to our shareholders over the long term, our focus continues to be on managing to both the structural and cyclical forces we see at play, while remaining flexible enough to capture future growth opportunities.

Our efforts in this regard have yielded solid results. Over the past four years, we have diversified our franchise while holding net revenues steady. We have increased our capital and liquidity, decreased our risk, and have stayed focused on efficiently and prudently managing our resources — all while helping our clients to execute their long-term goals and strategic objectives. Over the same four-year period, we returned approximately $25 billion in capital to our shareholders, increased dividends per common share by 44 percent and reduced our basic share count by 14 percent.

In response to structural changes resulting from new regulations, since the end of 2007, we have reduced our balance sheet by approximately one-quarter, while nearly doubling common shareholders' equity — cutting gross leverage by more than 60 percent — and tripling our liquidity position to almost $200 billion. These measures have strengthened our long-term financial safety and soundness.

Home Depot Annual Report 2015

Dear Shareholders:

Fiscal 2015 was another record setting year for The Home Depot. Our sales, net earnings and customer satisfaction scores were the highest in Company history. Sales grew $5.3 billion to $88.5 billion, an increase of 6.4 percent from fiscal 2014, with comparable store sales up 5.6 percent for the Company and 7.1 percent in the U.S. We saw positive comparable store sales in all three U.S. Divisions and positive comparable store sales in local currency in Canada and Mexico. With the close of our fourth quarter, this marks 17 quarters in a row of positive comparable store sales for our Canadian business and 49 quarters in a row of positive comparable store sales for our Mexican business. In addition, our interconnected business continues to be a competitive advantage and online sales grew profitably by $1 billion in fiscal 2015 to $4.7 billion in sales, representing growth of 25.4 percent from the prior year.

During the year we purchased Interline Brands, a leading national distributor and direct marketer of broad-line maintenance, repair and operations ("MRO") products. This opens up a new $50 billion market opportunity in the multi-family, hospitality and institutional spaces. We are very excited to have Interline's associates join The Home Depot family, and we believe that together, we will enhance our ability to serve our Pro customers.

In fiscal 2015, r share grew 15.9 percent to $5.46 and our return on invested capital grew 310 basis points to 28.0 percent. Over the course of the year, we returned over $10 billion dollars to our shareholders in the form of dividends and share repurchases. We delivered these results by staying true to our values and true to our strategy.

Our strategy has been anchored to our three-legged stool strategic platform. As we go forward, our strategy will not be changing, but it will evolve as we continue to lean into an interconnected retail experience to better meet our customers' needs. In 2015, we restructured our annual strategic planning process by addressing three main work streams. First, we identified potential disruptors to our business - what we referred to as our "War Games". Second, we held discussions on ideas that would expand our sales growth over the next several years. And third, we spent a considerable amount of time on productivity ideas.

This process, which we undertook with the oversight of our Board of Directors, solidified our focus on growth and productivity under our three-legged stool strategic platform. In addition, we identified various actions to reduce the effect of many of the potential disruptor activities. The three legs of our stool represent:

1. What we are passionate about: the Customer Experience;
2. What we are best in the world at: Product Authority; and
3. What drives our economic engine: Productivity and Efficiency Driven by Effective Capital Allocation.

We tie the "legs of the stool" together at the seat by what we call interconnected retail - One Home Depot serving our customers the way they want to be served. Our strategy, along with our orange-blooded associates, has and will continue to enable us to be the number one home improvement retailer in the world.

in U.S. patents earned, once again breaking the 7,000 threshold. Even more important than the total number is the transformation those patents represent. Consider that when our streak began more than two decades ago, 27 percent of our patents were in hardware. Last year, not only did we earn seven times as many total patents, but 31 percent of them were in cloud, analytics and cognitive.

We also returned $9.5 billion to you in 2015, including dividends of nearly $5 billion and $4.6 billion in gross share repurchases. This marks the 20th consecutive year of an increased dividend, and IBM's 100th straight year of providing one.

The Emerging IBM

Because IBM uniquely transforms both technology and business, our own reinventions in response to changing eras have been far-reaching. This is evident again today. As you have seen, we have transformed our portfolio—shedding businesses that provided little differentiating value to our clients, shifting our R&D and making dozens of acquisitions to fuel our growth businesses. At the same time, we have also injected new thinking and talent into IBM's culture—such as training 60,000 IBMers in Agile methods and increasing our team

"As important as 'becoming digital' is to our clients, it has become clear that it is not the destination. Rather, digital business is converging with a new kind of digital intelligence. We call this Cognitive Business."

Intel Annual Report 2015

Letter From Your Chairman

Intel is a technology company. We invent things. Our obligation to you, the owners, is to take those inventions and create business value to earn a return on our efforts.

Many of the Board's strategic conversations in 2015 focused on how best to allocate resources for stockholder value. The company is investing more in growing and emerging businesses in the data center, Internet of Things, and memory. And it is spending less in mature, less profitable, or less strategic businesses.

In the data center, we have strengthened the core CPU franchise and also expanded it with investments in new capabilities, such as fabrics, silicon photonics, and customization. The data center is Intel's most significant opportunity for potential growth.

The Internet of Things segment is achieving high growth rates as it builds on its traditional embedded processor business and finds new opportunities in the cloud with solutions and technologies from across the company. This also adds value to other businesses at Intel.

The memory segment continues to innovate and achieve high and profitable growth with NAND technology and solid-state drive (SSD) solutions. The introduction of 3D NAND and 3D XPoint technologies has the potential to help us deliver better solutions to customers in the data center and other businesses in the company.

The PC business continues to be a vital source of technology, production volume, and profits. We are maximizing the return in a difficult environment. Continuing product innovation and segmentation have helped protect pricing even as unit volume declines. Many of the strategic investments that have made this possible are also key to building other businesses at Intel.

The foundation for all of this is silicon technology. Moore's Law has defined our past and will shape our business and company for years to come.

The Board made a large allocation of capital in 2015 to fund the acquisition of Altera, which closed in 2016. We expect Altera to augment efforts in the data center and Internet of Things. We have also increased capital commitments to new memory technologies that are enabling important opportunities for the non-volatile SSD and data center businesses. And we continue to invest in leading-edge manufacturing capabilities.

As part of its regular review of cash policy, the Board approved an eight-cent increase in the cash dividend to $1.04 on an annual basis, beginning in the first quarter of 2016. Intel repurchased $3.0 billion worth of Intel stock in 2015. The total cash returned to stockholders through dividends and repurchases in 2015 was $7.6 billion.

One of the highlights of the last year for me personally was the public dialogue around the 50th anniversary of Moore's Law. It was encouraging to see the interest it generated, with thousands of stories reaching millions of people in 39 countries.

People often think that Moore's Law is all about technology. In fact, Gordon's original paper was about economics. As with each of our founders, Gordon made the successful transition from scientist to businessman. He understood the obligation to owners and the need to connect innovation to business.

That tradition is very much alive today at Intel. The mandates to innovate and to create business value remain important aspects of Intel culture. So does the emphasis on execution and results.

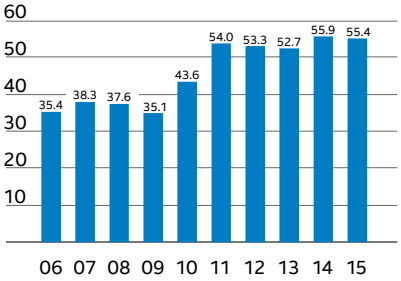
This is a time of significant change. There is more work to do, and we expect to report continuing progress.

