MERCER CAPITAL

2021 Family Business Dividend Practices Survey

Summary Survey Results

September 2021

Family Business Legacy & Wealth Conference

Family Business
THE GUIDE FOR FAMILY COMPANIES

MERCER CAPITAL
BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES
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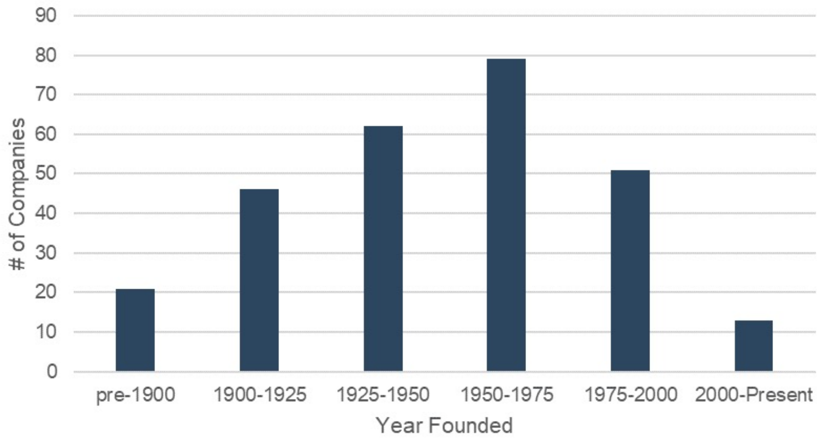
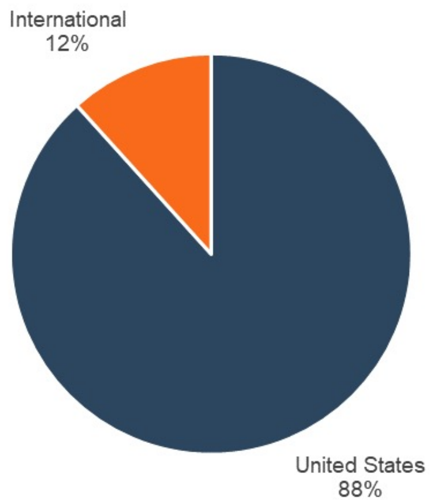
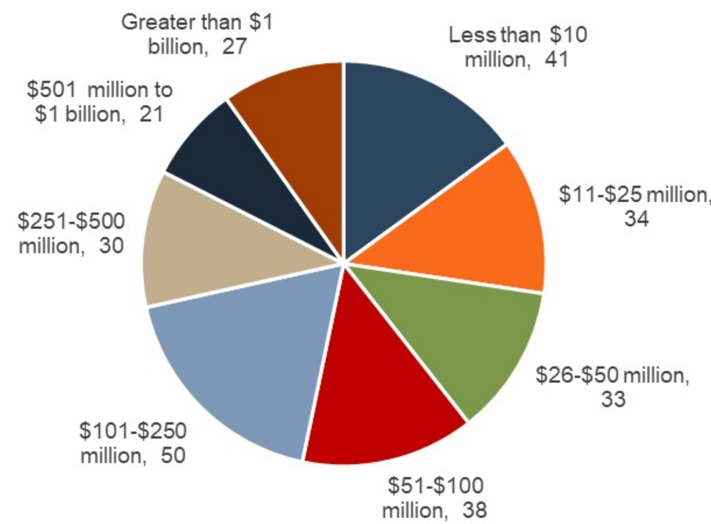
Who Participated?



