10 Things You Should Know About Share Buybacks

Companies have been spending record amounts buying back their own shares. What does this mean for investors?

1 **What is a share buyback?** – A share buyback is when a company repurchases its own existing stock, reducing the number of outstanding shares available.

2 **Why would a company buy its own stock?** – Companies often initiate a buyback when they have excess cash available that they don't need to put toward growing the business. It's often a sign of confidence in a company's future, showing that it's stable and profitable enough to use cash to return value to shareholders.

3 **The company benefits, but investors can, too** – A buyback helps a company by increasing its earnings per share (EPS),[1] but it can also indirectly return value to shareholders by increasing their ownership stake in the company. Consider this hypothetical example: If a company has 100 outstanding shares and earns $100 a year, and you own 10 shares, you'd own 10% of the company with an EPS of $1. If the company buys back 20 shares, you maintain your 10 shares, but you now own 12.5% of the company with an EPS of $1.25 (**FIGURE 1**).

4 **What's the difference between a dividend and a share buyback?** – Dividends use excess cash to provide payouts directly to shareholders. This provides an income source but is typically a taxable event. Buybacks generate value by increasing EPS and each shareholder's ownership stake in the company rather than through direct cash distributions. As a result, buybacks typically don't trigger a taxable event unless the investor sells their shares.

5 **How does a buyback work?** – A company announces its plan to initiate a buyback and then spends its available cash to buy shares back from the open market over time, like any other stock purchase. For most investors, the process happens automatically and requires no action on their part.

6 **What kind of company would initiate a buyback?** – Companies that offer buybacks tend to be mature, highly profitable businesses with more cash than they need to run their operations, such as Apple or Alphabet. Companies with less cash on hand typically choose to use their cash to expand their business rather than repurchasing shares.

7 **Myth: Buybacks make a company more profitable** – While buybacks improve earnings per share, they don't automatically increase overall earnings. A profitable company may grow earnings over time through business growth, but a buyback doesn't make the company more profitable on its own. Instead, it spreads ownership across fewer shares.

8 **Buybacks aren't always the best use of cash** – Money spent on a buyback is money not spent on growing the business. Depending on where it is in its life cycle, a company may be better served investing in research and development, hiring employees, or paying down debt rather than returning capital to shareholders.

9 **Buybacks can backfire** – Buybacks can attract scrutiny when critics believe management is using them to boost the stock price rather than focusing on the company's long-term success. Boeing is an often cited example in this discussion after spending tens of billions on dividends and buybacks during the 2010s. Following two fatal plane crashes in 2018 and 2019, critics argued that management had prioritized stock performance over safety and quality control.

10 **How do I know if a buyback is a good sign or not?** – Buybacks aren't inherently positive or negative. The key is understanding why a company is repurchasing shares and whether it's using capital responsibly. If a company takes on debt or sacrifices investment to boost EPS, that may be a red flag. But when it can invest for growth while returning excess cash to shareholders, buybacks often signal confidence.

FIGURE 1
Hypothetical Stock Buyback Example

Before Buyback

100 shares outstanding

After Buyback

80 shares outstanding

(each dot = 10 shares)

(each dot = 10 shares)

Before Buyback

Shares outstanding:	100
Your shares:	10
Your ownership stake:	10.0%
Company earnings:	$100
Earnings per share (EPS):	$1.00

After Buyback

Shares outstanding:	80
Your shares:	10
Your ownership stake:	12.5%
Company earnings:	$100
Earnings per share (EPS):	$1.25

● Your shares ● Shares outstanding ● Retired shares

Five Largest Share Buybacks of the Last Decade	
Apple Inc. (AAPL)	$755 billion
Alphabet Inc. (GOOG, GOOGL)	$342 billion
Meta Platforms Inc. (META)	$230 billion
Microsoft Corp. (MSFT)	>$200 billion
JPMorgan Chase & Co. (JPM)	>$150 billion

As of 6/26. Source: US News and World Report.

To learn more about how stock buybacks can impact your portfolio, talk to your financial professional.

[1] Earnings per share measures how much profit a company makes per share of common stock.

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