Andy Bryant

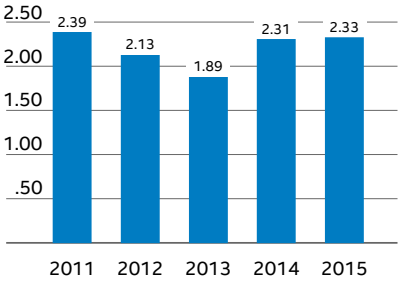
Andy D. Bryant, Chairman of the Board

Financial Results

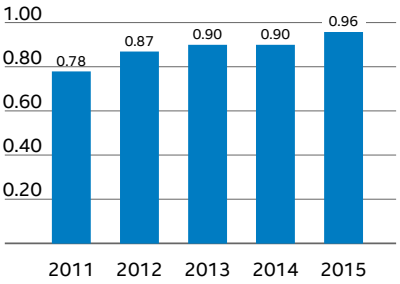
Net Revenue
Dollars in billions



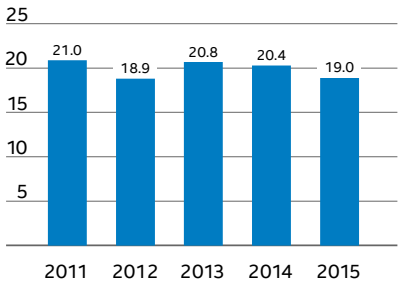
Diluted Earnings Per Share
Dollars



Dividends Per Share Paid
Dollars



Cash from Operations
Dollars in billions



Johnson and Johnson Annual Report 2015

acquisitions and partnership opportunities. Finally, we consider other prudent ways to return value to shareholders such as share repurchase programs.

During 2015, we increased our dividend for the 53rd consecutive year, we invested nearly $2.5 billion in licensing, acquisitions and strategic partnerships, and we announced a $10 billion share repurchase program in October.

THE SUCCESS OF OUR STRATEGIES IS PREDICATED ON THE STRENGTH OF OUR LEADERS & OUR TALENTED, DIVERSE EMPLOYEES ACROSS THE GLOBE, WITH THEIR BROAD BASE OF EXPERIENCE HELPING TO DRIVE RESULTS.

Over the past decade, we have supported our organic growth programs and prioritized business needs while also investing about 30 percent of our free cash flows in merger and acquisition opportunities. Approximately 70 percent has been returned to our shareholders in the form of dividends or share repurchases. Historically, about half of our growth has come from mergers and acquisitions, and half from internal development, which we expect to continue in the future. With our strong balance sheet, we have the financial strength and flexibility to execute on all of our capital allocation priorities simultaneously.

OUR DECENTRALIZED MANAGEMENT APPROACH ACKNOWLEDGES THAT THOSE CLOSEST TO PATIENTS AND CUSTOMERS ARE IN THE BEST POSITION TO UNDERSTAND AND ADDRESS THEIR NEEDS.

In order to meet our performance objectives, we have developed a set of near-term priorities for each business segment that will enable our enterprise to achieve the growth we expect in the long term, while also driving success for each segment.

As an enterprise, we continue to focus on delivering on our financial and quality commitments. Consistent with our long-term strategy, we exceeded our 2015 adjusted operational earnings per share growth goal and met our operational sales and free cash flow goals**, while executing against our enterprise priorities for long-term value creation.

The success of our strategies is predicated on the strength of our leaders and our talented, diverse employees across the globe, with their broad base of experience helping to drive results. Our goal is to attract and retain the best talent in order to deliver the best outcomes. We've made significant investments, both internally and externally, in global diverse talent who share our vision.

PHARMACEUTICALS

Our Pharmaceuticals business delivered strong financial results and continued to strengthen our industry-leading innovation pipeline in 2015. Our objective is to continue building on our launch excellence and robust pipeline of transformational medicines. Our Pharmaceuticals business has a clear strategy, focused on five therapeutic areas of high unmet medical need, a robust innovation engine and proven commercial capabilities. As we announced at our Pharmaceutical Analyst Day last May, we are investing in our future with 10 new product candidates which we plan to file for regulatory approval by 2019, each with the potential to exceed a billion dollars in annual sales. In 2015, we delivered the first of those breakthrough medicines to the

At December 31, 2015, 2014, and 2013, respectively, the Firm had 47.4 million, 59.8 million and 59.8 million warrants outstanding to purchase shares of common stock (the "Warrants"). The Warrants are currently traded on the New York Stock Exchange, and they are exercisable, in whole or in part, at any time and from time to time until October 28, 2018. The original warrant exercise price was $42.42 per share. The number of shares issuable upon the exercise of each warrant and the warrant exercise price is subject to adjustment upon the occurrence of certain events, including, but not limited to, the extent to which regular quarterly cash dividends exceed $0.38 per share. As a result of the Firm's quarterly common stock dividend exceeding $0.38 per share commencing with the second quarter of 2014, the exercise price of the Warrants has been adjusted each subsequent quarter, and was $42.284 as of December 31, 2015. There has been no change in the number of shares issuable upon exercise.

On March 11, 2015, in conjunction with the Federal Reserve's release of its 2015 Comprehensive Capital Analysis and Review ("CCAR") results, the Firm's Board of Directors has authorized a $6.4 billion common equity (i.e., common stock and warrants) repurchase program. As of December 31, 2015, $2.7 billion (on a settlement-date basis) of authorized repurchase capacity remained under the program. This authorization includes shares repurchased to offset issuances under the Firm's equity-based compensation plans.

The following table sets forth the Firm's repurchases of common equity for the years ended December 31, 2015, 2014 and 2013, on a settlement-date basis. There were no warrants repurchased during the years ended December 31, 2015, 2014 and 2013.

Year ended December 31, (in millions)	**2015**	2014	2013
Total number of shares of common stock repurchased	**89.8**	82.3	96.1
Aggregate purchase price of common stock repurchases	**$ 5,616**	$ 4,760	$ 4,789

The Firm may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate repurchases in accordance with the common equity repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity during periods when it would not otherwise be repurchasing common equity – for example, during internal trading "blackout periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan established when the Firm is not aware of material nonpublic information. For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 5: Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities, on page 20.

As of December 31, 2015, approximately 195 million unissued shares of common stock were reserved for issuance under various employee incentive, compensation, option and stock purchase plans, director compensation plans, and the Warrants, as discussed above.

Note 24 – Earnings per share

Earnings per share ("EPS") is calculated under the two-class method under which all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities based on their respective rights to receive dividends. JPMorgan Chase grants restricted stock and RSUs to certain employees under its stock-based compensation programs, which entitle recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock; these unvested awards meet the definition of participating securities. Options issued under employee benefit plans that have an antidilutive effect are excluded from the computation of diluted EPS.

The following table presents the calculation of basic and diluted EPS for the years ended December 31, 2015, 2014 and 2013.

