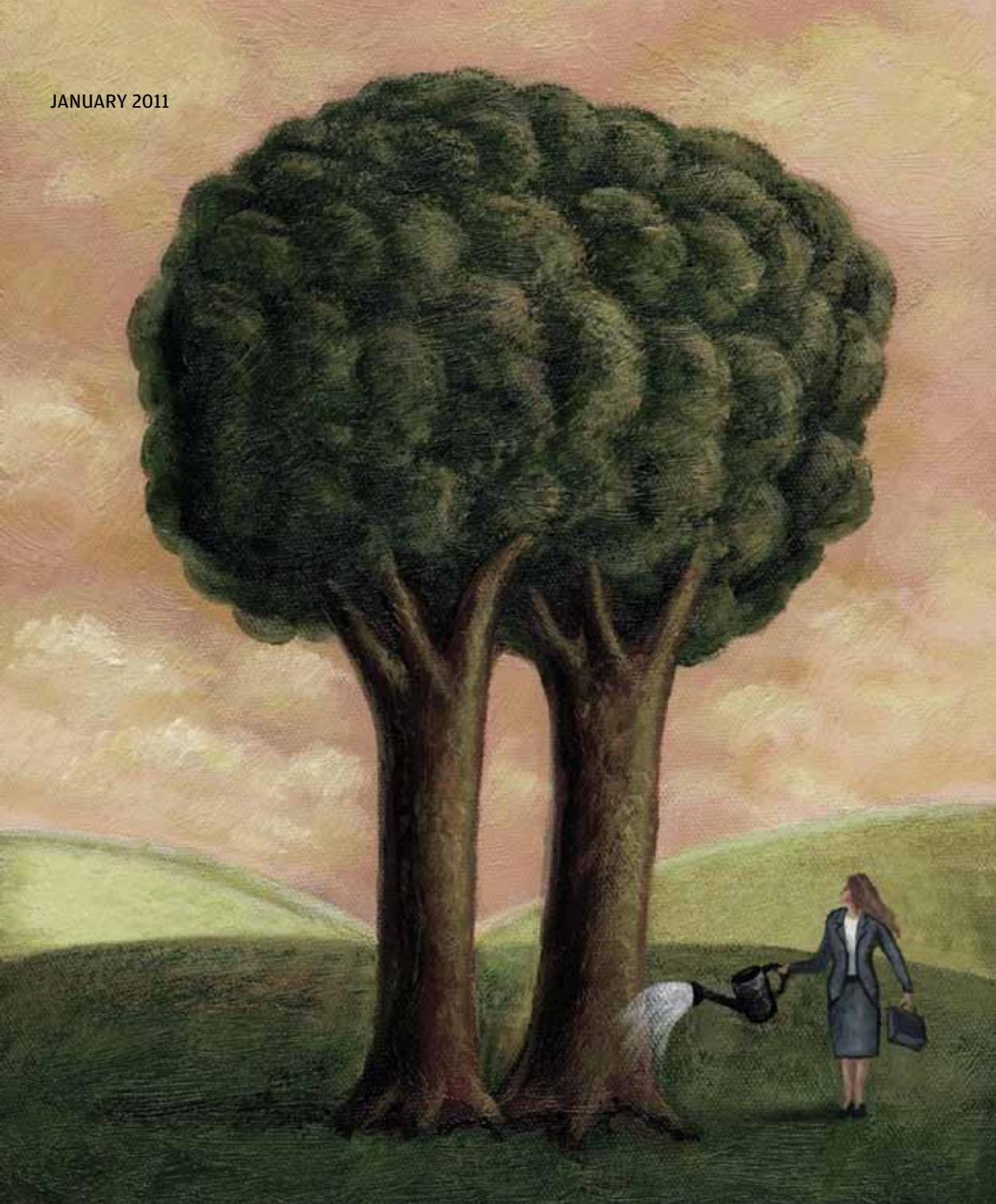


JANUARY 2011



Dividends: The 2011 guide to dividend policy trends and best practices

J.P.Morgan

1. The return of the dividend

In many ways 2010 will be remembered as a year of recovery. Equity markets continued to rebound after 2009, appetite for fixed income securities continued to grow, and the cost of capital for large, well-capitalized firms dropped to historic lows. Remembering the financial panic of 2008, many firms adhered to a “fortress balance sheet” mentality, with cash balances remaining near all-time highs and balance sheets less burdened by debt than before the financial crisis.¹ Despite the health of capital markets and corporate balance sheets, the forecast for the global economy remains bleak: unemployment in developed countries remains stubbornly elevated, OECD GDP growth estimates are muted, and local, state and sovereign governments struggle to balance fiscal solvency with social obligations.

Simultaneously, non-financial S&P 500 firms hold approximately \$1 trillion in cash and cash equivalents (about \$3 trillion U.S.-wide), Bush-era dividend and capital gains taxes have now been extended for an additional two years, and at an estimated \$200 billion in 2010, S&P 500 dividend payments are still just 80% of what they were pre-crisis.² With this backdrop, **board members have become increasingly focused on returning cash to shareholders, in particular through dividends**, as a mechanism to implement capital discipline and provide a valuation floor. What are the benefits of a strong dividend policy? Does a strong dividend policy provide capital discipline, or does it unnecessarily constrain management? Is it too early in the economic cycle to commit to a higher dividend payment? Is a small dividend increase too immaterial to satisfy investors?

