

# Perpetual knowledge bank series: buy backs

11 October 2022



A share buy-back or repurchase is when a company purchases its own shares in the stock market, which it can do in several different ways and for a variety of reasons. In Australia, the most straightforward form of share buy-back is an equal access buy-back. All ordinary shareholders are offered a reasonable opportunity to consider the offer, which is to buy back the same percentage of their ordinary shares. Companies may choose to buy back shares because

management believes the shares are undervalued, to improve financial ratios, or to consolidate ownership. Share repurchases should therefore be seen as a way of distributing excess capital in accordance with stock exchange regulation.

A share buy-back can demonstrate to both investors and the broader market that the business has a strong balance sheet, with sufficient cash set aside for emergencies, and is bullish on its current operations. ASX-listed companies may also undertake a share buyback when they have excess capital and limited growth opportunities as an alternative to paying a larger dividend. This has the advantage of enhancing share price valuations while decreasing the likelihood of an adverse share price reaction if the company chooses to reduce its level of share buybacks compared to cutting its dividend. The market generally perceives share buybacks as a signal that a company is financially healthy, which may attract new investors and thus support the share price.

According to the Australian Securities & Investments Commission (ASIC), share buy-back provisions were simplified in 1995 to make share buy-backs more accessible to Australian companies by replacing mandatory procedures involving auditors, experts, advertisements and declarations with new safeguards. These focus on continuing company solvency, fairness to shareholders and disclosure of all relevant information. For example, an equal access buy-back allows companies to devise their own timetable to suit their particular circumstances (within limits), if no shareholders are unfairly disadvantaged. The limits include: a minimum of 14-days' notice to shareholders; a reasonable time to consider the buy-back offer; and the process must be commenced and completed within a reasonable time of the notice being lodged with ASIC.

This analysis has been prepared by [Perpetual Investment Management Limited \(PIML\)](#) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML and PSL do not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement(PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website <http://www.perpetual.com.au>.

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.

