BRYAN, GARNIER & CO

A good time for solidarity dividends

Article author

Eric Le Berrigaud
Managing Partner
Head of Equities
eleberrigaud@bryangarnier.com

But it seems already to have become both over-simplified and distorted and there are several associated risks. It therefore feels necessary to remind ourselves of a few realities and at the same time to put forward some different proposals to those we've been hearing about. One in particular seems very timely: the idea of a solidarity dividend.

Dividend decisions needed soon

It may be obvious to many but it's worth restating: dividends exist for the allocation of a company's cash and resources, not for shareholder enrichment. Because share prices are adjusted downwards in relation to the dividend paid, the transaction is neutral for shareholders. The reason dividends are being discussed with such urgency now is that most companies, at least in France, pay them between May and June. Decisions must therefore be taken soon: the annual general meeting (AGM) season has already begun. However, the debate around dividends is both complex and nuanced.

First, it's important to remember that the dividends to be voted on at this year's AGMs relate to the 2019 financial year. So we should be concerned about any decisions that apply retroactively, because they chip away at an established contract.

> *Within the context of Covid-19, dividend payments could, and should, be reinvested to help hospitals and small specialist companies in his universe*

A decision for companies, not government

Second, these dividends are remuneration for performance and risk during a period that has already ended and was not impacted by Covid-19. For companies that are in difficulty today, their dividends represent a potential reserve of money that they could, in good conscience, choose not to pay out – especially if their survival is at stake. Whether or not they pay them is not a decision for governments to take. Common sense and a company's board of directors will determine it. Equally, a company that's in a position to pay its 2019 dividends should not be obliged to suspend them. The ECB's recommendations to banks is understandable but since their survival is not in question, is compulsion the best option?

Shareholders are a diverse group

Third, we should remember who shareholders are. While in the collective unconscious a shareholder is either a fat man with a cigar or a US pension fund, in reality the major shareholder in a company is often the manager. These people take big hits in remuneration to pay themselves in dividends because it puts less pressure on costs. And let's not forget about employees and individual shareholders, modestly paid people for whom dividends can represent significant, low-tax remuneration. Of course, in most companies' shareholder structures, there are many more institutional investors than private or employee shareholders. This is certainly true for the largest companies – but these are also the most robust organizations. Forcing dividend decisions risks limiting what smaller and more fragile companies can do.

Dividend payments are a social issue

Fourth, we should bear in mind the influence of environmental, social and governance (ESG) concerns today. More and more funds are supportive of these initiatives – and many of these funds manage the savings and pensions for millions of French people. Given the broad social impact of dividend payments, they are an ESG issue, too.

Think before we act

Finally, French companies do not operate in a vacuum. They compete at an international level and it is important not to weaken them. And after having encouraged the French to invest in recently privatized companies, are we going to force them not to pay dividends? Companies could be exposed to the risk of litigation by people who feel they have been robbed. And some companies have already paid out a large part of their 2019 dividend in the form of interim dividends.

In the current crisis, "business as usual" behavior can seem inappropriate and it's understandable that dividend payments can be viewed this way. But why not think before we act, and appeal to everyone's conscience and sense of responsibility, before making a retroactive decision?

The solidarity dividend

We submit two ideas for debate:

(i) Pay upcoming 2019 dividends in shares. It would leave money in the company and strengthen its financial supporters. But above all, we propose a "solidarity dividend", where dividends are instead paid to small- and medium-sized businesses in difficulty, or to accredited associations or foundations, especially in the medical field. This transforms a constraint – which doesn't give any guarantee that withheld dividends will be put to good use – into a magnificent voluntary gesture. Its impact could spread beyond companies that are directly helped: for example, funds may choose to participate in this initiative and not receive their dividends. The dividend could be accompanied by a tax credit for individuals, limited to 50%.

Several billions could be made available through dividend reinvestment

(ii) Dividends for 2020, a year turned upside-down by the crisis, should be adapted to the conditions: many companies will simply not be able to pay them. And perhaps continuing the idea of a solidarity dividend would not be a bad idea either.

We are still in a position to decide that the majority of dividends paid by French companies (more than EUR50 billion for the members of the CAC40 alone) should not be a subject of polemic and argument but instead, a question of solidarity and consensus and fine gestures made in good conscience.

Dividends could be more useful if they are paid to companies and foundations that need them, rather than being left in companies that neither need them nor will necessarily make good use of them.

Let's create a voluntary movement! The 2020 dividends will be there for us to act differently or to continue the idea of a solidarity dividend.

About Bryan, Garnier & Co

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