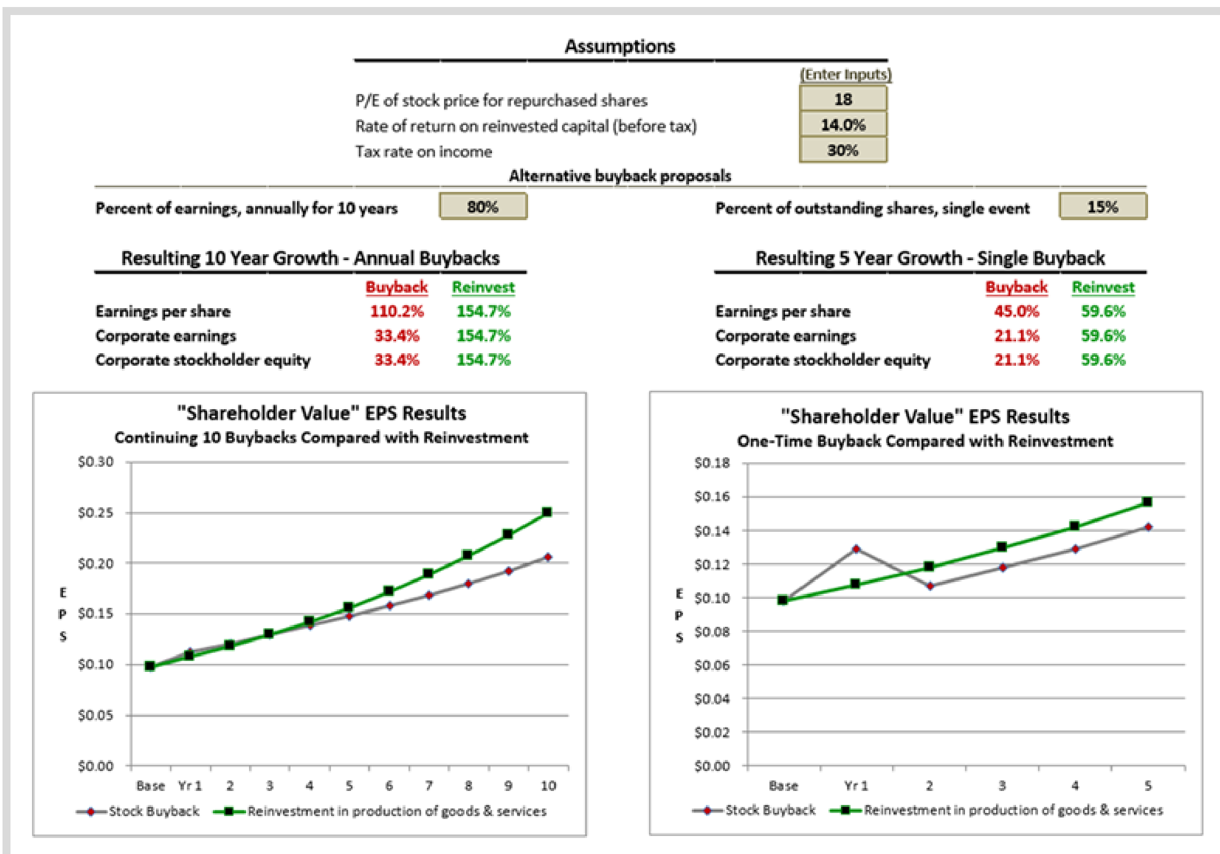
Measuring Comparative Results of Buybacks and Reinvestment

While questions about the best way to measure "Returns on Corporate Capital" ("ROCC") continue to engage the experts participating in the Forum's workshop for "metrics,"[1] we have been making good progress in developing a simple analytical model that can be broadly used to compare the results of buybacks with a company's reinvestment of capital in its production of goods and services.

Observations of some of the workshop participants have encouraged our analysis of buybacks as measured not only by earnings per share, but also by total corporate earnings and stockholders' equity. This will allow us to address the interests of investors who focus on current market pricing of securities as well as on the interests of value investors and others concerned with capital commitments based on the long term intrinsic value of a corporate enterprise.

A test version of a very basic analytical tool pictured below has been posted on a "Buyback Analysis" page of the Forum's workshop website for your review:



You will see that the website tool allows inputs of assumptions in shaded cells for key variables that may be relevant to a preliminary review of a buyback proposal. It should be

[1] See the June 16, 2016 Forum Report: Defining a Simple Measure of "Returns on Corporate Capital."

emphasized, though, that this very simple analysis is intended only for an initial assessment and is not a substitute for the more rigorous analyses required for professional corporate finance and securities valuation purposes.

Your advice regarding foundations for assumptions will also be appreciated. As indicated in a note on the Buyback Analysis website, the Forum's Returns on Corporate Capital ("ROCC") resource can serve as a source of specific corporate and industry data for this purpose. The ROCC report's five year average rate of return for a company's industry, for example, could be used as the input assumption in the Buyback Analysis for reinvestment rate of return to establish a threshold "mediocrity standard" justifying management's continuing responsibility for corporate capital, since any projections of long term returns below that industry average would presumably suggest board duties to either replace management or liquidate – possibly by means of stock buybacks, of course.

Thanks are owed to all the workshop participants who helped to develop this analytical model, and especially to Robert L. Colby of Corequity for his brilliantly simple observation that each dollar used for a buyback produces a one-time increase in the proportion of earnings allocated to each outstanding share, while the dollar used in production generates compounding increases in capital for reinvestment.[2]

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[2] For a summary of Mr. Colby's observations, see March 25, 2016 *New York Times* | Fair Game: "In Yahoo, Another Example of the Buyback Mirage;" for his own more recent explanation, see July 3, 2016, Corequity blog, "Real Growth vs Growth Lite."