

Initial Comments on Walgreen Buyback Issues

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Based on initial discussions, views of the “Issues to Be Considered” defined in Wednesday’s report¹ are generally consistent in their analyses of results, but clearly differ in how those results will benefit them. These positions may be summarized as follows:

- Investors with long term equity or debt perspectives generally focus primarily on how a buyback policy will impact capitalization risk and corporate adaptability.
- Most analysts and corporate finance professionals view buybacks as a potentially efficient alternative to dividends for distributing cash to shareholders, but not as a reliable means of investing in underpriced securities to improve a company’s capitalization.
- Everyone, literally, recognizes the benefits of buyback commitments to shareholders with immediate interests in selling their positions or establishing portfolio valuations.
- In private conversations, both corporate and fund managers reported discussing buyback commitments as a common and widely accepted means of winning investor support.

Broader context

Addressing broader capital market and corporate management concerns, the *Financial Times* columnist and former investment banker Andrew Smithers provided a very simple email statement of essential considerations for Forum participants, referring to his recently published commentary on the subject for more detailed explanations:²

...I think that the attention should be concentrated on the damage done to the economy by current management remuneration systems which encourage both low investment and high buy-backs.

If shareholders are concerned about the damage they are doing to the economy they should change their systems of management remuneration.

If shareholders are not concerned about this but merely about their own more direct interests the issue is whether they are long or short term investors.

Short term investors probably benefit from buy-backs, as they provide a buyer who is uninterested in the value of the shares to whom they can sell.

If they are long term shareholders the issue is not directly about buy-backs but whether management is being encouraged by the remuneration contracts to take risks with their companies' long term future by pushing up profit margins and pushing down investment.

¹ See [November 12, 2014 Forum Report: Walgreen Stock Buybacks: Issues to Be Considered by Investors](#).

² See [November 5, 2014, Andrew Smithers column in Financial Times: "Buybacks and the parallel universe of bankers"](#).

While this program should remain focused on investor decisions relating to the specific Walgreen buyback issues, it is of course understood that these decisions must be made in the broader context of these observations.

Management responsibility

It should also be understood that we will consider the responsibility of a company's management to be (a) conducting the business of the corporation and (b) assuring fair investor access to decision-making information. Traditionally, making a market for secondary trading in a company's stock has been considered the responsibility of underwriters or other independent market makers. Whether the responsibility for supporting liquidity and valuation has shifted to the issuer or not, the Forum will support analyses based on the assumption that Walgreen's management is responsible only for developing the company's long term enterprise value and for explaining that to its shareholders.

Alternative research sources

On the subject of analytical standards, some of you have observed that nearly all the academic and professional research reports listed in the "[Stock Buyback Policy](#)" section of this program's website present skeptical views of long term benefits.³ We have in fact been trying to identify sources of alternative views, and any suggestions will be welcomed.



Inviting your continuing comments, I look forward to reporting the company's response early next week.

GL – November 14, 2014

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³ For a notable exception based a definition of "long term" as 3 to 4 years, see [November 4, 2014, Alberto Manconi of Tilburg University, Urs Peyer of INSEAD and Theo Vermaelen of INSEAD posting in The Harvard Law School Forum on Corporate Governance and Financial Regulation: "Buybacks Around the World"](#).