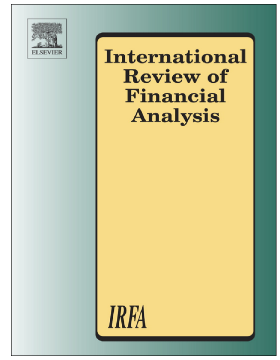


"Firm size matters: Industry sector, firm age and volatility do too in determining which publicly-listed US firms pay a dividend"

Derek A. Brawn, Aleksandar Šević

PII: S1057-5219(18)30358-2
DOI: doi:10.1016/j.irfa.2018.05.002
Reference: FINANA 1219

To appear in: *International Review of Financial Analysis*

Received date: 31 October 2017
Revised date: 18 April 2018
Accepted date: 7 May 2018

# "Firm Size Matters: Industry Sector, Firm Age and Volatility do too in determining which publicly-listed US firms pay a dividend"

Derek A. Brawn, Aleksandar Šević

Trinity College Dublin, Trinity Business School, 152-160 Pearse Street, Dublin, Ireland

Abstract

*The objective of this paper is to refute the claim that the propensity for listed US firms to pay dividends remains in decline. We find that almost half of all publicly listed US companies are dividend-payers at the end of 2016, even excluding non-operating companies and financials; the percentage of 'payers' is double the rate at the start of this century as noted by Fama & French (2001). Firm size (market value) appears to be the dominant predictor of whether a firm pays a dividend or not, followed by industry grouping, age and relative volatility. Over the last two decades, the number of listed US stocks has halved, as M&A activity outpaces new IPOs. The US listed market is now bifurcated between large-cap 'older' firms that typically pay dividends, and smaller-cap 'younger' non-payer firms, mainly dominating the Health Care industry. We also find that one-third of surviving stocks at the end of 2016 have posted negative annual geometric returns since their original listing, and that 90 percent of these loss-making stocks are 'non-payers'.*

Keywords: Dividends, US Stock Market, Equity Returns, Correlated Relative Volatility

JEL Classification: G02, G10, G11, G35, L11

## 1. Background

The knowledge that approximately half of all publicly-listed US stocks pay a dividend, and that the other half do not, is of itself a puzzle. What differentiates a dividend-payer from a non-payer stock is central to the risk-reward continuum, particularly through the lens of the investment quandary. It is possible to make money investing in only dividend-paying stocks, or alternatively by investing in non-paying firms. Most investors do both, simultaneously, as they seek to be well diversified across industry groupings, as well as balancing allocations between 'growth' and 'value' stocks, unless they specifically target one or the other. Today, the US equity market divides almost evenly between those that do and do not pay dividends. The secular decline in the percentage of payers during the last two decades of the twentieth