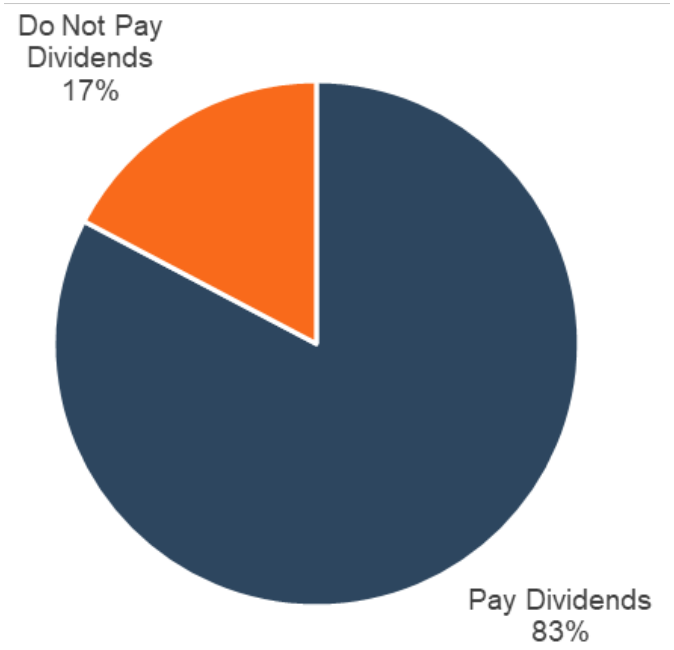
31-33 Manufacturing	81	30%
53 Real Estate and Rental and Leasing	34	12%
44-45 Retail Trade	22	8%
11 Agriculture, Forestry, Fishing and Hunting	21	8%
42 Wholesale Trade	20	7%
23 Construction	17	6%
48-49 Transportation and Warehousing	12	4%
72 Accommodation and Food Services	10	4%
21 Mining, Quarrying, and Oil and Gas Extraction	9	3%
54 Professional, Scientific, and Technical Services	8	3%
All Other Industries	40	15%
Total Respondents	**274**	100%

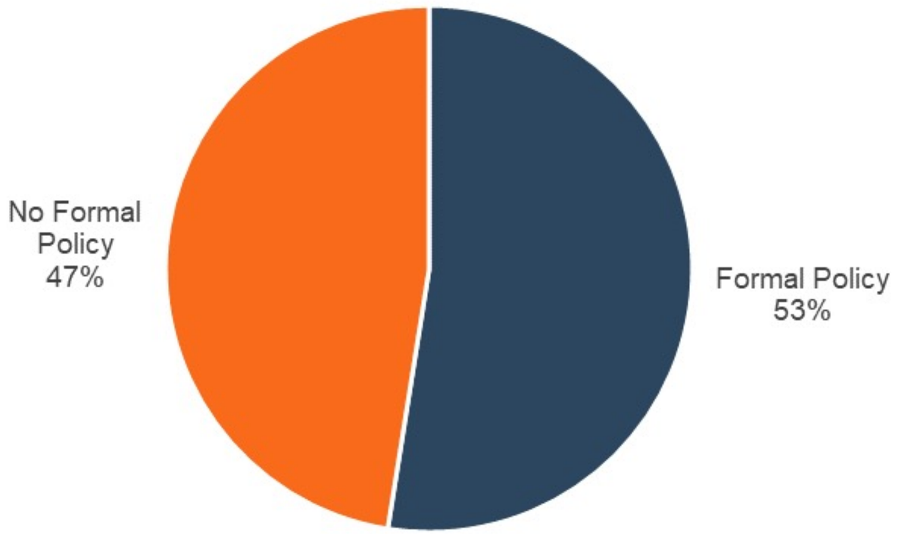




Practice & Policy

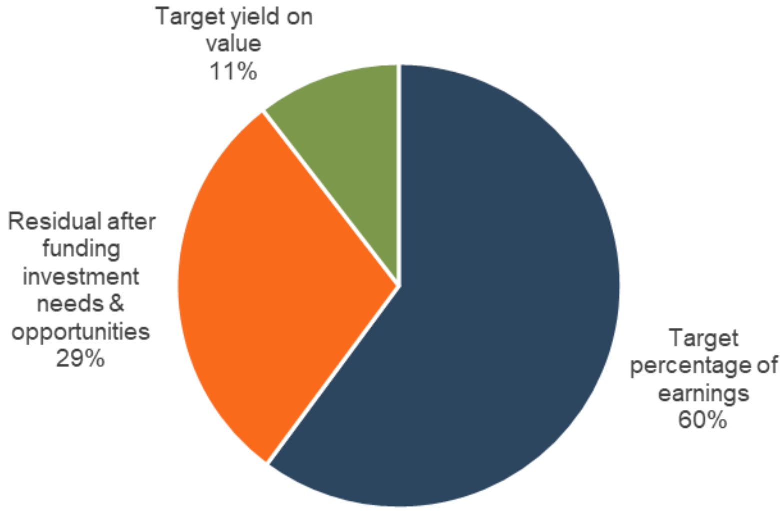
Over 80% of respondents pay dividends, but nearly half reported having no formal policy for doing so.

