The First Cut

High Buyback Yields

The First Cut is designed as a starting point for investors. Each issue we list the top stocks that pass relatively simple screens of interest to individual stock pickers. AAII's Stock Investor Pro *screening software is used to generate the First Cut listing.*

Companies with excess cash can pay out dividends as well as repurchase outstanding shares that have been issued to the public. When a company reduces the number of outstanding shares, remaining shares gain a slightly larger proportional claim to the company and its profits. This allows earnings per share to expand more quickly than net income. A share buyback can also signal to the market that management thinks that the shares are attractively priced at current levels.

The easiest way to calculate the buyback yield is to look at the change in the average shares outstanding from one fiscal period to another. For example, DST Systems (DST) had 42.1 million shares outstanding during its 2013 fourth quarter, but it reduced the number of outstanding shares to 37.9 million by its 2014 fourth quarter. The 10.0% reduction in the number of shares is the buyback yield. A company that issues more shares will have a negative buyback yield.

James O'Shaughnessy, in the fourth edition of his book "What Works on Wall Street" (McGraw Hill, 2011), found that stocks with the highest buyback yield (top 10%) had an average annual compound rate of return of 13.7% from December 31, 1926, to the end of 2009 compared to a gain of 10.5% for the overall universe over the same time period. In contrast, portfolios made up of stocks with the lowest buyback yield had a compound annual return of just 5.9%, coupled with higher risk as well.

For our First Cut, we started with a universe of domestic exchange-listed companies. Financial sector companies were removed from the universe because their financial statements are not comparable with other firms. We then looked for companies with a positive current buyback yield as well as positive buyback yields over each of the last three years. To ensure financial strength, we eliminated firms with an increasing ratio of long-term debt to equity over the last two fiscal years. We also required positive free cash flow (cash from operations less capital expenditures and dividends) over each of the last three years. Finally, as a check for profitability, we required that firms have positive expected earnings estimates for the current and next fiscal year. The 25 stocks with the highest current buyback yield made our First Cut.

—John Bajkowski, President, AAII

Firms With the Highest Buyback Yields

	Buyback Yield				LT Debt to	P/E	Div	Market	Share	Rel	
	Current (%)	Y1 (%)	Y2 (%)	Y3 (%)	Equity (%)	Ratio (X)	Yield (%)	Cap ($ Mil)	Price (2/13) ($)	Strgth Rank (%)	Industry
DST Systems, Inc. (DST)	10.0	7.4	3.8	1.8	31.2	7.3	1.1	4,073	108.31	72	Computer Services
CEVA, Inc. (CEVA)	6.8	6.3	3.5	1.6	0.0	nmf	0.0	397	19.65	71	Semiconductors
Expeditors Int'l (EXPD)	5.9	2.1	0.8	0.1	0.0	25.3	1.4	8,843	45.81	67	Misc. Transportation
F5 Networks, Inc. (FFIV)	5.3	4.0	0.7	1.9	0.0	26.3	0.0	8,414	116.64	61	Computer Networks
Western Union Co. (WU)	5.2	4.2	8.0	4.1	286.1	12.0	3.3	9,940	19.02	76	Business Services
Alaska Air Group, Inc. (ALK)	4.6	3.2	1.1	1.5	32.3	14.1	1.3	8,213	62.56	93	Airline
Ball Corporation (BLL)	4.5	5.1	5.6	6.4	241.5	22.7	0.7	10,260	74.93	88	Containters & Packaging
PetSmart, Inc. (PETM)	4.4	4.3	3.7	4.2	36.3	19.6	0.9	8,224	82.70	83	Retail (Specialty Non-Apparel)
Chico's FAS, Inc. (CHS)	4.3	4.9	3.6	4.3	0.0	29.2	1.6	2,811	18.38	66	Retail (Apparel)
Apollo Education Group (APOL)	4.2	1.2	7.3	13.9	3.9	19.2	0.0	2,815	25.97	33	Schools
Intel Corporation (INTC)	4.1	1.4	0.5	4.9	21.7	14.8	2.8	166,131	34.36	89	Semiconductors
WD-40 Company (WDFC)	4.0	2.9	2.5	5.3	0.0	29.0	1.8	1,215	82.95	76	Personal & Household Products
Resources Connection (RECN)	4.0	4.6	5.6	5.6	0.0	29.6	1.8	657	17.46	84	Business Services
Scripps Networks Inter (SNI)	4.0	3.2	7.6	1.3	29.7	20.3	1.1	10,009	73.00	43	Broadcasting & Cable TV
SurModics, Inc. (SRDX)	3.9	5.8	16.5	0.6	0.0	26.4	0.0	305	23.53	43	Biotechnology & Drugs
Thoratec Corporation (THOR)	3.8	2.3	2.1	0.4	0.0	45.0	0.0	2,201	40.01	69	Medical Equipment & Supplies
Childrens Place Inc (PLCE)	3.6	6.5	5.4	6.0	0.0	23.6	0.9	1,255	59.21	69	Retail (Apparel)
Valero Energy Corp. (VLO)	3.5	3.0	2.0	1.8	28.1	8.5	2.7	30,545	58.60	77	Oil & Gas Operations
Insight Enterprises, Inc. (NSIT)	3.5	4.5	3.2	2.3	8.7	14.2	0.0	1,062	25.92	69	Software & Programming
Myriad Genetics, Inc. (MYGN)	3.4	6.4	4.3	5.8	0.0	23.6	0.0	2,420	34.03	68	Biotechnology & Drugs
J M Smucker Co (SJM)	3.1	4.1	3.9	5.0	36.6	20.9	2.2	11,596	113.89	77	Food Processing
Hewlett-Packard Co. (HPQ)	3.0	2.7	2.0	5.7	60.0	14.7	1.7	70,468	38.56	85	Computer Hardware
Brocade Communications (BRCD)	2.9	3.4	1.3	3.7	24.7	23.7	1.1	5,413	12.56	86	Computer Storage Devices
Foot Locker, Inc. (FL)	2.8	1.9	1.2	1.7	5.1	16.1	1.6	7,667	53.96	88	Retail (Apparel)
Hibbett Sports, Inc. (HIBB)	2.8	1.0	3.1	5.1	0.0	18.0	0.0	1,240	49.60	36	Retail (Specialty Non-Apparel)

Source: AAII's Stock Investor Pro*/Thomson Reuters. Data as of 2/13/2015.*