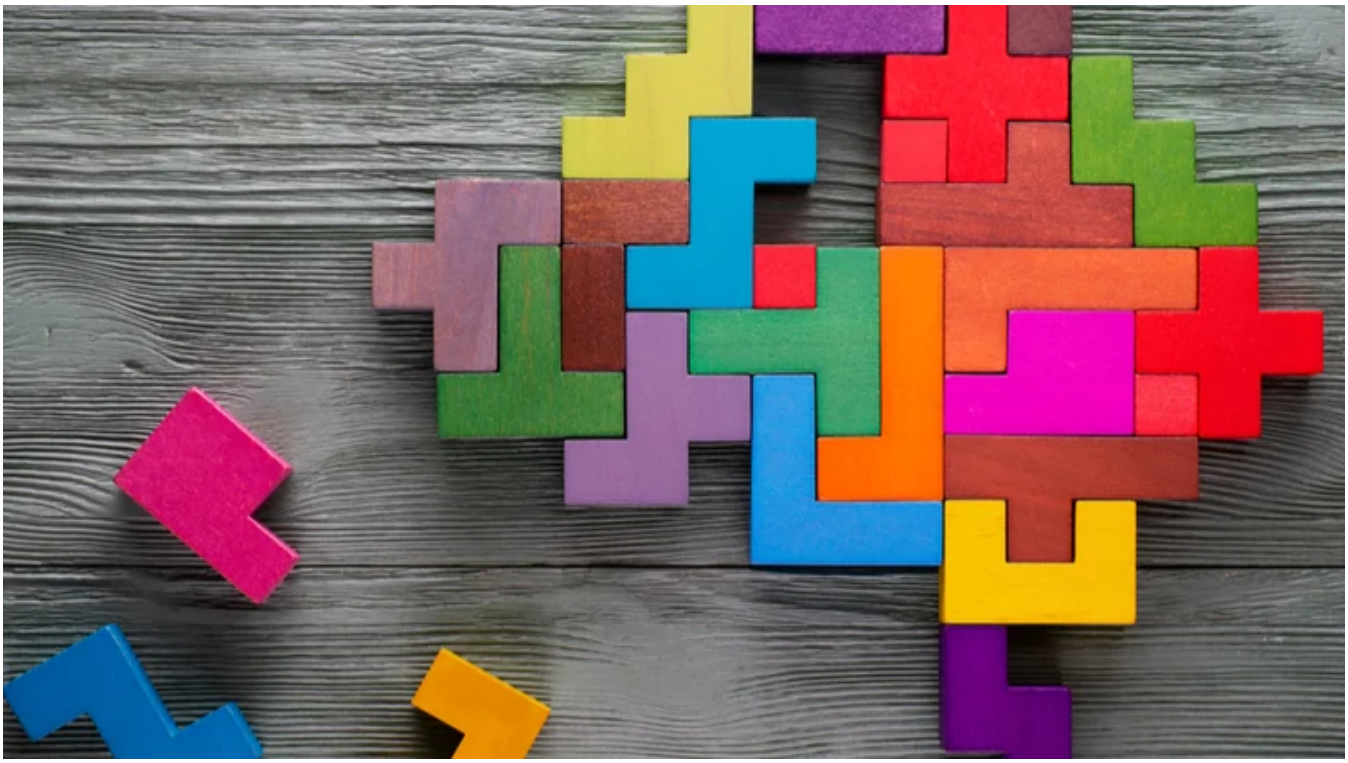
Perpetual Equity Investment Company Limited

# Perpetual knowledge bank series: buy backs

12 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.

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Determination can be obtained by calling 1800 022 033 or visiting our website http://www.perpetual.com.au .

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