Figure 1

Factors driving dividend policy in today's environment	
Dividend policy in today's environment	
<div>Key drivers</div> <div><div>✓ Catch-up from crisis</div><div>✓ Liquid balance sheets</div><div>✓ Open and robust credit markets</div><div>✓ Growth opportunities declining and limited</div><div>✓ Investors seeking yield</div></div>	<div>Factors weighing upon dividend policy</div> <div><div>✗ Economic and regulatory uncertainty</div><div>✗ Shifting taxes</div><div>✗ Trapped cash</div><div>✗ Advantages of buybacks</div><div>✗ Financial flexibility for acquisitions</div></div>

In this report, we provide a comprehensive review of factors affecting dividend policy in today's environment, discuss recent payout trends across various sectors, review best-in-class shareholder distribution practices, and identify unique situations that require special attention from senior decision makers (such as M&A, hedge fund activism, spinoffs, etc.).

EXECUTIVE TAKEAWAY

Any dividend decision is unique and should be considered relative to other capital deployment priorities and distribution alternatives. Dividends have, however, received significant attention from investors and boards, given record-high levels of cash, well-capitalized balance sheets and limited growth opportunities in developed markets. This report offers a comprehensive overview of key drivers, recent trends and best practices in dividend policy.

¹ See “From fear to frustration: Financial strategy challenges for a recapitalized Corporate America,” J.P. Morgan, September 2010.
² Source: <http://federalreserve.gov>, Flow of Funds Accounts of the United States, June 10, 2010.

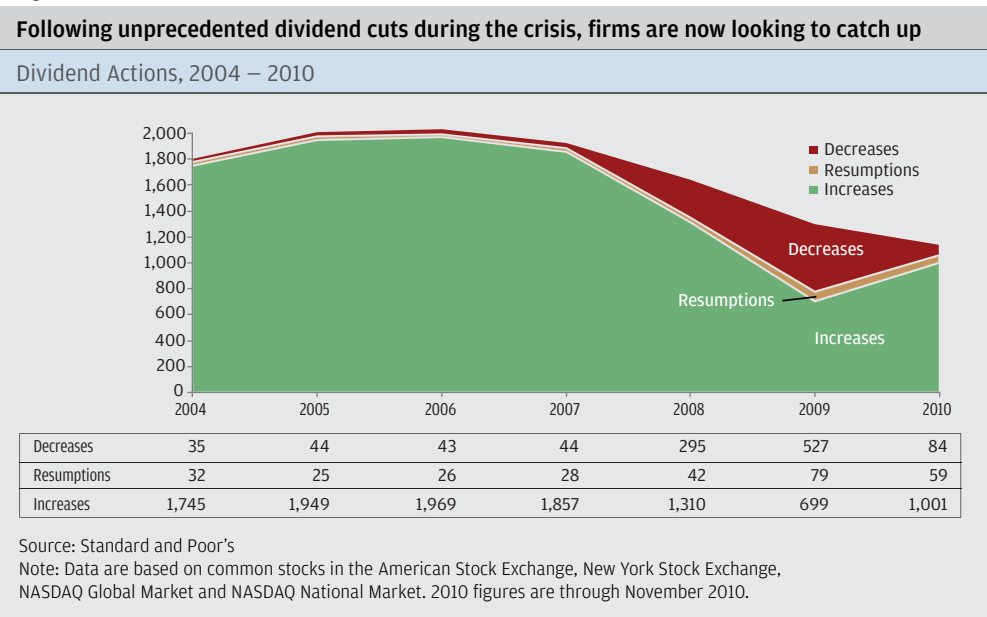
2. Key factors driving dividend policy in today’s environment

To maximize shareholder value, decision makers need to prioritize the use of a firm’s capital among balance sheet repair, new investments (organic or M&A), increasing liquidity, and shareholder distributions. The allocation of capital depends on several key factors. Decision makers need to account for the macroeconomic and capital markets environments, as well as the firm’s specific capital structure, financial flexibility, cash flow and growth profile. In the 1990s, decision makers clearly prioritized growth. During the recent crisis, they focused on balance sheet repair. Today, a number of common trends have driven the decision makers of many firms to consider material dividend increases or dividend initiations. In this section, we discuss the factors that argue both for and against meaningful dividend increases in 2011.

Factors providing dividend momentum

Catch-up from the crisis: In the United States, dividends derive much of their value from the implicit “commitment” between a firm and its investors to steadily increase the dividend but rarely, if ever, cut or suspend it. The crisis damaged this dividend “contract.” After close to 1,900 dividend increases in 2007, there were only approximately 700 in 2009, a 62% decrease in just two years. More importantly, the number of dividend decreases spiked from 44 in 2007 to more than 500 in 2009. After an abnormally low number of dividend increases and a record number of decreases in 2008 and 2009 (Figure 2), firms are looking to catch up on dividend distributions in 2011 now that, for many firms, earnings have rebounded and balance sheets have been strengthened. This trend has started in 2010 with approximately 1,000 increases and only 84 decreases, but there is pressure and room for further dividend expansion. To put this catch-up movement in perspective, consider the following two facts: (1) S&P 500 firms paid approximately \$250 billion in dividends in 2008 relative to just an estimated \$200 billion in 2010, and (2) the S&P 500 dividend to earnings payout ratio in 2010 was nearly as low as it has been in the last 20 years (Data appendix: Table A4).

Figure 2



More liquid and less levered balance sheets: U.S. corporations hold more cash on balance sheet today than they have since the 1950s. In fact, as of September 2010, non-financial S&P 500 corporations had more than \$240 billion in incremental cash and cash equivalents relative to 2007. Additionally, firms are also less levered than they have been at any time over the past 15 years. In light of this fact, firms need to decide whether to preserve this liquidity, or allocate potential excess capital to investments or shareholder distributions. With that in mind, a 25% increase in dividend distributions by every firm in the S&P 500 index would account for less than one-quarter of the incremental cash being held relative to 2007—another sign pointing to positive dividend momentum.