Year ended December 31, (in millions, except per share amounts)	**2015**	2014	2013
Basic earnings per share			
Net income	**$ 24,442**	$ 21,745	$ 17,886
Less: Preferred stock dividends	**1,515**	1,125	805
Net income applicable to common equity	**22,927**	20,620	17,081
Less: Dividends and undistributed earnings allocated to participating securities	**521**	543	524
Net income applicable to common stockholders	**$ 22,406**	$ 20,077	$ 16,557
Total weighted-average basic shares outstanding	**3,700.4**	3,763.5	3,782.4
Net income per share	**$ 6.05**	$ 5.33	$ 4.38
Diluted earnings per share			
Net income applicable to common stockholders	**$ 22,406**	$ 20,077	$ 16,557
Total weighted-average basic shares outstanding	**3,700.4**	3,763.5	3,782.4
Add: Employee stock options, SARs and warrants[(a)]	**32.4**	34.0	32.5
Total weighted-average diluted shares outstanding[(b)]	**3,732.8**	3,797.5	3,814.9
Net income per share	**$ 6.00**	$ 5.29	$ 4.34

(a) Excluded from the computation of diluted EPS (due to the antidilutive effect) were certain options issued under employee benefit plans. The aggregate number of shares issuable upon the exercise of such options was not material for the year ended December 31, 2015, and 1 million and 6 million for the years ended December 31, 2014 and 2013, respectively.

(b) Participating securities were included in the calculation of diluted EPS using the two-class method, as this computation was more dilutive than the calculation using the treasury stock method.

Merck continues to support its in-line portfolio, as well as ongoing and upcoming product launches. *Keytruda* is launching around the world in multiple indications. In 2016, Merck achieved multiple additional regulatory milestones for *Keytruda* including approval from the FDA for the first-line treatment of patients with NSCLC whose tumors have high PD-L1 expression (tumor proportion score [TPS] of 50% or more) as determined by an FDA-approved test, with no EGFR or ALK genomic tumor aberrations and also for the treatment of patients with recurrent or metastatic head and neck squamous cell carcinoma with disease progression on or after platinum-containing chemotherapy. Additionally, in 2016, the EC approved *Keytruda* for the treatment of locally advanced or metastatic NSCLC in patients whose tumors express PD-L1 and who have received at least one prior chemotherapy regimen. In January 2017, the EC approved *Keytruda* for the first-line treatment of metastatic NSCLC in adults whose tumors have high PD-L1 expression (TPS of 50% or more) with no EGFR or ALK positive tumor mutations. Additionally, the Company is continuing its launch of *Zepatier* in the United States and in emerging markets and is now launching in the European Union (EU) and in Japan.

Merck is focusing its research efforts on the therapeutic areas that it believes can have the most impact on human health, such as oncology, diabetes, cardiometabolic disease, resistant microbial infection and Alzheimer's disease. In addition to the recent regulatory approvals discussed above, the Company has continued to advance other programs in its late-stage pipeline with several regulatory submissions. Merck has five supplemental biologics license applications (sBLA) under Priority Review with the FDA for *Keytruda* including: for use in combination with chemotherapy for the first-line treatment of patients with metastatic or advanced non-squamous NSCLC regardless of PD-L1 expression and with no EGFR or ALK genomic tumor aberrations; for the treatment of patients with classical Hodgkin lymphoma; for the treatment of previously treated patients with advanced microsatellite instability-high cancer; for the first-line treatment of patients with locally advanced or metastatic urothelial cancer, including most bladder cancers; and for the second-line treatment of patients with locally advanced or metastatic urothelial cancer with disease progression on or after platinum-containing chemotherapy. Merck is driving a broad immuno-oncology development program and investing in the long-term potential for *Keytruda* to become foundational in the treatment of a range of cancers. The *Keytruda* clinical development program includes more than 400 clinical trials in more than 30 tumor types; over 200 of these trials combine *Keytruda* with other cancer treatments. MK-1293, an insulin glargine candidate for the treatment of patients with type 1 and type 2 diabetes being developed in a collaboration, is also under review with the FDA.

In addition to Phase 3 programs for *Keytruda* in the therapeutic areas of breast, colorectal, esophageal, gastric, hepatocellular, multiple myeloma, and renal cancers, the Company also has candidates in Phase 3 clinical development in several other therapeutic areas (see "Research and Development" below).

During the past year, the Company continued its focus on productivity improvements, looking for opportunities to reallocate resources across the portfolio to grow its strongest brands and to support the most promising assets in its pipeline. *Marketing and administrative* expenses declined in 2016 as compared with 2015 reflecting in part this continued focus by the Company on prioritizing its resources to the highest growth areas. *Research and development* expenses in 2016 reflect increased clinical development spending as the Company continues to invest in the pipeline.

In November 2016, Merck's Board of Directors raised the Company's quarterly dividend to $0.47 per share from $0.46 per share. During 2016, the Company returned $8.6 billion to shareholders through dividends and share repurchases.

In January 2017, Merck entered into a settlement and license agreement to resolve worldwide patent infringement litigation related to *Keytruda* . In connection with the settlement, Merck recorded a pretax charge of $625 million in the fourth quarter of 2016 (see Note 10 to the consolidated financial statements).

Earnings per common share assuming dilution attributable to common shareholders (EPS) for 2016 were $1.41 compared with $1.56 in 2015 . EPS in both years reflect the impact of acquisition and divestiture-related costs, including a charge in 2016 related to the uprifosbuvir clinical development program, as well as restructuring costs and certain other items. Non-GAAP EPS, which excludes these items, were $3.78 in 2016 and $3.59 in 2015 (see "Non-GAAP Income and Non-GAAP EPS" below).

Visible change is not, however, limited to the restaurant experience. Our business and our responsibility to the communities we serve are inextricably linked as part of our ongoing efforts to use McDonald's convening power for good. That's why, on last year's International Day of Peace, we joined forces with the U.N.'s World Food Programme, the largest humanitarian agency fighting hunger. We raised awareness and much needed funding to help feed the 60 million refugees forced from their homes as a result of war and conflict. It's why we signed the American Business Act on Climate Pledge, underscoring our work to prevent deforestation and encourage sustainable sourcing, recycling and energy efficiency. It's also why we continue to support Ronald McDonald House Charities as it provides homes away from home for nearly six million children fighting illness and their families every year.

Enhancing Financial Value

Throughout 2015, we evaluated opportunities to further drive shareholder value. This includes a commitment to refranchise 4,000 restaurants between 2015 and 2018. Ownership is a powerful driver of growth, and putting more restaurants in the hands of local franchisees brings us closer to customers and the communities we serve. We also committed to reducing net annual G&A spend by $500 million, the vast majority of which will be realized by the end of 2017. On top of that, we increased our prior commitment, and expect to return $30 billion to shareholders for the three-year period ending in 2016, nearly double the cash returned to shareholders during the previous three-year period.

Early 2016: Continuing to Execute on the Turnaround Plan

We are in a stronger position today than we were twelve months ago. We are more focused on our customers. More aligned amongst franchisees, suppliers and company employees. Better positioned to deliver results.

We are executing our turnaround plan, focused on elevating every aspect of the customer experience and giving people more reasons to visit McDonald's. We are rallying around running better restaurants every day, and our actions have driven notable improvements.

While there is more work to be done, we are on the right path. We're revitalising McDonald's, establishing the right foundation for strengthening our business and ultimately accelerating growth. I'm excited about the opportunity to reassert McDonald's as a global leader.

I'm confident McDonald's is an investment that will yield meaningful long-term returns as we build on our momentum and make greater progress.

Thank you for your investment.

