What is a share buyback and why are you doing it?

This is when a company purchases its own shares back from its shareholders. A share buyback is thus a way for the company to return funds to shareholders, and thus similar to a dividend. A share buyback is an alternative form of shareholder distribution, where a company buys back its own stock from shareholders, effectively reducing the number of outstanding shares and increasing the proportional rights of any single share.

What is the difference between a dividend pay-out and a share buyback?

A dividend payment is a direct payment of cash to shareholders whereas a share buyback is an alternative form of shareholder distribution, where a company buys back its own stock from shareholders, effectively reducing the number of outstanding shares and increasing the proportional rights of any single share.

Why don’t you pay all of the money back to shareholders through dividends?

Nokia has different types of investors with different preferences of shareholder distribution methods. Some want to get cash, and others want to stay invested in Nokia. Combination of dividends and share buybacks is used to strike the right balance.

A share buyback reduces the number of shares outstanding and increases the proportional rights of any single share. Thus, assuming a certain amount of earnings, the earnings per share would be higher due to the share buyback and shareholders who want to continue to be invested in the company in the long term would benefit from this.

Some claim that buybacks are identical to dividends from a shareholder point of view. How is that possible?

Assuming that there are no differences in tax treatment (depends on tax jurisdiction, type of investor etc.) the difference to investors whether shareholder distributions are implemented by dividends or share buybacks is limited and depends on the investor preferences.

In the case of dividend, a portion of the value of the investor’s holding in the company is reduced and turned to a cash dividend payment whereas in the case of share buybacks every investor can choose to turn part of the holding into cash by selling a portion of the holding when the company is purchasing shares, or to stay fully invested in the stock and after the buyback is executed own a proportionately higher share of the company. In a case the investor sells the same proportion of his/her shares as the total buyback program is from the Company’s total shares, the end result to the investor is very similar to that of a dividend.
Does executing buybacks mean that you think that Nokia’s shares are undervalued? What price are you prepared to buy stock up to?

We don’t comment on the value of our shares. The reason for undertaking the share buyback is to optimize the capital structure of the company and distribute excess capital to shareholders.

What if the share price goes up significantly?

The reason for undertaking the share buyback is to optimize the capital structure of the company and distribute excess capital to shareholders.

However, Nokia has the ability to use judgment in the execution and timing of the share buybacks dependent upon prevailing market conditions and other factors.

Are buybacks motivated by management bonus programs?

No. The reason for undertaking the share buyback is to optimize the capital structure of the company and distribute excess capital to shareholders.

In the event of share repurchases the Board has decided to alter relevant performance criteria related to management compensation to neutralize any impact coming from the special dividends and share buybacks.

A simplified example on dividends and buybacks:

Assume an investor holds 10 shares in a company which has 1000 shares outstanding and the current share price is EUR 10.00. This means the market value of the company is EUR 10 000 and the investor owns 1% of the company.

Now assume the company pays a dividend of EUR 1.00 per share. This means the company pays a total dividend of EUR 1 000 and the investor receives EUR 10 dividend payment. After the dividend the value of the company is EUR 9 000 all other things equal and the investor’s holding is worth EUR 90.

Comparing this to a share buyback where the company uses the same amount of EUR 1 000 by purchasing 100 shares at price EUR 10 each. To have the same cash receipt as in the dividend case the investor decides to sell 1 share at price of EUR 10.00.

After the share buyback the company has 900 outstanding shares each worth EUR 10 and the value of the company is EUR 9 000 all other things equal (same as in the dividend case). In both dividend and share buyback cases the company has spent EUR 1 000 of cash, the value of the company post the shareholder distribution is EUR 9 000, the value of the investor’s shares is EUR 90 i.e. 1% of the company and the investor has received EUR 10 in cash.

Naturally certain matters, such as the applicable taxation, effects the amount received finally by the shareholders.