Open and robust credit markets: Historically low Treasury rates, yield-focused investors and stronger corporate balance sheets have led to historically low debt yields in 2010. In fact, the BBB Industrial Bond Index yields have only been lower than they are currently less than 5% of the time over the last two decades. Many corporations took advantage of these historically low rates to extend their upcoming maturities or (pre-)fund investments or acquisitions. Strong access to credit markets reduces company focus on balance sheet liquidity and provides them with more financial flexibility to support higher distributions.

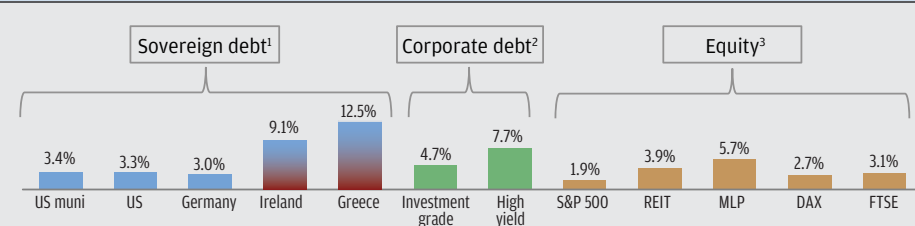
Growth opportunities declining and limited: Modest GDP growth expectations in advanced economies have led to a sharp decline in expected corporate earnings growth and in capital expenditure levels (which are now significantly below pre-crisis levels). In fact, equity analysts now expect that 42% of S&P 500 firms will be unable to achieve double-digit earnings growth over the next five years (relative to only 23% in 2007).³ In this low-growth environment, firms tend to have more excess cash flow, which can then be distributed in the form of dividends to support the valuation of their stock. While growth is still the key driver of valuation, low-growth firms with higher dividends trade at a price to earnings multiple that is about three turns higher than other low-growth, low-dividend firms.⁴

Investors seeking yield: Income investors are struggling to find yield in today's environment. Sovereign debt offers historically low yields and requires investors to take substantial risk to enhance their returns (e.g., Ireland, Greece). Corporate bonds also offer low yields for an investment in well-capitalized firms (less than 5% for investment grade). While U.S. S&P 500 equities offer merely a 2% dividend yield, foreign equity, REITs and MLPs offer significantly higher yields.⁵

Figure 3

Investors are struggling to find yield in today's environment

Corporate and sovereign debt yield



Source: Bloomberg as of 12/31/2010

¹ Based on 10-yr. government bond.

² Investment grade debt based on JULI yield index; high yield based on JPMorgan High Yield HY 100 Index.

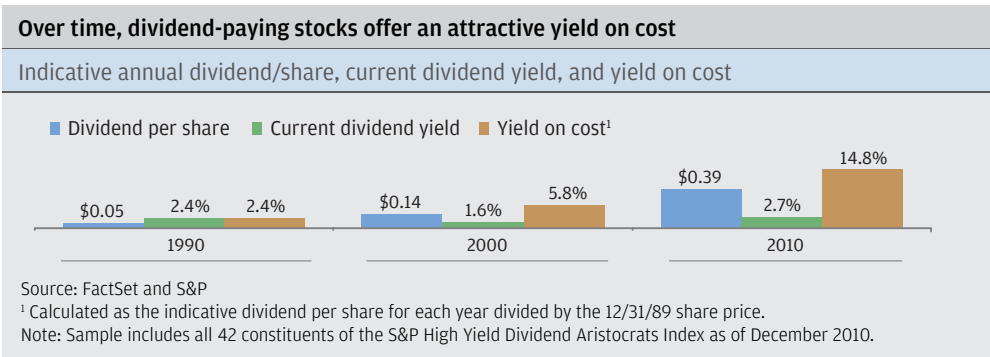
³ S&P 500 dividend yield is market capitalization weighted (dividend yield of median firm in S&P 500 is 1.2%); REIT dividend yield based on actively traded US REITs (S&P 500 REITs have a 3.1% median yield); MLP dividend yield based on Alerian MLP index.

^{3, 4} See "Understanding the new growth paradigm: Opportunities to create value in an anemic growth environment," J.P. Morgan, November 2010.

⁵ This trend is further evidenced by the fact that yields of S&P 500 firms approached U.S. Treasury yields in 2009 for the first time since 1958.

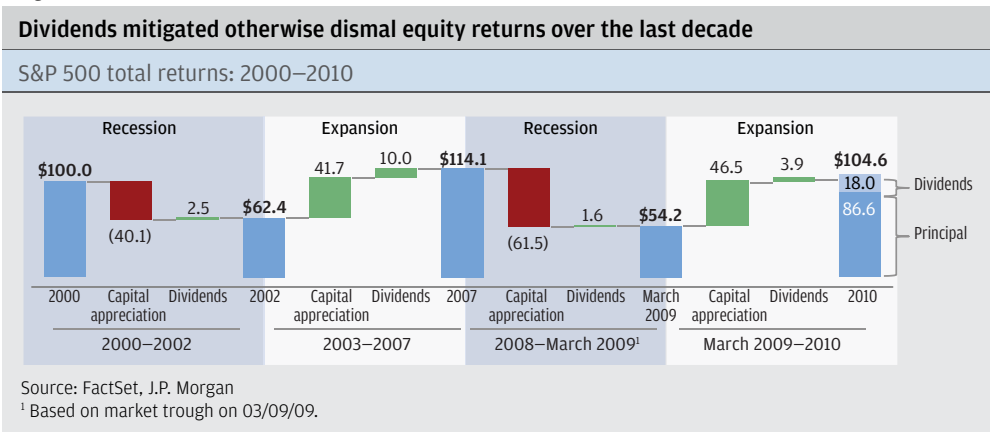
One notable difference between bonds and equity, however, relates to the potential change in dividends/coupons paid over the life of the investment. Most debt coupons are fixed, but stocks typically offer an expected appreciation in the dividend level. This means that the yield on current price may oscillate between say 2% and 4%, but the yield on the initial cost basis is likely to increase over time. We show this positive attribute for the S&P High Yield Dividend Aristocrats constituents in Figure 4. The High Yield Dividend Aristocrats are 42 firms that have consistently increased their dividends for at least 25 years. We show that these firms offered a current dividend yield of 2.4% in 1990 and a pretty similar yield of 2.7% currently. The actual dividend has, however, increased dramatically, from \$0.05 per share in 1990 to \$0.39 per share today. As a result, the yield on cost (i.e., current dividend per share divided by the original purchase price of the stock) has appreciated from 2.4% in 1990 to 14.8% today.