Steve Easterbrook
President and CEO

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

NIKE's Class B Common Stock is listed on the New York Stock Exchange and trades under the symbol NKE. At July 15, 2016, there were 23,196 holders of record of our Class B Common Stock and 16 holders of record of our Class A Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class A Common Stock is not publicly traded but each share is convertible upon request of the holder into one share of Class B Common Stock. Refer to Selected Quarterly Financial Data in Part II, Item 6 of this Report for information regarding quarterly high and low sales prices for the Class B Common Stock as reported on the New York Stock Exchange Composite Tape, and dividends declared on the Class A and Class B Common Stock.

During the third quarter of fiscal 2016, the Company concluded its four-year, $8 billion share repurchase program approved by the Board of Directors in September 2012. Under this program the Company purchased a total of 197.1 million shares at a cost of $8 billion (an average price of $40.58 per share). Following the completion of this program, the Company began repurchases under the new four-year, $12 billion program approved by the Board of Directors in November 2015. As of the end of the fourth quarter of fiscal 2016, the Company had repurchased 20.1 million shares at an average price of $59.21 per share for a total approximate cost of $1.2 billion under the new program. We intend to use excess cash, future cash from operations and/or proceeds from debt to fund repurchases under the share repurchase program.

The following table presents a summary of share repurchases made by NIKE under these programs during the quarter ended May 31, 2016:

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 (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs *(In millions)*
March 1 — March 31, 2016	2,923,173	$ 61.04	2,923,173	$ 11,173
April 1 — April 30, 2016	4,328,107	$ 59.69	4,328,107	$ 10,914
May 1 — May 31, 2016	1,765,373	$ 58.47	1,765,373	$ 10,811
	9,016,653	**$ 59.89**	**9,016,653**	

Microsoft

Quarter Ended	September 30	December 31	March 31	June 30	Fiscal Year
Fiscal Year 2016					
High	$ 48.41	$ 56.85	$ 55.64	$ 56.77	$ 56.85
Low	$ 39.72	$ 43.75	$ 48.19	$ 48.04	$ 39.72
Fiscal Year 2015					
High	$ 47.57	$ 50.05	$ 47.91	$ 49.54	$ 50.05
Low	$ 41.05	$ 42.10	$ 40.23	$ 40.12	$ 40.12

SHARE REPURCHASES AND DIVIDENDS

Share Repurchases

On September 16, 2013, our Board of Directors approved a share repurchase program authorizing up to $40.0 billion in share repurchases. The share repurchase program became effective on October 1, 2013, has no expiration date, and may be suspended or discontinued at any time without notice. This share repurchase program replaced the share repurchase program that was announced on September 22, 2008 and expired on September 30, 2013. As of June 30, 2016, $7.1 billion remained of our $40.0 billion share repurchase program. All repurchases were made using cash resources.

We repurchased the following shares of common stock under the above-described repurchase plans:

(In millions)	Shares	Amount	Shares	Amount	Shares	Amount
Year Ended June 30,	2016		2015		2014 [a]	
First quarter	89	$ 4,000	43	$ 2,000	47	$ 1,500
Second quarter	66	3,600	43	2,000	53	2,000
Third quarter	69	3,600	116	5,000	47	1,791
Fourth quarter	70	3,600	93	4,209	28	1,118
Total	294	$ 14,800	295	$ 13,209	175	$ 6,409

(a) *Of the 175 million shares repurchased in fiscal year 2014, 128 million shares were repurchased for $4.9 billion under the share repurchase program approved by our Board of Directors on September 16, 2013 and 47 million shares were repurchased for $1.5 billion under the share repurchase program that was announced on September 22, 2008 and expired on September 30, 2013.*

The above table excludes shares repurchased to settle statutory employee tax withholding related to the vesting of stock awards.

Dividends

In fiscal year 2016, our Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Paymer
			(In millions)	

We continued to build on our strong track record of returning cash to you, our shareholders. We paid $7.4 billion in dividends, increasing our dividend for the 60th consecutive year. We reduced shares outstanding by more than $8 billion through a combination of share repurchases and shares that were exchanged in the Duracell transaction. In total, P&G delivered nearly $16 billion of value for shareholders.

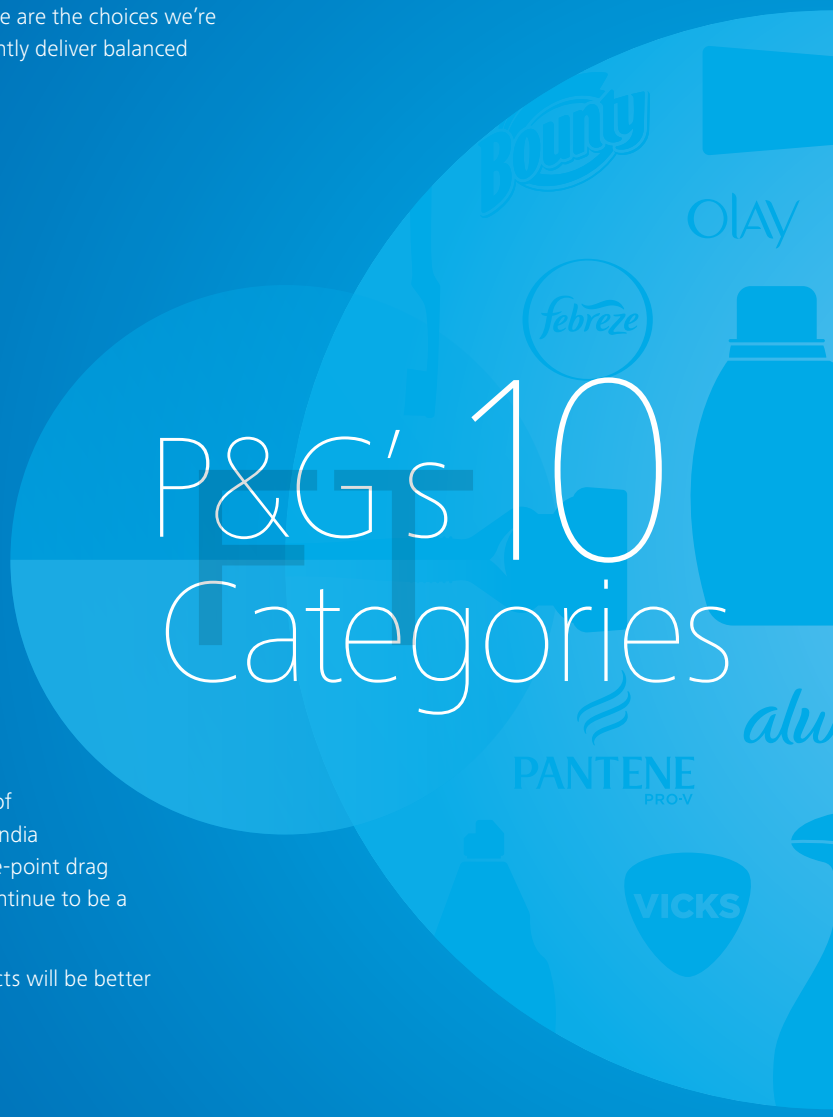
We made progress in a challenging environment, but we know we need to do better. We are focused on streamlining and strengthening our product portfolio, improving productivity and our cost structure, building the foundation for stronger top-line growth, and strengthening our organization and culture. These are the choices we're focused on to raise the bar on P&G's performance to consistently deliver balanced growth and leadership value creation.

