# Share Repurchases

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**Theo Vermaelen**

***INSEAD***
***Boulevard de Constance***
***77305 Fontainebleau, France***
*theo.vermaelen@insead.edu*

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# 1

# Introduction

What makes share repurchases interesting? In some ways, a share repurchase is a microcosm of corporate finance. First, it is an *investment* decision, an investment in itself, as opposed to investing in capital goods or buying another company. Second, it is a *payout* decision, as an alternative to paying a dividend. Third, it is a *capital structure* decision as it increases the company's financial leverage. Fourth, it is a decision to change the *ownership structure* of the company, in particular considering that managers and insiders don't sell their shares back to the company. The all encompassing nature of a repurchase also means that the references in this manuscript will be inevitably incomplete, as a massive body of research in corporate finance is either directly or indirectly related to share buybacks.

Share repurchases have also become an important and a global activity in recent years, as opposed to a minor activity only relevant in US markets. For example, when I wrote my doctoral dissertation on share repurchases in the late seventies, I had to look back for 15 years to collect a few hundred repurchase announcements. Today, I would only have to look back a few months. Share repurchases were also largely inexistent outside the US. Today, non-US buyback activity has become as important as in the US.

The purpose of this text is to provide an overview of research on stock repurchases, hopefully to encourage others to research this exciting event. I also have tried to give my personal interpretation of the numerous research results published during the last 25 years. The text starts with a description of the various methods to repurchase stock and the growing importance of buybacks around the world. Section 3 discusses the importance of the institutional environment, i.e. regulation and taxes, for the emergence of share repurchase activity. Section 4 provides an overview of short-term event-studies around repurchase announcements. The general conclusion is that, regardless of the repurchase method, stock prices increase significantly. Section 5 discusses to what extent various theories can explain this price increase. Section 6 shows that managers are able to time the market buy buying back stock when the shares are undervalued. Section 7 compares dividends and repurchases. Finally Section 8 summarizes the main findings and implications for corporate financial policy.

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