

# Neutral Approach at Dividend Policy Modeling

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## INTRODUCTION

In present-day environment a selection of the dividend policy as a complex of decisions dealing with the Dividend Payout to shareholders is an essential aspect of the Public Limited Company (PLC) operation. The Dividend payout decisions are generally referred to financial decisions as dividend payables reduce the company retained earnings and thereby affect the company financial position.

The dividend policy significance for the company performance occurs through a few reasons. Firstly, the dividend policy makes an impact on the relationship with prospect and actual investors in equity capital (share capital, first and foremost). The reason is that investors are reluctant to invest in companies reducing its Dividends Payout associating the latter with the company's financial difficulties. Moreover, certain investors rely on their dividends as a permanent income.

Secondly, the dividend policy influences the company financial strategy and its capital investment budget. It is an inherent element of the long-term financial policy being, in turn, a financial strategy implementation instrument. The dividend payout presumes the reinvested earnings decrease, a potential long-term financial investment source, correspondingly resulting in capital investment budget reduction.

Thirdly, the dividend payout leads generally to cash outflow resulting in the company liquidity decline.

Fourthly, the Dividend Payout results in the retained earnings reduction, mentioned earlier, decreasing the equity capital and company financial stability.

Meanwhile, the dividend policy on the one hand has to ensure the basic financial management goal to be attained, *i.e.*, the maximum shareholders well-being, on the other, take into account all company stakeholders' interests.

Therefore, the dividend policy management developing and justifying, an important role is paid to the formalized analysis and forecasting of the scores related to the requirements stated above.

## Previous Research

It should be noted, that the issue of the dividend policy scores analysis and forecasting has been so far researched and covered in the relevant references, *e.g.*, (Akhigbe & Madura, 1996; Ang, Cole & Lin, 2000; Bernstein, Wild & Subramanyam, 2001; Black, 1976; Block, Hirt, & Danielsen, 2011; Brealey, Mayers & Allien, 2017; Brigham & Houston, 2015; Brooks, 1996; Fama & French, 1989; Goetzmann, & Jorion, 1995; Ham, Kaplan & Leary, 2020; Hauser, 2013; Helfert, 2001; Higgins, Koski, & Mitton, 2016; Lambrecht & Myers, 2012; Lee, 2020; Lee & Finnerty, 1990; McLaney, 1992; Michaely & Moin, 2022; Penman, 2004; Petit, 1972; Rozeff, 1982; Shim & Siegel, 2008; Subramanyam, 2014; Van Horne, 1989; Van Horne & Wachowicz, 2009).

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*Table 1. Key scores of the company dividend policy analysis and forecasting*

Score	Estimation formula	
	Numerator	Denominator
Dividend Payout (formula 1)	Dividend	Earning per Share
Dividend Payout (formula 2)	Dividends	Net income – Preferred Dividends
Dividend Cover	Earnings per Share	Dividend
Dividend Yield	Dividend	Share Price
Share Price/Dividend	Share Price	Dividend
Equity Profit	Common and Preferred Dividends	Net Income
Preferred Dividend Coverage	Net Income	Preferred Dividends
Common/Preferred Dividend	Dividends	Preferred Dividends

Source: Compiled by the author of the paper

Generalizing and classifying their views we present the key scores employed to analyze and forecast the company dividend policy as they form a sufficiently important company marketing performance scores subgroup (stock market position) in the following table (Table 1):

The key scores of the company dividend policy analysis presented in Table 1 may be divided into two groups.

The scores of the first group (Dividend Payout, Dividend Cover, Equity Profit, Preferred Dividend Coverage and Common/Preferred Dividend) characterize exclusively the company dividend policy.

The scores of the second group (Dividend Yield, Share Price/Dividend) feature both the company dividend policy and their common stock investment attractiveness for potential investors.

Since the company common stock investment attractiveness is set by the company dividend policy so to analyze the dividend policy the scores of the first group are considered to be the basic ones.

The estimated ratio values in Table 1 are analyzed in their dynamics compared with the plan and other issuers. The final analysis concludes the company dividend policy efficiency degree (the most efficient, generally efficient, and non-efficient) and the change causes. Such factors as company growth rate, dividend limitations stipulated by the contract, company performance efficiency, and its income stability, retained control over the company activity, debt-to-equity ratio, external financial sources availability, the company age and its performance scale are referred to as the changing causes.

The ratio values forecasting from Table 1 are executed by the anticipated numerator and denominator values considered as the basic factors setting the ratios values.

Furthermore, the analysis and forecasting by the relevant determined factoring models construction enables to determine the dividend policy scores impact on the basic company performance scores, first and foremost Price / Earnings Ratio.

Price / Earnings Ratio are a certain common stock demand indicator featuring their investment attractiveness, to be used in inter-business comparisons in contrast to Earnings per Share. Generally known, the Earning per Share gain gives rise to the Share Price. The optimum is the situation when the Share Price increase exceeds its Earnings per Share, the Price / Earnings Ratio growing. That is why the score significance lies finally in the attainment of the basic company financial management (public limited company) goal – maximum increase of Share Price.

A factoring model of Price / Earnings Ratio is constructed as follows:

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