Streamlining Our Product Portfolio

We're organizing our portfolio around 10 category-based business units and about 65 brands. These are categories where P&G has leading market positions and where product technologies deliver performance differences that matter to consumers. We're focusing on categories where product performance drives purchase decisions—where there are clear consumer jobs to be done and objective measures of performance. These are products in financially attractive categories, which consumers purchase and use on a daily basis. These 10 category-based business units have historically grown faster with higher margins than the balance of the company.

Within these core categories, we are streamlining our product lines. For example, we are making smart choices to discontinue undifferentiated, unprofitable and commoditizing products in favor of more profitable, consumer-preferred and differentiated products in a number of markets and businesses around the world, including Mexico, India and Fabric Care. Combined, these choices caused about a one-point drag on organic sales growth in fiscal 2016 and are expected to continue to be a headwind in fiscal 2017.

As we complete this work, our portfolio of brands and products will be better positioned for stronger and more profitable growth.



P&G's 10 Categories

Explore our brands and categories →

Pfizer Annual Report 2015

"...we finished 2015 with outstanding full year results. Every part of the business turned in a strong performance and achieved significant milestones across our four strategic imperatives."

Dear Shareholders:

I am pleased to report that we finished 2015 with outstanding full-year results. Every part of the business turned in a strong performance and achieved significant milestones across our four strategic imperatives. We advanced our pipeline by progressing 39 compounds. We grew several of our brands that are early in their life cycle (Prevenar 13 Adult, Ibrance, Eliquis, Xeljanz) and achieved our first year of operational revenue growth in five years. We returned $13.1 billion to our shareholders through dividends and share repurchases.

We acquired Hospira, Inc. and are successfully integrating this business into Pfizer's Global Established Pharmaceutical business. As we look forward to completing the pending Allergan combination, which is expected to close in the second half of 2016, we will begin the next chapter in Pfizer's journey to become the industry's premier biopharmaceutical company.

I want to take this opportunity to express appreciation to the full Board, and to Dr. Dennis Ausiello, who took over the role of Lead Independent Director last year. Denny and the Board are committed to strong corporate governance and responsiveness to shareholders. We were pleased to welcome Joseph Echevarria to our Board in June 2015. His expertise in finance, international business and leadership is an asset to an already diverse board in terms of skills, experience and tenure. In December, after engaging in many discussions with investors, the Board demonstrated its responsiveness to shareholder feedback and its commitment to corporate governance excellence by amending our By-laws to adopt proxy access.

On behalf of everyone at Pfizer and our Board of Directors, I thank you for your continued confidence in our leadership. I encourage you to review this Proxy Statement and vote your shares.

Sincerely,

Ian C. Read
Chairman and CEO

Over $3.9 billion in capital returned to shareholders in 2015

and analytics, which have been decades in the making and are continually improving. Our high-quality investment portfolio continued to contribute reliably to our results despite stubbornly low interest rates and more challenging capital market conditions.

We delivered these financial results by successfully executing our marketplace strategies. In domestic Business Insurance, we achieved a record level of retention and positive renewal rate change, consistent with our objectives given the attractive levels of current product returns. In Bond & Specialty Insurance, we generated a very strong combined ratio of 67.9% for the year. Our sustained strong performance in Bond & Specialty Insurance, a set of credit-sensitive businesses, demonstrates our expert management of risk and reward over time and through difficult business environments. In Personal Insurance, the continued success of Quantum Auto 2.0 drove 8% growth in our Agency Automobile policies-in-force count for the year, with retention up by more than two full points and new business up nearly 40% over the prior year. Success in the Auto product also had a positive impact on our top line Homeowners results. Moreover, our success in Personal Insurance was not limited to the top line, with Agency Auto and Agency Homeowners posting full year combined ratios of 94.7% and 75.8%, respectively. All in all, this excellent execution across our businesses contributed to record consolidated net written premiums of just over $24 billion in 2015.

Finally, our earnings and significant cash flow enabled us to continue to invest in our businesses while at the same time returning excess capital to our shareholders, increasing book value per share and maintaining our balance sheet strength. During 2015, we returned over $3.9 billion in capital to our shareholders, comprising more than $3.2 billion in share repurchases and $744 million of dividends. We also increased our dividend per share by 10.7%.

Consistent and successful financial strategy

The results we deliver are due to our deliberate and consistent approach to creating shareholder value. We have been clear for many years that one of our crucial responsibilities is to produce an appropriate return on equity for our shareholders. This has meant developing and executing financial and operational plans consistent with our goal of achieving superior returns, which we defined many years ago as a mid-teens operating return on equity *over time*. We emphasize that the objective is measured over time because we recognize that interest rates, reserve development and weather, among other factors, impact our results from year to year, and that there are years — or longer periods — and environments in which a mid-teens return is not attainable and other years in which we expect we will achieve or exceed a

Coca-Cola AT A GLANCE

The Coca-Cola Company (NYSE: KO) is the world's largest beverage company, refreshing consumers with more than 500 sparkling and still brands.

130 YEARS OF
REFRESHING CONSUMERS

GLOBAL HQ
ATLANTA,GA

PRODUCTS SOLD IN
200+ COUNTRIES

1.9+ BILLION
RECORD DAILY SERVINGS

PROFIT

$44.3B
NET OPERATING REVENUES
(2015, AS REPORTED)

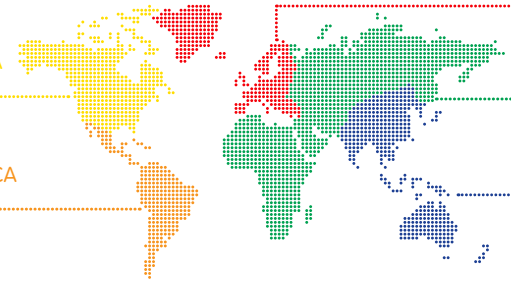
$7.4B
NET INCOME
(2015, AS REPORTED)

$8.0B
RETURNED TO SHAREOWNERS IN DIVIDENDS & NET SHARE REPURCHASES IN 2015

$185.8B
MARKET CAPITALIZATION
(AS OF 12/31/2015)

54 YEARS
OF CONSECUTIVE ANNUAL DIVIDEND INCREASES
(AS OF FEBRUARY 2016)

WORLDWIDE UNIT CASE VOLUME GEOGRAPHIC MIX (2015)



PEOPLE

700K+ SYSTEM ASSOCIATES WORLDWIDE

WE'RE EMPOWERING.
5M WOMEN TO BE EMPOWERED BY 2020
5by20

WE'RE DIVERSE.
100% RATING ON THE HUMAN RIGHTS CAMPAIGN'S CORPORATE EQUALITY INDEX (10 YEARS IN A ROW!)
HUMAN RIGHTS CAMPAIGN

CORPORATE INCLUSION INDEX RATING OF 90 (HISPANIC ASSOCIATION ON CORPORATE RESPONSIBILITY)
HACR 2015

PORTFOLIO

Coca-Cola
OUR COMPANY'S **FLAGSHIP PRODUCT** HAS BEEN PROUDLY SERVED SINCE MAY 8,
1886

RANKED BY INTERBRAND **AS THE WORLD'S THIRD MOST VALUABLE BRAND,** WITH 2015 VALUE OF
$78.4B

OUR BRANDS CAPTURE APPROXIMATELY **$1 OUT OF EVERY $4** CONSUMERS SPEND ON NONALCOHOLIC READY-TO-DRINK BEVERAGES WORLDWIDE.

