

MERCER CAPITAL

Family Culture And Dividend Policy

Transitions Spring 2020 Conference

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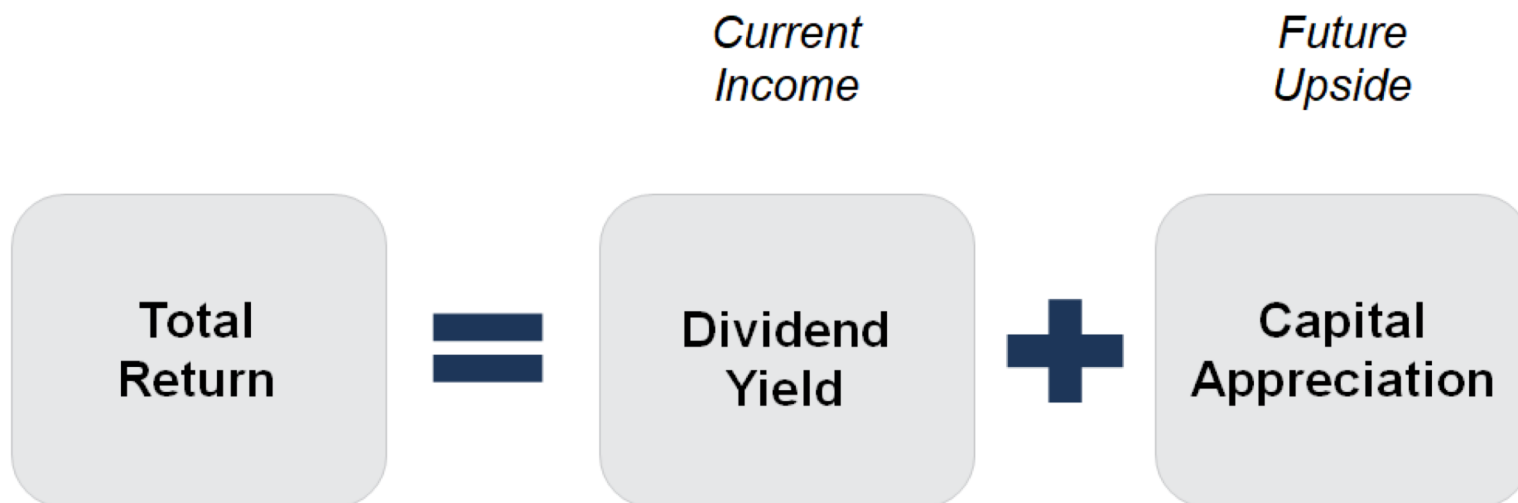
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What are the economic benefits of owning shares in a family business?