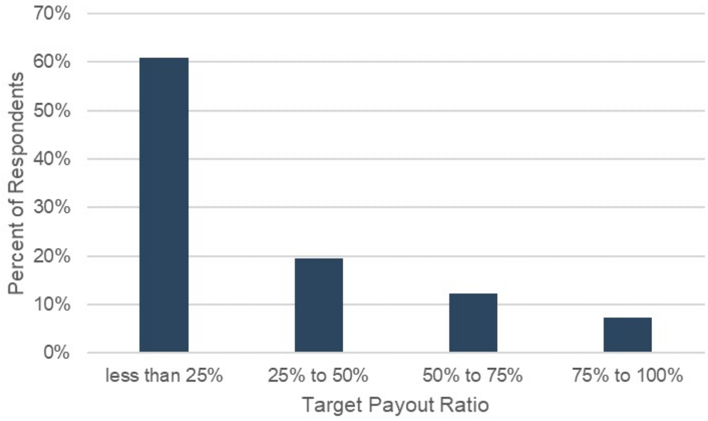


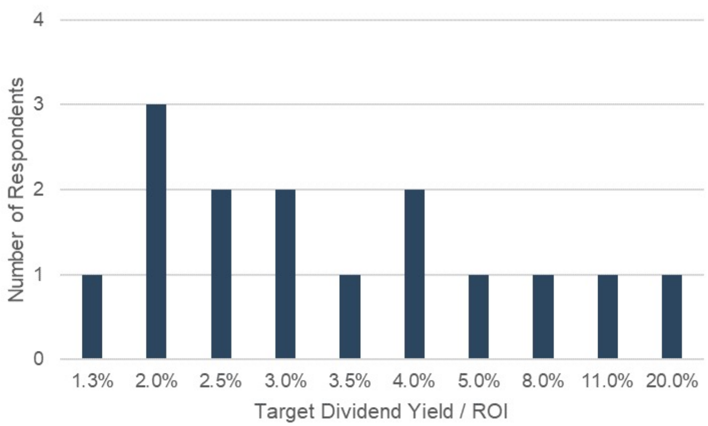


Dividend Priorities

A target payout ratio is the most popular dividend policy; most target payout ratios are less than 25% of earnings.



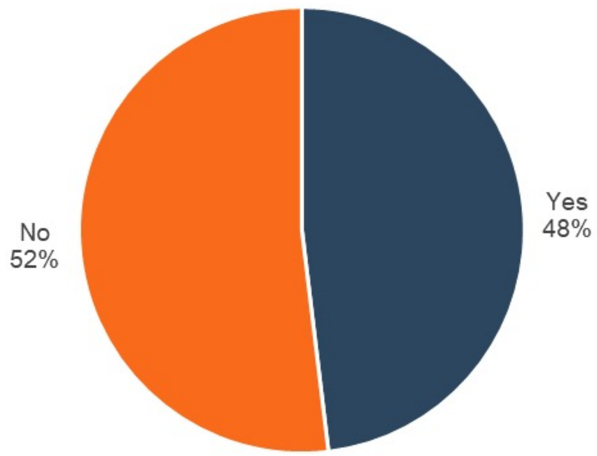




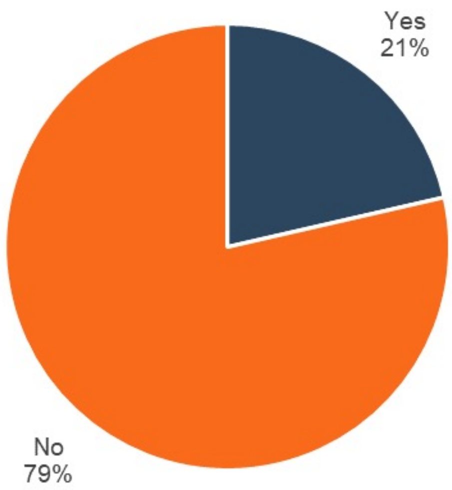
Dealing with Volatility

About half of respondents report volatile earnings, but only ~20% have a mechanism in place to smooth things out.

