

Apple's Dividend Policy

To demonstrate its faith in its future, to underscore the recent success of the Mac, and to attract more institutional investors, on April 23, 1987, Apple declared its first ever quarterly dividend of \$.12 per share. It also announced a two-for-one stock split. The stock market reacted very positively to the announcement of Apple's initial dividend. On the day of the announcements, its stock increased by \$1.75. Over a four-day time span the stock rose by about 8 percent. The initial dividend turned out to be a positive portent, and the next four years were good years for Apple. At the end of 1990, Apple's revenues, profits, and capital spending had achieved record highs.

Why did Apple announce a two-for-one stock split at the same time of its announcement of an initial cash dividend? It is often said that a stock split without a cash dividend is like giving shareholders two five-dollar bills for a \$10 bill. Your wallet feels thicker but you are no better off. However, a stock split accompanied by a cash dividend can amplify the positive signal and pack a more powerful message than would be true otherwise. In addition, firms sometimes split their shares, because they believe a low stock price may attract more individual investors and as a consequence increase liquidity. However, the evidence is not clear on this point, and some firms like Berkshire Hathaway disdain stock splits. (Its stock was recently selling at \$83,000 a share.) Was Apple's decision to offer an initial dividend the best decision for the company? This is an impossible question to answer precisely. However, the stock market's positive reaction and Apple's subsequent performance suggest it was a good decision. Unfortunately, the years since 1990 have not been as good for Apple. Its revenue growth has moderated and its profits have declined due to a difficult transition from a high-priced, high-quality producer of personal computers to a more competitively priced producer. It experienced losses in 1996 and 1997. Apple's small market share has become a problem because software developers have been more interested in producing products that could run on Intel-based machines. At the end of 1997, Apple's stock price was at \$24 per share—lower than in 1990.

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