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CFA Trending Topics

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How have firms allocated capital since tax-reform in the first half of 2018?

Key takeaways:

- The first and second quarter of 2018 saw an increase across capital allocation metrics including capex, M&A, dividends and share buybacks across the board, led by a 46% increase in buybacks from H1 2017 to H1 2018.
- As partially discussed in a prior CFA Trending Topic detailing buyback activity in H1 2018, firms continue to evaluate how to best strike a balance between growth, balance sheet strength and shareholder-friendly actions.

M&A: Overall Global M&A deal value increased by 58% in the first half of 2018 compared to the same period in the previous year.

- A significant portion of this growth was driven by mega-deals (>$10bn); when such deals are excluded, M&A deal value increased by 22%.
- Telecommunications and utilities sectors saw the greatest relative increases of 225% and 210% during this period, respectively, while activity in the energy sector slowed, declining 11%.

Capex: Capex spending increased 16% overall year-over-year with tech leading the way.

- Growth in tech far surpassed other industries at 69% year-over-year growth, more than twice the next sector (energy at 33%).

Dividends: Across all industries, dividends increased by 12% and 10% in Q2 and Q1 2018, respectively, compared to 9% and 7% in the same periods for the previous year.

- The energy sector had the strongest dividend growth at 14%: however, this was due in large part from starting from a lower base than other sectors.

Buybacks: The increase across all sectors in executed buybacks was 46% as all but one sector (consumer staples) saw payouts increase year-over-year.

The consumer staples sector has seen margin pressure across all staples sub-sectors (in part due to rising commodity costs) which illustrates that capital allocation trends are not immune to other broader macro factors.

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