Figure 4



In light of the significant stock price volatility of the U.S. equity market over the last decade, some argue that dividends provide a valuation floor to risk-averse investors, while others claim that dividend yields are dwarfed by the magnitude of stock price changes. In Figure 5 we show the relative impact of dividends and stock price changes on the total return of S&P 500 investors over the last decade. While stock price changes were as high as 40% to 60% in some periods, and dividends were typically much smaller, it was the 18% return from dividends that nullified the 15% decline in prices and made for a positive total return over the last decade.⁶

Figure 5



⁶ While traditional theory suggests that total returns should not be impacted by dividend policy, dividends provide a predictable cash return to investors, which is particularly valuable in a low-growth, uncertain and cash-abundant environment.

Factors weighing upon dividend policy

Though the current environment fosters an acceleration in dividend increases, some factors contribute to continuing hesitation and uncertainty around increased dividend commitments.

Economic uncertainty: Several leading indicators, particularly the performance of capital markets, suggest that an economic recovery is well under way. However, persistently high unemployment, continually depressed home prices, a sluggish recovery in manufacturing, and continued eurozone sovereign risks are just a few indicators that continue to foster significant uncertainty about the economy. These factors reduce the eagerness of firms to commit to a higher dividend. Ironically, it is this same economic uncertainty and lack of attractive investment opportunities that is also driving investor demand for increased shareholder payouts.

Regulatory uncertainty: Beyond economic uncertainty, increased regulatory scrutiny across industries continues to dampen the possibility of increased dividend payouts. Although financial regulatory reform has been the most publicized, lack of clarity around healthcare reform, carbon legislation, domestic energy production and consumer protection are cause for additional uncertainty across various industries that could potentially increase their dividend payments more aggressively should the regulatory environment be more transparent.

Shifting dividend taxes: In a recent report, we analyzed the implications of a potential dividend tax rate change on shareholder distributions. Specifically, we discussed whether share buybacks would become more attractive relative to dividends.⁷ In the meantime, the dividend and capital gains tax uncertainty has been postponed, with the Bush-era tax cuts having been extended by two years. Yet, companies with significant retail ownership still need to take into account the implications of potential future increases in the dividend tax rate down the road.

Trapped cash: There has been much discussion in both the press and among policy makers about the record-high corporate cash balances. Indeed, non-financial S&P 500 firms alone hold about \$1 trillion of cash on their balance sheets. Remarkably, of the top 16 holders of cash, 15 are either technology or healthcare firms, with the eight largest technology firms accounting for almost 30% of the overall S&P 500 cash balance alone. Moreover, most of this cash is trapped offshore and repatriation would have significant tax consequences for them under the current legislation. In addition, a large portion of their ongoing cash flow is also generated offshore. Thus, many large U.S. firms appear to pay low dividends relative to overall cash flow. However, relative to domestic cash flow, which can be used more effectively to pay their dividends, their payout ratio is significantly higher.

Advantages of buybacks: While dividends provide a number of well-known benefits, share repurchases still have certain advantages when compared to dividends. They provide greater tax efficiency for investors, are typically EPS accretive, and can be used to ease stock price pressure and/or signal undervaluation. More importantly, however, share repurchases provide significantly more managerial flexibility. As was well

⁷ See "Unintended consequences: How higher investor taxes impact corporate finance decisions," J.P. Morgan, September 2010.

demonstrated during the crisis, repurchases can be suspended to preserve cash or pursue other capital allocation opportunities.

EXECUTIVE TAKEAWAY

After a number of years during which liquidity preservation and defensive financial policies were paramount, the tide is turning in favor of distributions. Well-capitalized firms across various sectors are considering dividend increases or dividend initiations. While the current investor preference for yield is important, we continue to recommend that boards adopt dividend policies that are sustainable, and prioritize value-accretive investments over distributions.

3. Recent dividend trends across sectors

Not all firms pay dividends, and both buyback and dividend intensity varies significantly across firms, depending on their size, growth profile, sector and other factors. While S&P 500 firms are expected to pay total cash dividends of about \$200 billion in 2010, **the 10 largest payers alone account for almost \$60 billion of this amount (or almost 30%).** These 10 firms not only pay out a significant dollar amount due to their size, but also typically have a high yield and payout ratio as a percentage of earnings. The pay of several of these firms is at the high end of the earnings payout ratios and at the low end of growth expectations.

Figure 6

The S&P 500's top 10 dividend payers constitute about 30% of the total dividends in the index					
Largest dividend payers in the S&P 500					
Summary description	Total LTM dividends (\$bn)	Payout % of S&P 500 total	Dividend yield	Dividend/ 2011E net income	Estimated long-term growth
Telecommunication Services firm	\$9.9	4.6%	5.7%	67.2%	6.0%
Energy firm	8.3	3.8%	2.4%	26.6%	11.3%
Healthcare firm	5.8	2.7%	4.1%	31.4%	2.5%
Healthcare firm	5.7	2.6%	3.3%	41.3%	5.9%
Energy firm	5.6	2.6%	3.1%	28.2%	15.6%
Consumer Staples firm	5.5	2.6%	2.9%	42.1%	9.2%
Telecommunications Services firm	5.4	2.5%	5.3%	84.3%	4.3%
Industrials firm	4.6	2.1%	2.3%	32.6%	13.0%
Information Technology firm	4.5	2.1%	2.0%	20.4%	12.0%
Consumer Staples firm	4.4	2.0%	2.1%	25.8%	10.5%
Total	\$59.7	27.6%			

Source: FactSet, J.P. Morgan

Note: Market data as of 12/31/10.

