High Buyback Yields

Companies with excess cash can pay out dividends as well as repurchase outstanding shares that have been issued to the public. When a company reduces the number of outstanding shares, remaining shares gain a slightly larger proportional claim to the company and its profits. This allows earnings per share to expand more quickly than net income. A share buyback can also signal to the market that management thinks that the shares are attractively priced at current levels.

The easiest way to calculate the buyback yield is to look at the change in the average shares outstanding from one fiscal period to another. For example, DST Systems (DST) had 42.1 million shares outstanding during its 2013 fourth quarter, but it reduced the number of outstanding shares to 37.9 million by its 2014 fourth quarter. The 10.0% reduction in the number of shares is the buyback yield. A company that issues more shares will have a negative buyback yield.

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