

Perpetual knowledge bank series: special dividend

9 July 2022



A special dividend, also referred to as an extra dividend, is a payment made by a company to its shareholders that is separate from the usual recurring dividend cycle. It is the 'once off' nature of this payment – and the fact that it is usually a far larger amount than a typical dividend payment – that makes it a special dividend. Companies may use these payments to reward loyal

shareholders after unusually strong earnings, the sale of a subsidiary or other asset, for tax reasons or to celebrate achieving a significant milestone.

It should be noted that relatively few companies pay out special dividends and there are both pros and cons to doing so. Companies with an overabundance of cash reserves may instead choose to engage in share buyback programs or increase their regular dividend instead of paying a special dividend. On the other hand, there are also examples of companies in cyclical industries occasionally paying out special dividends on a semi-regular basis to reward long-term shareholders who stayed invested throughout the cycle.

Aside from generating goodwill and bolstering shareholder confidence, the reasons for issuing a special dividend are sometimes more practical. A special dividend can be used to alter a company's capital structure by reducing equity and assets. The company may have reason to alter the percentage of debt versus the percentage of equity used to finance the company. Another possibility is that the company is using a special dividend in conjunction with their regular dividend policy to form a hybrid dividend policy. This is especially true of cyclical companies, which may follow a normal dividend cycle but also declare a special dividend when the company is performing better than normal.

However, there are also potential disadvantages to consider when declaring a special dividend. Investors usually appreciate receiving an extra pay out, but they could also interpret the gesture as the company having no better use for its cash reserves. More broadly, the market may conclude that the company lacks ambition or has run out of reinvestment opportunities. This may have a negative impact on the company's stock price if investors conclude its growth potential is decreasing.

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 does 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.