More flexible¹ Less flexible¹

¹ Reflects top and bottom quartiles of respective metrics in the S&P 500.

However, many S&P 500 firms still pay modest or no dividends, as we show in Figure 7. For example, while healthcare firms pay the second-highest aggregate dividend by sector with more than \$26 billion in annual dividends, the median S&P 500 healthcare firm does not pay any dividends (a few large healthcare firms account for the vast majority of the payout).

More strikingly, three of the six largest companies by market capitalization do not pay dividends. Furthermore, other sectors that were severely impacted by the crisis, such as financials and REITs, pay out significantly less than they did pre-crisis.

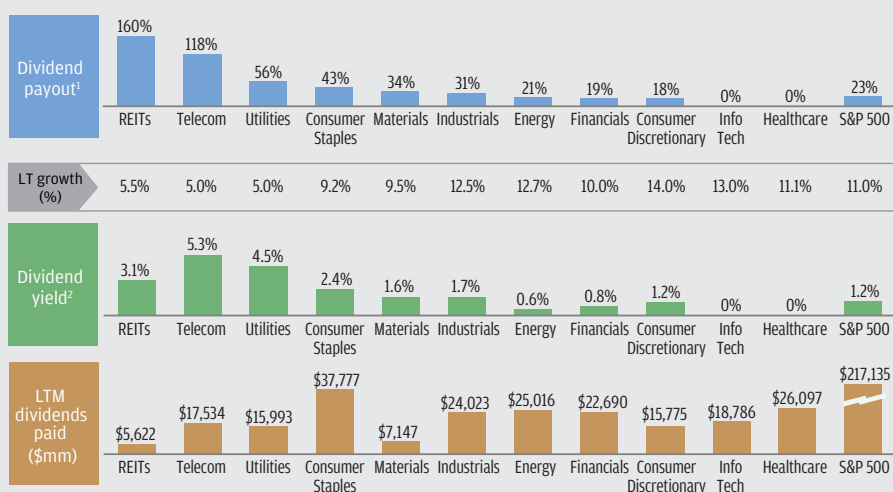
Dividend payout varies not only across sectors, but also across firms with different size and growth profiles (even for firms that operate within the same sector). In Figure 8, we show that small-cap firms tend not to pay any dividends, while mid-cap firms have a 14% dividend payout ratio, relative to 23% for the median S&P 500 firm. Even within the S&P 500 firms, the larger and more mature firms tend to pay higher dividends. In part, this is a reflection of the lower growth prospects of the larger firms, but it also reflects the fact that larger firms tend to have better access to capital markets, more financial flexibility and more confidence in the sustainability of their cash flows.

There is a similar pattern for firms with different growth prospects. From Figure 7, we observe that the three highest-paying industries (REITs, Telecom and Utilities) are also those with the lowest growth profiles (expected earnings growth of around 5%, which is well below the expected growth of other industries). For example, while firms with less than 5% expected growth have a 4.6% dividend yield on average, firms with more than 20% expected growth have zero yield. Tables A1 through A3 in the appendix offer detailed information by sector, size and growth.

Figure 7

The REIT, utilities and telecom sectors are the highest payers from a yield and payout ratio perspective

Dividend payout, dividend yield and dividends paid by sector



Source: J.P. Morgan; FactSet

Note: Market data as of 12/31/10; filings data as of most recent available.

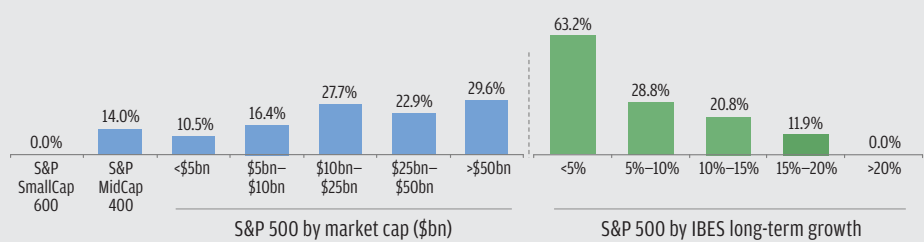
¹ Dividend payout defined as LTM dividends/LTM net income; firms with negative net income excluded from sample.

² Dividend yield calculated as annualized latest quarterly dividend per share divided by share price as of 12/31/10.

Figure 8

Large, mature firms tend to pay higher dividends

Dividend payout by size and growth profile



Source: Standard & Poor's, FactSet, J.P. Morgan
Note: Market data as of 12/31/10.