3,800+ PRODUCTS WORLDWIDE

#1 WORLDWIDE
- SPARKLING BEVERAGES
- STILL BEVERAGES
- READY-TO-DRINK JUICE AND JUICE DRINKS
- READY-TO-DRINK COFFEE

18 OF OUR TOP 20 BRANDS
HAVE A LOW- OR NO-CALORIE ALTERNATIVE OR ARE LOW- OR NO-CALORIE

Our portfolio includes **20** billion-dollar brands:

Coca-Cola, POWERADE, AQUARIUS, bon aqua, Schweppes, DASANI, 水露, vitaminwater, Sprite, Simply Beverages, del Valle, Coca-Cola zero, GEORGIA, Diet Coke, Minute Maid, Minute Maid Pulpy, Fanta, GOLD PEAK TEA, FUZE tea, smartwater

NOTE: SCHWEPPES IS OWNED BY THE COMPANY IN CERTAIN COUNTRIES OTHER THAN THE UNITED STATES.

PARTNERS

~250 BOTTLING PARTNERS
~900 PLANTS

24M
RETAIL CUSTOMER OUTLETS
SHOP

INVESTED $75B+
TOGETHER WITH GLOBAL BOTTLING PARTNERS SINCE 2010

FOR MORE INFORMATION VISIT: WWW.COCA-COLACOMPANY.COM

3M - 2015 Annual Report

With respect to capital deployment, our first priority is to invest in the business. To that end, in 2015 we invested more than $3 billion in research and development (R&D) and cap-ex, which drive organic growth. Over the last five years, in fact, we've invested $16 billion in R&D and cap-ex.

Investments in our business also include acquisitions, which complement organic growth. In 2015 we invested nearly $4 billion in acquisitions.

After investing in the business, we have a long record of returning cash to our shareholders. And last year we returned nearly $8 billion to shareholders through dividends and share repurchases.

3M has paid dividends uninterrupted for 99 years, and 2015 marked our 57th consecutive year of dividend increases.

Building for Long-Term Success

In addition to delivering strong financial results, our team made significant progress in positioning us for success in both 2016 and well into the future.

At 3M, we run our enterprise with one eye on the microscope and the other eye on the telescope. The microscope view is to ensure we are delivering results day to day, quarter to quarter, and year to year. The telescope view is about strengthening our company for the future.

This means we must be nimble in responding to short-term challenges, while at the same time be steadfast in our commitment to investing for long-term success.

In 2015 we took action on both fronts.

On the microscope view, for example, we completed the corporate restructuring mentioned earlier, which was focused on structural overhead and slower-growing markets, with emphasis on the U.S., Latin America and the Europe/Middle East/Africa region. This action will help us to navigate the current economic challenges in 2016, with projected pre-tax savings of $130 million.

On the telescope view, we made significant progress on our three key levers: Portfolio Management, Investing in Innovation and Business Transformation. These levers are critical enablers to 3M's success in a future that will be even more competitive and dynamic.

Portfolio Management

Portfolio management is an ongoing process, and is all about strengthening and focusing our portfolio of businesses. This includes prioritizing the allocation of capital across our portfolio. It also includes combining businesses within 3M, along with acquisitions and divestitures.

Last year we consolidated two of our Health Care businesses – dental and orthodontics – into a single oral care solutions business. Now, through a seamless partnership, we can offer our customers a full suite of oral care innovations.

Since 2012, in fact, we have realigned from six business groups to five, and from 40 businesses to 26. These actions result in a portfolio of businesses that are more relevant to our customers, have greater scale, are more productive, and can move with even more speed.

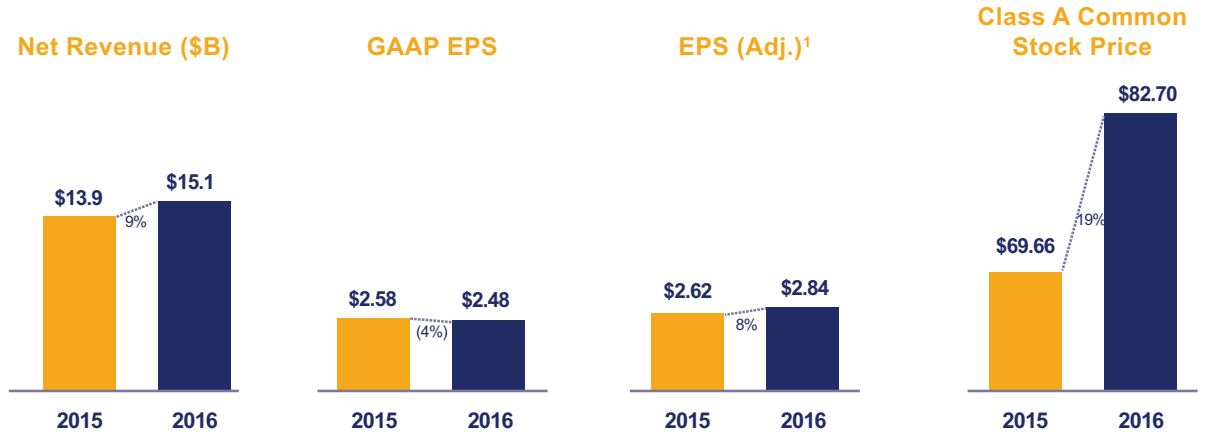
In 2015 we also strengthened our portfolio through acquisitions. In particular, our Capital Safety acquisition bolsters our already-strong position in the fast-growing personal safety business, and the acquisition of Polypore's Separations Media business strengthens our filtration technology platform.

At the same time, we divested three businesses that no longer aligned with our strategic objectives, including the library systems business.

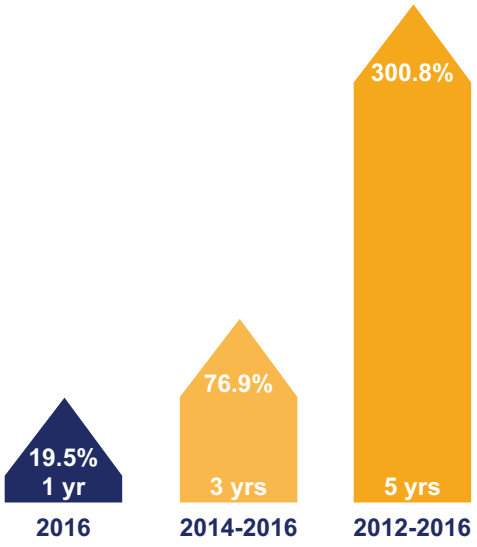
Visa - Proxy 2016

COMPANY PERFORMANCE HIGHLIGHTS

During the fiscal year ended September 30, 2016, Visa delivered strong financial results, reflecting solid growth in revenue and adjusted earnings per share. Additionally, our Class A common stock price increased 19%. We also completed the acquisition of Visa Europe in June 2016 and raised $16 billion of debt in December 2015.



Total Shareholder Return[2]



$8.4 billion

RETURNED TO SHAREHOLDERS IN 2016

$7b in Gross Share Repurchases

$1.4b in Dividends

VISA

[1] For further information regarding non-GAAP adjustments, including a reconciliation to GAAP, please see Item 7- "Management's Discussion and Analysis of Financial Condition and Results of Operations – overview" in our 2016 Annual Report as filed on Form 10-K with the Securities and Exchange Commission on November 15, 2016.