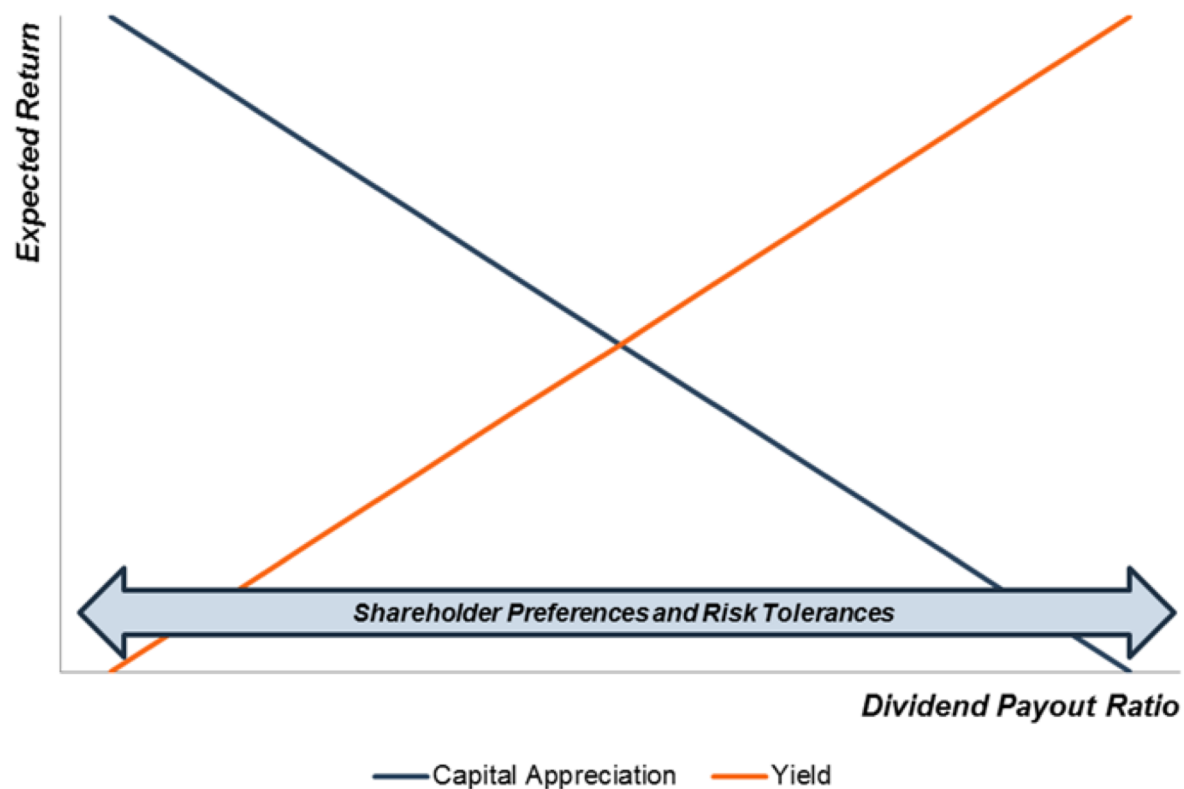
Family Shareholder Returns

There are only two forms of economic benefit for family shareholders



Tradeoffs in Dividend Policy

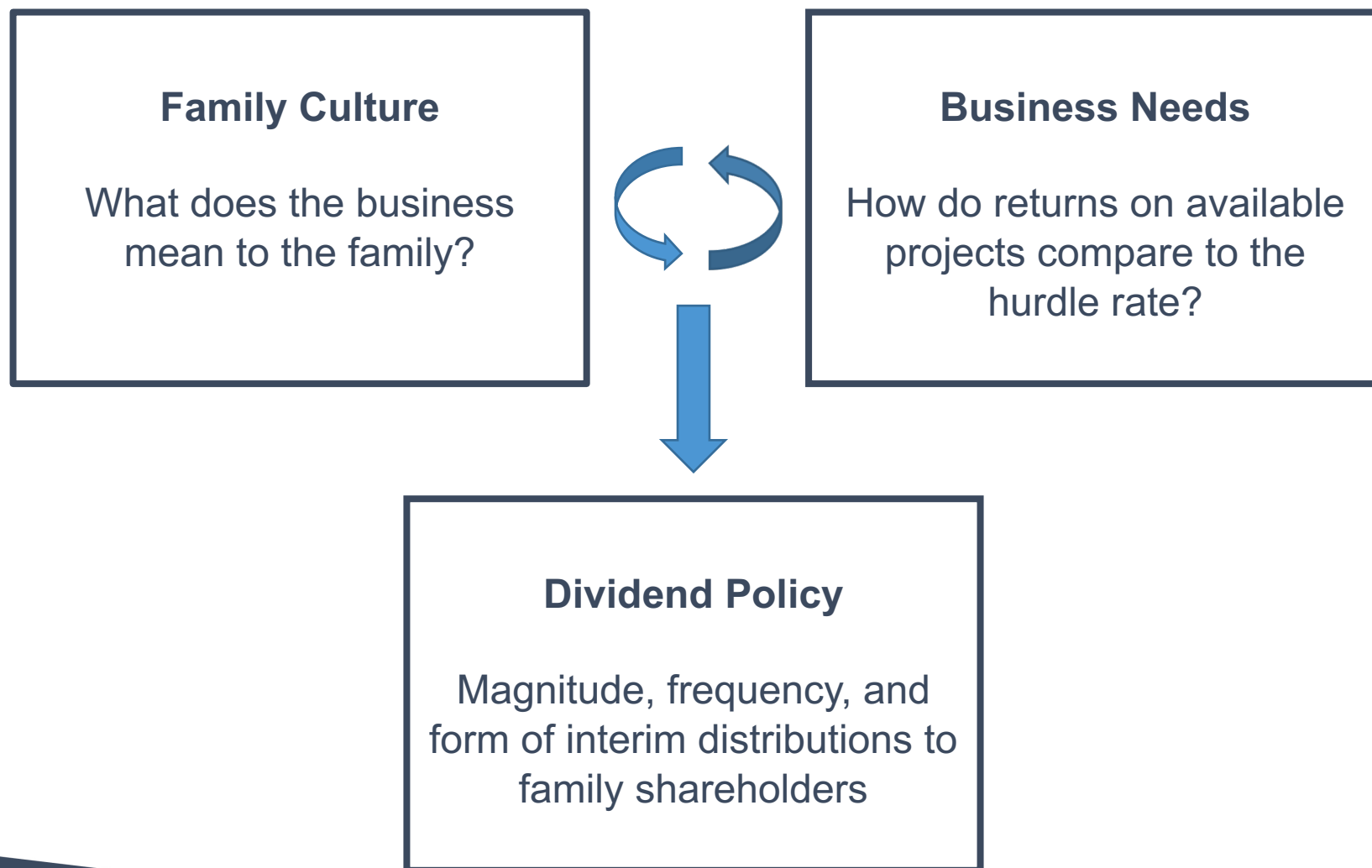
Current returns and growth in value are inversely related