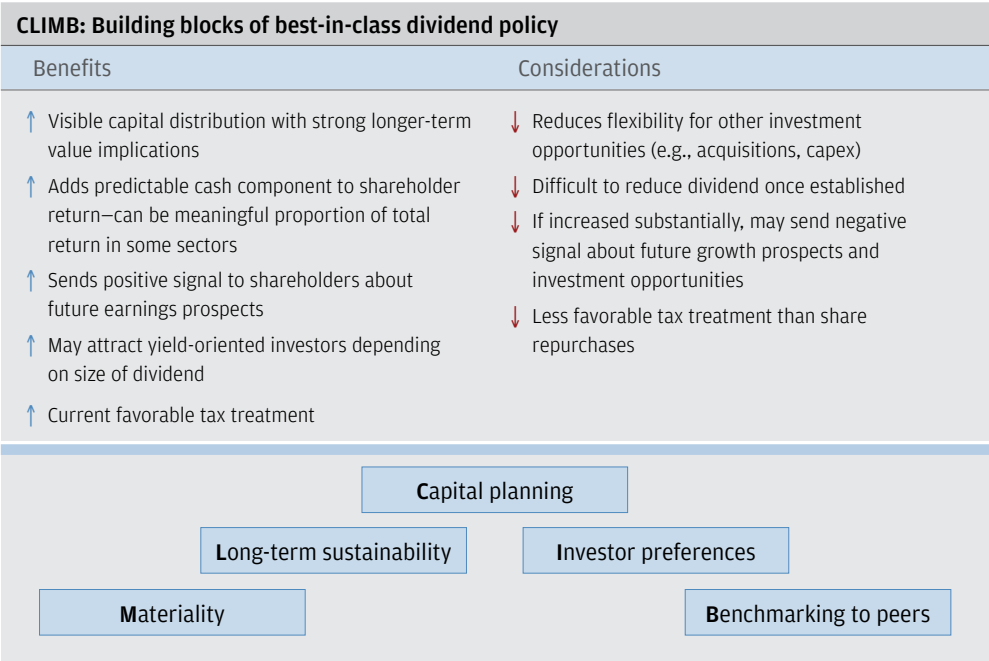
EXECUTIVE TAKEAWAY

Firms should benchmark their dividend distributions not only relative to their direct business peers, but also relative to firms from other sectors with similar size and growth profiles. Current dividend distributions are concentrated among large firms that maintain significant financial flexibility or operate in mature sectors. Some well-capitalized firms with significant cash flow generation currently pay very low or no dividends and are likely to consider increased distributions in the form of buybacks and dividends this year.

4. CLIMB to a best-in-class dividend policy

Whether firms decide to increase, cut or initiate a dividend, we believe that a best-in-class dividend policy should be based on the five CLIMB dimensions: Capital planning, Long-term sustainability, Investor preferences, Materiality and Benchmarking to peers. We elaborate on each of these parameters below.

Figure 9



Capital planning: Dividend payouts should not be set at such high levels that they leave little or no room for future increases. Many decision makers wonder whether one large dividend increase and no growth thereafter is a superior dividend policy to providing a series of smaller but consistent increases. We believe that investors respond better to a series of consistent increases than to one large increase that leaves no room for growth thereafter.

Long-term sustainability: As one might expect, investors prefer firms with sustainable dividends (i.e., dividends that increase regularly with little risk of being cut). To determine whether a dividend is sustainable, we typically rely on a firm’s historical cash flows as well as a customized simulation-based downside analysis. Firms can use excess cash flows (above the sustainable/predictable cash flow that is applied to common dividends) for incremental liquidity, debt pay-down, buybacks or, in rare circumstances, for special dividends.

Investor preferences: Investor preferences vary by country, industry, tax regime and across time periods. While the investor-preference-of-the-day should not dictate long-term and sustainable dividend policy, decision makers should take current preferences into account. Firms with a strong dividend policy may attract an enviable retail and dividend-oriented investor base. However, these investors tend to react negatively to a dividend cut. Should cash flow payout and sustainability suggest that a lower dividend is prudent, the best approach may be to keep the current level and converge to the appropriate (lower) payout over time.

Materiality: We do not recommend using dividend yields as the primary indicator of a long-term dividend policy, due to management’s lack of control over price variations. For dividend initiations and dividend increases, however, we believe that dividend payments should be material, such that they have an impact on valuation. In order for a dividend to be material, the yield should be a meaningful part of the total return expected from investors.

Benchmarking to peers: Virtually all board and senior management analysis related to dividend decisions starts with in-depth peer benchmarking. We recommend benchmarking on metrics including payout ratios to forward earnings and cash flows, dividend yields and the dividend versus buyback payout mix. We further recommend that firms look beyond their immediate business peers and benchmark payout against firms with similar size, growth and financial flexibility. For example, comparing the dividend policy of a small, non-investment grade firm to that of a mega-cap investment grade industry leader may lead to misguided conclusions. In a dynamic environment, we also recommend factoring in the possibility that many peers may under- or overdistribute. In today’s environment, peer benchmarking may not capture the fact that many peers are on the verge of materially increasing their dividends and buybacks.

EXECUTIVE TAKEAWAY

We formulate a best-in-class dividend policy using the five CLIMB dimensions: Capital planning, Long-term sustainability, Investor preferences, Materiality and Benchmarking to peers. We believe that management should clearly articulate the firm’s dividend policy for the board. Public announcements regarding dividend policy should be formulated with clarity, but should maintain sufficient flexibility for unusual up or downside scenarios.

5. Special situations

Mergers and acquisitions: With transformational mergers, the resulting larger entity is typically more stable and diverse. This stability and enhanced capital markets access creates opportunities to adopt a higher dividend. Conversely, acquirers buying targets with a weaker dividend policy may lose financial flexibility as they apply their stronger dividend policy to a larger number of shares. Overall, transformational mergers often present an opportunity to right-size dividends and take into account new industry dynamics.

Spinoffs: Spinoffs are one of the few corporate events that allow firms to reassess and implement new financial policies (including dividends) that are appropriate for their growth profile and size. Both separated entities need to be mindful of identifying appropriate peers and their stand-alone business risks. In some cases, a high pre-spin dividend may burden both the parent and spinoff company due to the desire not to cut the overall dividend. Spinoffs, however, are transformational events that typically lead to a positive

market reaction, providing an opportunity to right-size the dividend. Conversely, split-offs can provide an opportunity to maintain the strong dividend policy of the parent with a reduced cash flow burden.