Do your dividends fluctuate much from year to year?

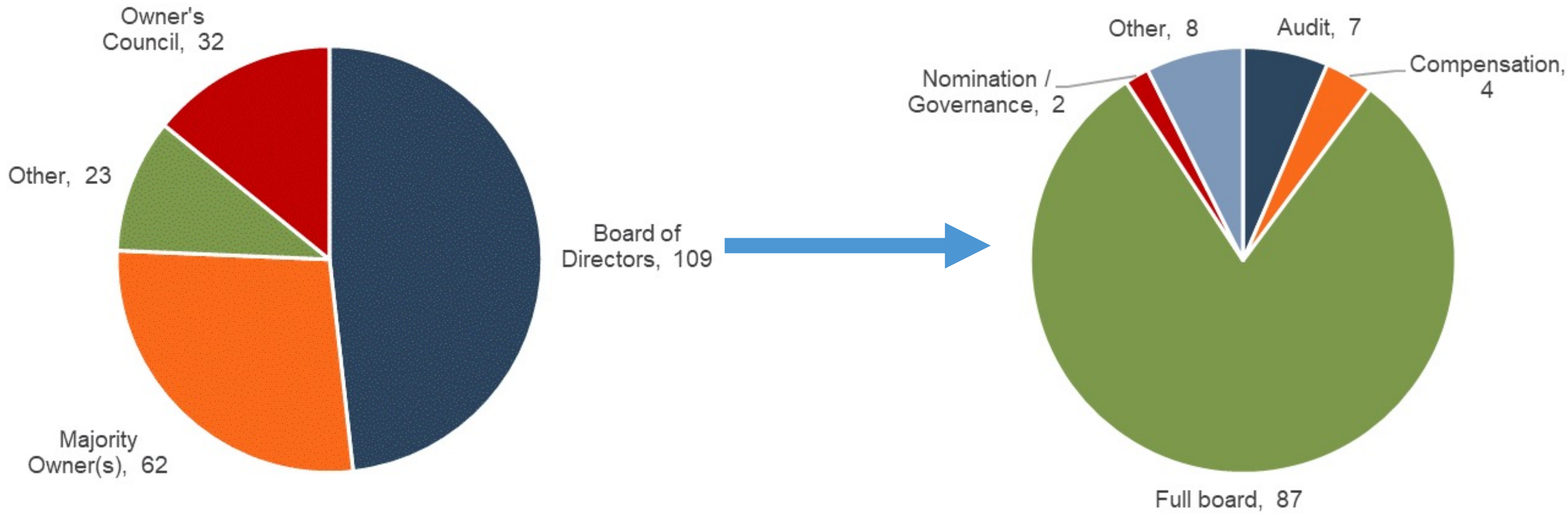


Do you have any kind of dividend smoothing formula to keep your annual dividends from fluctuating widely with earnings swings from year to year?



Where Does the Buck Stop?