**A common
family
shareholder
sentiment**

**“It’s great to be
rich.**

**It would be even
better to have
money.”**



Four Potential Answers

What Does the Family Business Mean to the Family?

**Growth Engine for Future
Generations**

Store of Value

**Source of Wealth
Accumulation**

Source of Lifestyle

Growth Engine for Future Generations

What Does the Family Business Mean to the Family?

Growth Engine for Future Generations	Store of Value
Source of Wealth Accumulation	Source of Lifestyle

Implications for Dividend Policy	
Amounts Paid	None or a token amount
Optimal Attributes	Businesses with abundant attractive reinvestment opportunities
Risks	Businesses may make riskier investments in order to achieve target returns amid heavy reinvestment

Store of Value

What Does the Family Business Mean to the Family?

Growth Engine for Future Generations	Store of Value	Implications for Dividend Policy	
Source of Wealth Accumulation	Source of Lifestyle	Amounts Paid	Higher payouts possible, but distributions often perceived as detrimental to the safety of the business
		Optimal Attributes	Maturing businesses in stable, or counter-cyclical industries
		Risks	May accumulate low-yielding, non-operating assets which create a drag on shareholder returns

Source of Wealth Accumulation

What Does the Family Business Mean to the Family?



Implications for Dividend Policy	
Amounts Paid	Expected to be high so that individual shareholders can diversify and reduce economic dependence on the family business
Optimal Attributes	Mature businesses with limited attractive reinvestment opportunities
Risks	May lose existing competitive advantages if profitable reinvestment opportunities are foregone in favor of distributions

Source of Lifestyle

What Does the Family Business Mean to the Family?



Implications for Dividend Policy	
Amounts Paid	Expected to be stable and (ideally) growing from a sustainable base regardless of annual business fluctuations
Optimal Attributes	Growing businesses with moderate reinvestment needs to fund organic growth opportunities
Risks	Emphasis on predictability of dividends may lead to excess asset accumulation and/or limit reinvestment at inopportune times

Bringing It All Together

Integrating Family Culture and Business Needs to Craft a Sustainable Dividend Policy

- We will distribute \$X per year and reinvest what's left over
- We will reinvest \$X per year and distribute what's left over
- We will distribute X% of earnings each year
- We will provide a distribution yield of X% on the value of shares before / after discounting
- We will pay X% of our total distribution as a pro rata dividend, and use the rest to fund share redemptions
- We will reinvest all earnings in the business
- Or, something else...