[2] Cumulative stock price appreciation plus dividends

Gregory J. Hayes
President and
Chief Executive Officer

Dear Shareowner

Every day at United Technologies, our 200,000 people across the globe help move the world forward. We rise to challenges, we innovate for the future, and we deliver smart, sustainable products and services the world needs.

2015 was a pivotal year for our company. We delivered adjusted earnings per share of $6.30,* which was at the high end of the expectations we set in the latter half of the year. We returned approximately $12 billion to our shareowners in dividends and share buyback, including a $6 billion accelerated share repurchase program launched in November. And we reached milestones on major projects, most notably the certification and delivery of our revolutionary PurePower Geared Turbofan engine for the Airbus A320neo.

We also took decisive actions to position United Technologies for long-term growth and shareowner value creation. Our board of directors and management continually review our strategic direction. Last year, following a comprehensive analysis, we divested Sikorsky and simplified our organizational structure to allow for better focus on our four global franchises: Otis, Pratt & Whitney, UTC Aerospace Systems and UTC Climate, Controls & Security. Additionally, we initiated a $1.5 billion multiyear restructuring plan to improve our competitiveness in the global market.

*Adjusted earnings per share is a non-GAAP financial measure. For additional information on the nearest corresponding measure calculated according to generally accepted accounting principles (GAAP) and a reconciliation of the differences between the non-GAAP measure and the corresponding GAAP measure, please refer to page 73 in this Annual Report.

become widespread, they will drive more and more traffic on our wireless and broadband networks. More broadly, they will be the central ecosystem for technology development, unleashing a cascade of innovations with the potential to make our lives richer and our society safer and smarter in such fields as healthcare, education, energy management and smart cities. Also, the markets for these services are global, giving us a new, less capital-intensive path to expand the Verizon brand globally.

For all these reasons, we believe these are big, scalable businesses that leverage our core assets and will contribute meaningfully to our growth in the next three to five years.

Delivering results

Underpinning Verizon's transformation is our continued attention to the fundamentals of the business. Thanks to our management team's unrelenting operational discipline and the incomparable dedication of our front-line employees, our wireless and wireline businesses are executing well, based on our core attributes of network quality, customer service and efficiency. The result is another year of growth and profitability. Cash flows from operating activities totaled $38.9 billion in 2015, compared with $30.6 billion in 2014. Adjusted EBITDA margin expanded year over year to 35.4 percent, evidence of our rigorous attention to improving the efficiency of our operating model and freeing up resources that can be used to move the business forward.

Our strong cash flows support consistent investment in networks and a record of dividend increases that now stands at nine consecutive years.

We're committed to setting the standard for excellence in our industry, now and in the future.

We continued to sharpen our strategic focus in 2015 with the planned sale of some telecom properties to Frontier (expected to close at the end of the first quarter of 2016) and the monetization of certain tower assets. We used some of the proceeds to return value to shareowners in the form of an accelerated stock repurchase in 2015 and plan to further repay debt in 2016. Our balance sheet is strong, and we remain on target with the debt reduction outlined at the time of our acquisition of Vodafone's interest in Verizon Wireless. We are committed to returning to our pre-Vodafone transaction credit rating profile in the 2018–2019 time frame.

Adjusted earnings per share (EPS) for 2015 were $3.99, up 19.1 percent over $3.35 in adjusted EPS in 2014. Total return to shareowners for the year was 3.5 percent, which reflects more than $13.5 billion in dividends and stock repurchases and exceeds the performance of the Dow Jones Industrial Average and the S&P 500 for 2015. We remain confident in the performance of our core businesses and believe that our strategy of delivering strong operating results and creating new business models will fuel our growth over the long term.

Delivering the future

Not many companies can transform their businesses in a time of accelerating change. It requires a management team that can do many things at once: maintain a strong core business, bring totally new products and technologies to market, remain financially sound, and stay true to their values. While we haven't chosen the easy road, I am confident we will prevail – as we have in the past – because we're willing to disrupt the industry, rather than wait to be disrupted. Most of all, we will win because we have the two things that are essential to any company that succeeds over the long term: a strong, customer-centric culture and an essential role in making the world a better place.

I am grateful to our leadership team and our Board for their courage and guidance through this exciting period of our history. Our employees embody the values at the heart of our Credo, and I continue to marvel at their dedication to customers and willingness to embrace change as we transform our company for the future. More change is coming, but no matter how fast the flywheel spins, we will remain true to the values and strengths that have made us great. We're committed to setting the standard for excellence in our industry, now and in the future.

Our best years are ahead of us.

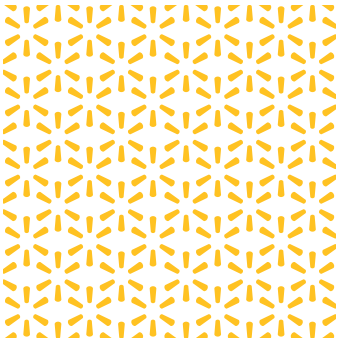
Lowell McAdam
Chairman and Chief Executive Officer
Verizon Communications Inc.

you can fulfill your potential here. We believe in opportunity and that hard work, dedication and talent should be rewarded.

We will also shape global systems using our size, mindset and policies and help make the world a better place. We create opportunity throughout our global supply chain – on farms and in factories, by buying more from women-owned businesses, by hiring veterans and by strengthening the retail industry workforce. We also work to be more sustainable, both in our own operations and in our supply chain. We have three big goals: creating zero waste, running on 100 percent renewable energy and selling products that sustain people and the environment. And we give back to the communities we serve – supporting American manufacturing, preparing for and responding to natural disasters and fighting hunger. Customers can be proud to shop at Walmart.

When you put it all together, we'll enable customers around the world to save money and time, so they can invest more of both in the things they love. And we'll help make the world a better place one community at a time.

We will win with a differentiated, disruptive strategy and a foundation of operational excellence. As we do, we believe shareholders will benefit by receiving above-average returns.



shareholders that we're very proud of. Last year, we were able to return more than $10 billion to shareholders through dividends and share repurchases. This year, we announced a dividend increase to $2.00 per share, marking the 43rd consecutive year of dividend increases for Walmart. Although this will be another year of foundational investments, we believe we will soon be growing faster than the retail market. We are a growth company; we just happen to be a large one.

The road ahead will not always be easy, but by being customer-focused, hungry, fast and accountable, we will win and have a good time doing it.

Thank you for your continued interest in our company. It's an incredible time to be a part of Walmart.

Sincerely,

Doug

2.3 MILLION
ASSOCIATES

$45-60 BILLION
3-YEAR PROJECTED SALES GROWTH*

16 WEBSITES
IN 11 COUNTRIES

~11,530
STORES WORLDWIDE

$10.4 BILLION
DIVIDENDS/SHARE REPURCHASES

* Projected net sales growth on a constant currency basis for fiscal years 2017-2019.

American Express - Annual Report 2016

TO OUR SHAREHOLDERS

American Express faced many tests in 2016, but we ended the year in a stronger position than we started.

Much has changed since I told shareholders that our performance entering 2016 was not what we, or you, had come to expect from us. We faced significant challenges, such as the wind-down of our relationship with Costco, industry-wide pressure on cobrand economics and merchant fees, as well as persistent macroeconomic headwinds. We had to act decisively to change the trajectory of our business – and we did.