Firms that recently cut their dividends: Firms that have recently cut or omitted their dividend seek to repair their credibility by interrupting the expected steady dividend flow. Once their liquidity and capital position has been restored, they are expected to reestablish their dividend. In this case, it is particularly important to establish a new level that is sustainable given the changing business paradigm.

Cyclical firms: For cyclical firms, cash flows are affected by cycles of varying length and strength. We recommend examining long cycles and taking into account structural shifts to identify a common dividend level that works through cycle. Excess cash flow beyond the sustainable level can be distributed through buybacks or special dividends.

Regulatory environment: In the energy, real estate, utility and, most recently, the financial sector, regulatory intervention and capital requirements have impacted dividend policy. For example, most recently the Federal Reserve provided specific guidelines on bank dividends. Regulators recognize that firms need to create shareholder value and distribute excess capital or excess cash flow to be able to continue attracting capital, but they also express their concern about appropriate levels of capital to protect other stakeholders.

Activism: Activist investors often target excess liquidity levels and encourage firms to more aggressively distribute cash or cash flow to shareholders. We strongly encourage decision makers to engage the board in how activists could potentially target a firm to lobby for a higher dividend. A clearly articulated payout policy to distribute excess cash flow is more likely to satisfy investors and keep activist shareholders at bay.

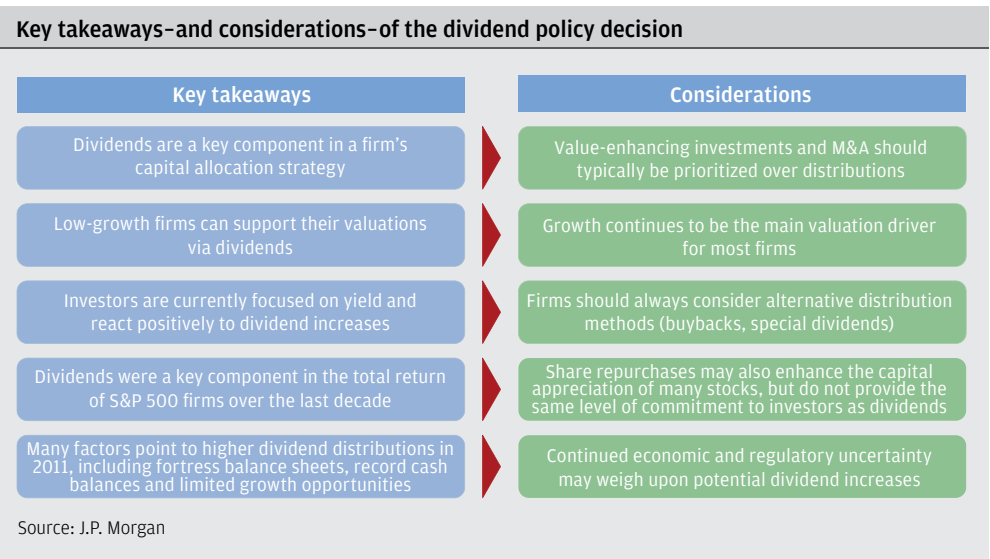
EXECUTIVE TAKEAWAY

In some unique situations, dividend policy should receive particular attention. For example, when firms spin off or merge, there is often an opportunity or need to reassess optimal dividend policy. For firms that operate in very cyclical businesses or that have recently cut their common dividend, determining the **sustainable** dividend level also requires incremental analysis.

6. Key takeaways and conclusion

Around this time of the year, decision makers and boards often reevaluate their capital allocation strategies. This year, we expect many of these discussions to be focused on the capital deployment opportunities available for the significant cash balances that have been accumulated over the last couple of years. We believe companies should prioritize M&A and value-enhancing investments over distributions, as growth continues to be the key driver of valuation. Yet, limited growth opportunities in developed markets suggest that the recent trend of increased shareholder distributions is likely to strengthen in 2011. While any dividend strategy should be considered relative to other distribution alternatives (e.g., share repurchases, special dividends), yield-focused investors have brought a renewed focus on dividends.⁸ We believe that a dividend is well designed for the distribution of predictable, steady excess cash flows, but is not an appropriate distribution method for the portion of cash generated that is less certain. Figure 10 summarizes the key dividend recommendations and considerations discussed in this report.

Figure 10



EXECUTIVE TAKEAWAY

Firms across all sectors will proactively review their dividend policies this year. Dividends, however, are not appropriate for all firms. Executive teams and boards should review the full range of capital allocation alternatives available to them, maximize their understanding of future growth prospects, and assess any impact of future economic or regulatory outcomes before defining or altering their shareholder distribution policies.

⁸ For more information regarding share repurchase considerations, see "Buy High, Sell Low: Evaluating pre-crisis buybacks with perfect hindsight," J.P. Morgan, August 2009.

Data appendix

Table A1

REITs and telecom firms exhibit the highest dividend payout, while IT and healthcare firms lag

S&P 500 median distribution levels by sector (\$mm unless otherwise noted)

Sector	Count	Equity value	LTM revenue	LTM FCF ¹	Dividend yield	Dividend payout ²	Total payout ³	Dividend % of FCF	Total pay. % of FCF	IBES LT-growth
REITs	15	10,145	1,073	276	3.1%	159.6%	170.7%	88.7%	120.2%	5.5%
Telecom	9	13,257	7,149	1,154	5.3%	117.7%	212.5%	31.3%	78.9%	5.0%
Utilities	34	8,668	9,675	63	4.5%	56.2%	73.4%	66.1%	90.6%	5.0%
Consumer Staples	41	12,736	12,437	882	2.4%	42.8%	87.8%	42.8%	79.4%	9.2%
Materials	30	8,715	6,623	464	1.6%	33.7%	81.3%	25.2%	73.2%	9.5%
Industrials	58	11,713	10,028	619	1.7%	31.3%	83.3%	30.0%	74.0%	12.5%
Energy	40	13,717	5,922	159	0.6%	20.6%	36.2%	41.2%	91.5%	12.7%
Financials	66	11,730	7,909	1,297	0.8%	18.7%	64.5%	8.6%	31.4%	10.0%
Consumer Disc.	79	9,320	7,701	711	1.2%	18.1%	69.8%	13.8%	63.4%	14.0%
IT	77	9,216	4,064	530	0.0%	0.0%	85.3%	0.0%	62.9%	13.0%
Healthcare	51	12,207	7,372	1,010	0.0%	0.0%	60.2%	0.0%	53.5%	11.1%
S&P 500	500	\$11,166	\$7,447	\$656	1.2%	22.7%	73.1%	16.8%	66.1%	11.0%