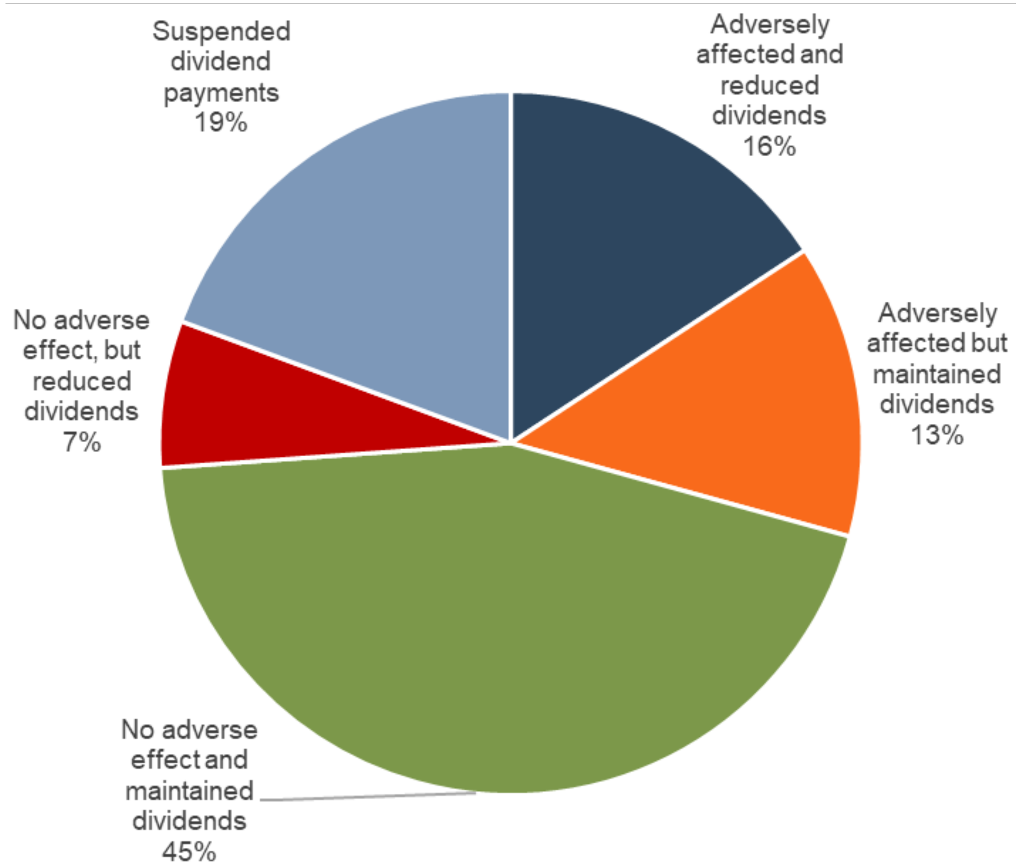
Board of directors is the most common decision maker for dividends (and nearly always the full board).



One respondent reported having a Dividend Committee within their board structure

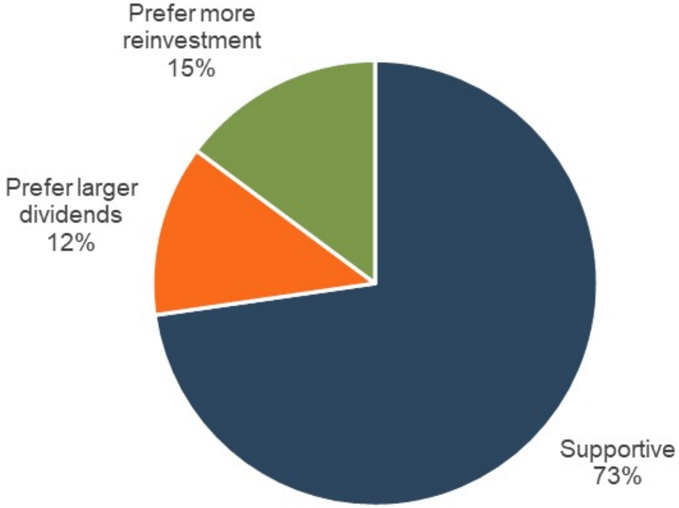
Pandemic Blues

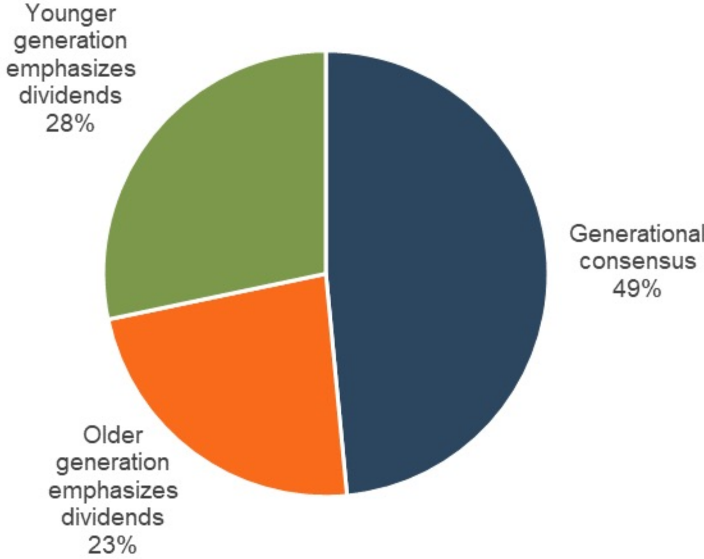
In response to COVID-19, 42% of respondents either reduced or suspended dividends in 2020.