Reset. Rebound. Return.

Our approach can be summed up in three words: *reset, rebound, return*. We set out to *reset* our economics, *rebound* from our challenges, and ultimately lay the foundation for a *return* to sustainable, top-tier financial performance. We created a two-year game plan to do just that. We're halfway through that plan now and are making very good headway. I'm tremendously proud of how our people have risen to the challenge. We still have a lot of work ahead of us, and many challenges to overcome, but our unique assets and opportunities for growth make me confident in our future.

Let's look at our bottom-line results before I update you on our growth plan. American Express earned $5.4 billion in net income for 2016, and diluted EPS was $5.65, including a gain of $1.1 billion on the sale of our Costco U.S. cobrand portfolio. During the year, we used our capital strength to repurchase $4.4 billion worth of shares, which drove a 7 percent decrease in our average share count. Excluding restructuring charges, we posted adjusted EPS of $5.93, which was in line with the raised EPS outlook we offered in October.[1]

Over the past 12 months, our entire company has rallied around the three core priorities that make up our 2016-17 game plan:

- Accelerate revenue growth
- Significantly reduce our expense base
- Optimize our investments

Let me briefly describe our efforts on each of these fronts.

Accelerate Revenues

To drive revenue growth, we've focused on acquiring new high-quality Card Members across our consumer and commercial businesses, significantly expanding merchant acceptance of our cards, and capturing more of our existing customers' off-Amex transactions – or the spending and borrowing they do through competing products.

Here are some signposts of our progress in 2016:

- We acquired more than 10 million new proprietary cards during the year, aided by increased investments in marketing and promotion, and advances in our digital acquisition capabilities.
- We grew worldwide spending on our cards by 8 percent, adjusting for Costco and foreign exchange rates.[2] This reflected continued strength in international markets, good performance among small and midsize companies, and our emphasis on strong long-term relationships with higher-spending Card Members.
- We grew worldwide loans by 11 percent. Our growth rate surpassed the industry average, and we maintained industry-leading credit quality. Our customers today rely on Amex for only a relatively small portion of their borrowing needs, which means we have considerable untapped potential. As a result, we've stepped up our efforts to target the right offers to the right Card Members, while also expanding our range of lending products and services for both businesses and consumers.
- We continued to grow our global merchant network, adding more than 1 million new merchant locations in the U.S. during 2016, while also expanding in key international markets. Our progress in getting more small businesses to accept our cards through our OptBlue program inspired us to set an aggressive goal – to achieve merchant coverage on a par with Visa and MasterCard in the U.S. by the end of 2019.

These moves led to sequential strengthening of our revenue performance toward the end of the year. Total revenues were down 2 percent from a year ago. However, adjusted revenues excluding Costco and foreign exchange rose by 5 percent for the year and 6 percent for the fourth quarter. That's an acceleration from the 4 percent adjusted growth we achieved for the full year of 2015.[3]

UnitedHealth Group - 2016 Proxy

Proxy Summary

This summary highlights information contained elsewhere in this proxy statement. We encourage you to review the entire proxy statement. This proxy statement and our Annual Report for the year ended December 31, 2015 are first being mailed to the Company's shareholders and made available on the Internet at *www.unitedhealthgroup.com/proxymaterials* on or about April 22, 2016. Website addresses included throughout this proxy statement are for reference only. The information contained on our website is not incorporated by reference into this proxy statement.

Business Results

We are a diversified health and well-being company whose mission is to help people live healthier lives and to make the health system work better for everyone. We achieved strong business results in 2015, including:

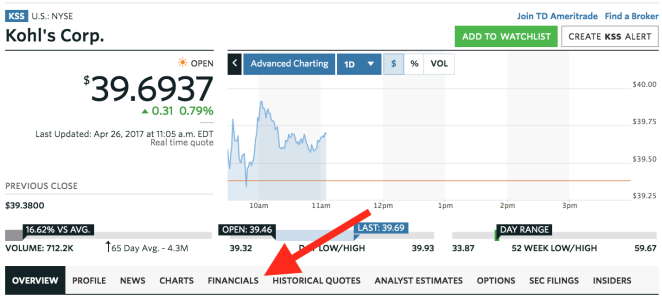
- Revenues increased 20% to $157.1 billion from $130.5 billion in 2014;
- Operating earnings increased 7% year-over-year to $11.0 billion, and net earnings attributable to UnitedHealth Group common shareholders remained strong at $5.8 billion and were supported by cash flows from operations of $9.7 billion;
- Adjusted earnings per share[1] increased 7% to $6.45 per share from $6.04 per share in 2014;
- Return on equity exceeded 17% in 2015;
- Total shareholder return, which is defined as the increase in stock price, together with dividends paid, was 18% in 2015 and 125% over the 2013-2015 time period;
- Our annual dividend rate increased to $2.00 per share, paid quarterly, representing a 33% increase over the annual dividend rate of $1.50 per share paid quarterly since the second quarter of 2014;
- We repurchased $1.2 billion in stock at an average price of $112.45 per share;
- UnitedHealth Group was the top ranking company in the insurance and managed care sector on *Fortune's* 2016 ''World's Most Admired Companies'' list, based on 2015 results. This is the sixth consecutive year UnitedHealth Group has ranked No. 1 overall in its sector and the seventh year in a row the Company has been rated No. 1 in its sector for innovation;
- UnitedHealth Group was named to both the Dow Jones Sustainability World and North America Indices for the 17th consecutive year;
- Three UnitedHealth Group directors were included in the list of top ten directors in *The Street* article, ''Here Are the 10 Directors You Want on Your Company's Board;'' and
- UnitedHealth Group was recognized for 2015 as a ''Winning 'W' Company'' by *2020 Women on Boards* for having 20% of our Board seats held by women.

[1] Adjusted earnings per share is a non-GAAP financial measure. Refer to Appendix A in this proxy statement for a reconciliation of adjusted earnings per share to the most directly comparable GAAP measure.

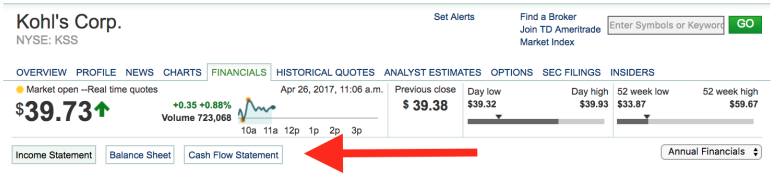
Schedule D: How to easily find how much a company has spent on buybacks

Step 1: Go to MarketWatch.com and search the stock ticker. Example: "KSS"

Step 2: Click "Financials."



Step 3: Then, click "Cash Flow Statement."



Step 4: Scroll down to "Repurchase of Common & Preferred Stock"

Change in Capital Stock	(1.23B)	(697M)	(554M)	(854M)	(539M)
Repurchase of Common & Preferred Stk.	(1.29B)	(799M)	(677M)	(1B)	(557M)
Sale of Common & Preferred Stock	68M	102M	123M	147M	18M
Proceeds from Stock Options	-	-	-	-	-
Other Proceeds from Sale of Stock	68M	102M	123M	147M	18M

Step 5: Scroll up to compare the level of buybacks with income from operations.

Operating Activities

Fiscal year is February-January. All values USD millions.	2013	2014	2015	2016	2017	5-year trend
Net Income before Extraordinaries	986M	889M	867M	673M	556M	