Source: Company filings, Standard & Poor's, FactSet, J.P. Morgan

Note: Market data as of 12/31/10; filings data as of most recent available.

¹ Free cash flow defined as cash flow from operations less capex.

² Dividend payout defined as LTM dividends/LTM net income; firms with negative net income excluded from sample.

³ Total payout defined as LTM dividends + average repurchases over the prior three fiscal years; firms with negative free cash flow excluded from sample.

Table A2

Higher growth profiles associated with materially lower distributions

S&P 500 median distribution levels by IBES long-term growth (\$mm unless otherwise noted)

IBES long-term growth	Count	Equity value	LTM revenue	LTM FCF ¹	Dividend yield	Dividend payout ²	Total payout ³	Dividend % of FCF	Total pay. % of FCF	IBES LT-growth
> 20.0%	27	12,870	4,232	484	0.0%	0.0%	36.5%	0.0%	29.2%	25.0%
15.0%–20.0%	53	11,117	5,632	522	0.6%	11.9%	65.0%	7.8%	57.5%	15.5%
10.0%–15.0%	182	11,360	8,048	709	1.2%	20.8%	78.0%	15.8%	71.7%	12.0%
5.0%–10.0%	169	10,643	8,197	748	2.0%	28.8%	73.3%	23.6%	67.1%	7.5%
< 5.0%	51	10,145	7,549	668	4.6%	63.2%	91.3%	56.9%	78.9%	2.5%
S&P 500	500	\$11,166	\$7,447	\$656	1.2%	22.7%	73.1%	16.8%	66.1%	11.0%

Source: Company filings, Standard & Poor's, FactSet, J.P. Morgan

Note: Market data as of 12/31/10; filings data as of most recent available; analysis excludes 18 firms without IBES long-term growth estimates.

¹ Free cash flow defined as cash flow from operations less capex.

² Dividend payout defined as LTM dividends/LTM net income; firms with negative net income excluded from sample.

³ Total payout defined as LTM dividends + average repurchases over the prior three fiscal years; firms with negative free cash flow excluded from sample.

Table A3

Larger firms also typically pay out more

S&P 500 median distribution levels by market capitalization (\$mm unless otherwise noted)

Market cap. (\$mm)	Count	Equity value	LTM revenue	LTM FCF ¹	Dividend yield	Dividend payout ²	Total payout ³	Dividend % of FCF	Total pay. % of FCF	IBES LT-growth
> 50,000	48	102,990	46,488	7,179	1.9%	29.6%	75.9%	31.3%	72.3%	11.0%
25,000–50,000	61	34,962	20,036	2,322	1.4%	22.9%	65.5%	22.8%	63.4%	12.1%
10,000–25,000	165	14,312	8,434	821	1.3%	27.7%	88.1%	18.2%	77.5%	11.5%
5,000–10,000	144	7,390	4,290	438	0.8%	16.4%	66.5%	10.3%	50.2%	11.0%
< 5,000	82	3,644	3,363	247	0.8%	10.5%	66.2%	7.5%	44.7%	10.0%
S&P 500	500	\$11,166	\$7,447	\$656	1.2%	22.7%	73.1%	16.8%	66.1%	11.0%
S&P MidCap 400	400	\$2,636	\$1,647	\$126	0.7%	14.0%	58.8%	8.6%	44.5%	12.0%
S&P SmallCap 600	600	\$743	\$539	\$30	0.0%	0.0%	43.7%	0.0%	32.4%	13.0%

Source: Company filings, Standard & Poor's, FactSet, J.P. Morgan

Note: Market data as of 12/31/10; filings data as of most recent available.

¹ Free cash flow defined as cash flow from operations less capex.

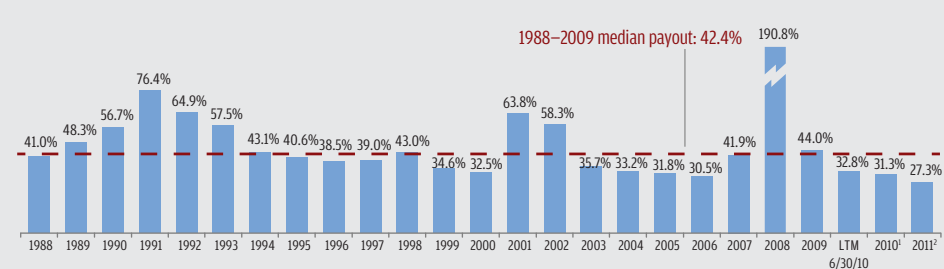
² Dividend payout defined as LTM dividends/LTM net income; firms with negative net income excluded from sample.

³ Total payout defined as LTM dividends + average repurchases over the prior three fiscal years; firms with negative free cash flow excluded from sample.

Table A4

S&P 500 dividend-to-earnings payout low relative to history

S&P 500 historical dividend-to-earnings payout



Source: Standard and Poor's

¹ Based on 2010 estimates for dividends and earnings.

² Based on 2010 estimate for dividends and 2011 estimate for earnings.

J.P. Morgan

J.P.Morgan