Family Consensus?

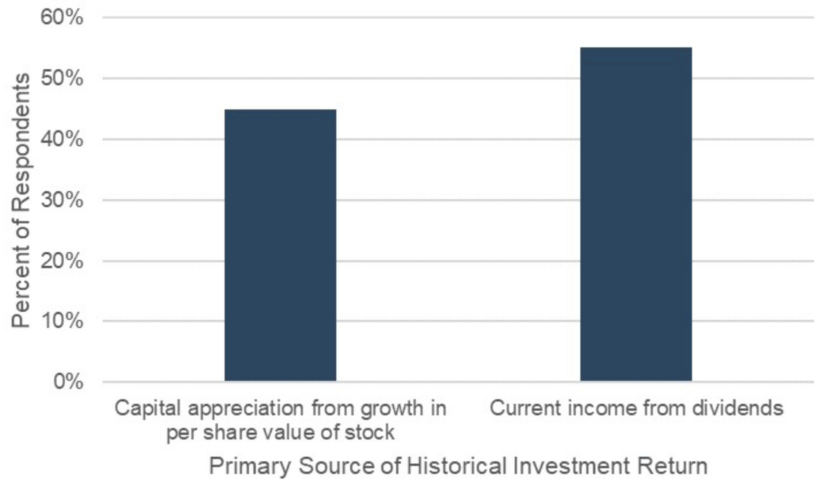
Overall, nearly 75% of respondents indicated that shareholders were broadly supportive of dividend practices, with the unsatisfied generally split evenly between those preferring larger dividends or more reinvestment. Only half of respondents reported generational consensus, with the younger generation tending to emphasize dividend payments relative to the older generation.

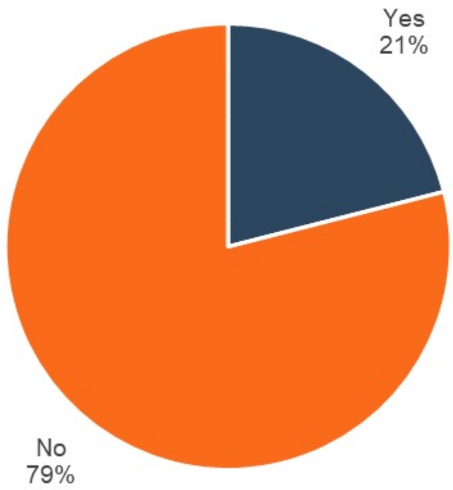




What Drives Family Returns?

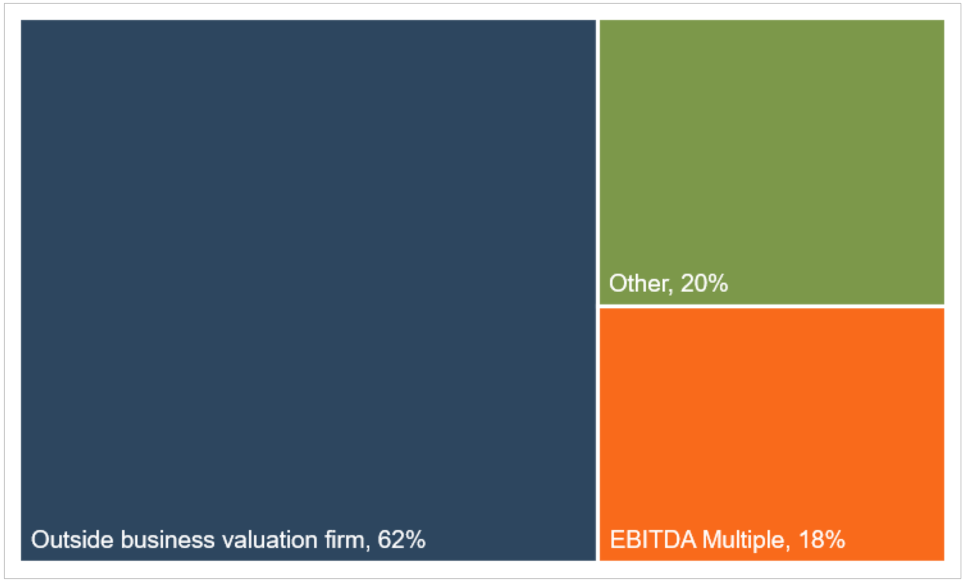
A slight majority of respondents indicated that current income from dividends is the primary source of total return to family shareholders. Predictable liquidity opportunities to realize capital gains are limited for family shareholders, as only 21% of respondents indicated having a regular share repurchase program.

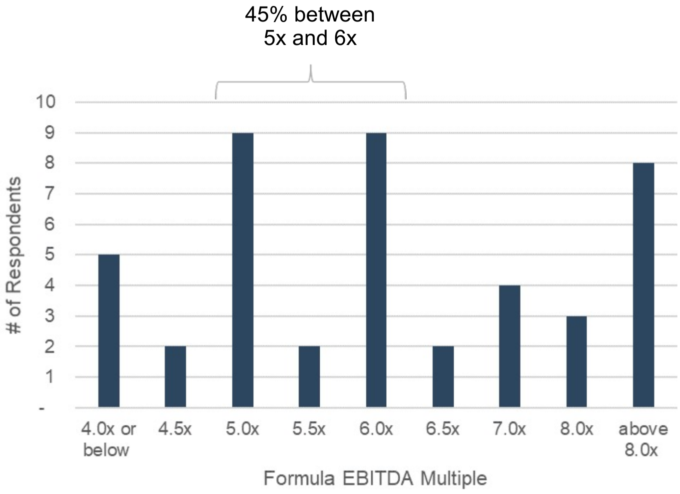




What's It Worth To You?

Most respondents use an outside BV firm, while nearly 20% apply a formula based on EBITDA.





Tell Us What's On Your Mind

Representative comments from respondents (in no particular order)

- "A dividend policy should be transparent. It is best to have outside independent directors evaluate the policy along with owners."
- "Dividends are a very complicated issue. As a family member CEO, I never make the decision on the dividend but rather use the Board to insulate me. Further, education is critical. We aspire to pay a dividend every quarter, but circumstances can prevent this and the shareholders need to understand this."
- "Do shareholders use dividend payments as their sole source of income?"
- "Future generations worry about lack of control relative to founder/owners and are interested in a more consistent dividend policy."
- "I feel that maybe some businesses don't discuss dividends openly. I feel that we are one of these. It is 'undiscussable.'"
- "Inflation environment for shareholders and trying to have dividend outperform inflation. Conversely, trying to retain enough earnings to acquire new properties and grow the company. We intend to survey the rising generation about their future preferences."
- "Our dividend strategy is based on the after-tax payout ratio of comparable publicly traded firms in our industry. We try to match that pay-out ratio."
- "The dividends distributed are so small that shareholders who do not work in the business would prefer that it be sold. It creates huge problems that might be solved if dividends were higher."

Tell Us What's On Your Mind

Representative comments from respondents (in no particular order), continued

- "The key to our program is that it is first discussed as a family with a long-term view, then discussed with management to ensure it aligns with their long-term strategic plan, and then formally agreed upon by both parties. That informs cash planning across both stakeholder groups. This is why we do not peg it as a percentage of earnings but rather as a number agreed upon every year that both parties know can be supported and not hinder growth in the core business or investments by the family to diversify wealth."
- "We have a formula about reinvestment into the business based on assumed numbers of offspring each owner will have (2.4) and a 25 year ownership period. This means the business has to grow at 4.2% plus inflation to ensure the business is a least as large as when we received it. Obviously, the goal is larger, but it keeps us from taking too much money out of the business."
- "We look at growth and investment opportunities first and foremost. The family is split in some ways. 1-2 shareholders want "money now" approach vs. the majority shareholders want to keep strategically reinvesting in the different businesses we operate."

Questions?

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