STUDY OF DIVIDEND POLICIES IN PERIODS PRE AND POST- MERGER

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Abstract

This study examines the policies of pre- and post- merger dividends. The emphasis here is on the timing of payment of dividends and its signal role when the merger is considered successful. Our analysis is purely descriptive and involves the merger of CVS and Caremark listed on the NY Stock Exchange and conducted in 2006. The findings indicate the relevance of dividend payment timing as the merger of success signal since acquiring company tries to improve its payment timing and the amount to be paid. This proves the existence of complementarities between the signaling hypothesis by the amount of dividend to be paid and payment timing and confirms the existence of a dynamic adjustment process to a target level.

Keywords: Merger, Signaling, Timing of Dividend Payment, Dividend Policy, Market Timing, American Data

1. INTRODUCTION

The studies over the last 25 years show that some Merger and Acquisition transactions are unfortunately marked by failure. The reconciliation is usually done by use of shares (Andrade et al. 2001). Almost more than half of mergers during the 90 were conducted by securities. The review of the current literature seeks to identify the causes and effects of failures of mergers financed by securities relative to other types of merger. In this context, we want to study the capacity of the dividend policy to conduct the success of a merger. Walking through the studies done since the 2000s on the relationship between the dividend policy and merger and acquisition transaction (Banchit et al., 2012, Brahler et al., 2011, Jeon et al 2010, and Tanna Nnandi 2010 and Olson Pagano 2003), we raised that companies adjust their dividend policy to a state of balance to stabilize the situation of confrontation of two different structure requests to shareholders for the dividend amount and payment timing. In this context, research on the dividend payment timing and ability to regain equilibrium after the merger are nonexistent. We recall that according to Ben Letaifa (2013), the dividend payment is the timing delay between the date of the general meeting of shareholders and the dividend payment date.

Our research question is how the timing of dividend payment can serve as a signal for determining the success of a merger. In our paper, we look for a descriptive study to explain the choice of dividend-payers about the best timing of dividend announced. For this purpose, we focus on the merger realized between CVS Caremark in the American context. Our database includes financial and non financial data from the Annual reports-cvscaremark.com et CRSP-Compustat Merged.

The rest of this paper is structured as follows. In Section 2, we review previous studies on merger and dividend policy before developing our hypothesis. Section 3 outlines the data sources and we discuss our results in Section 4. We conclude in section 5 and present some limits.

2. LITERATURE REVIEW

As the dividend policy, mergers and acquisitions are among the most important financial decisions for the company. The term Merger and acquisition is linked to the growth of the company. For the majority of shareholders, the merger and acquisition generate value. This value is the result of the new coalition of the two entities. But in reality, this value is often related to the benefit that managers want to achieve a good result in market valuation. In accordance to Shleifer and Vishny (2003), mergers are related to a stock market overvaluation. However, other authors believe that mergers and acquisitions are often doomed to failure. In terms of dividend policy, MM (1961) advocate that the value of the company is independent of the level of the dividend.

Nevertheless, in a context of perfect market, this situation is far from the reality seen tax considerations, clientele effect and informational side. In general, dividends are taxed differently from one investor to another. Several studies suggest the effect on the customer dividend (from Black-Scholes 1974 and Miller and Scholes 1978) and companies face a number of challenges to change existing dividend policy, particularly because of the clientele effect. From there, the heavily taxed investor no longer needs to hold an action that has a high dividend. Just hold the share on the dividend detachment date investors little taxed. According to Mori (2010), investors are attracted by dividends that are adjusted by time and called "time-preference-fitted Dividends" in case the tax remains constant. We also believe that companies that pay dividends faster are preferred by investors because of the advantage they can offer cash to shareholders. And from there, our goal is to study the dividend payment timings in a particular context which is that of mergers and acquisitions. But to fix it, we think it is very useful to study the information content of the timing of the dividend payment to whether it is used as a signal by the enterprise merger. According to Ben Letaifa (2013) the dividend payment timing functions as a signal by the large company with strong earnings and cash available and previous payment timing affects the setting of this timing of dividend payment. This confirms the results of De Angelo et al (2008) and Skinner and Soltes (2011) showing that report dividends on the company's earnings outlook. To return to the context of mergers, shareholders may reconsider their position in the company - by reduction or liquidation of their shares in capital in companies with dividend policies are unfavorable. For Jeon et al. (2010), the shareholders of the acquiring companies prefer payments of stock dividends in takeovers of firms of similar dividend policies.

3. METHODOLOGY

We study the timing of payment of dividends in the pre- merger. The dividend is measured by the dividend payout ratio is the ratio of dividend per share paid to earnings per share generated. This assessment of the dividend is made on just three years preceding the merger. The dividend is an ordinary one, it was paid in cash. We collected the day of announcement of the dividend, the ex-dividend day and dividend payment day from annual reports available online on the website "cvscaremark.com" and the "Associated Press Report" for CVSCaremark society.

4. RESULTS

Study of the pre- melting dividend Policy and CVS Caremark

Table 1 shows the timing of payment of dividends and payout ratios CVS dividend from the end of 2003 until payment of the final dividend before the merger. We also calculated the dividend payment timing.

Table 1. Details DPA, BPA timing and payment of dividends from CVS Corp.

Jour de déclaration	*Jour ex-dividende*	*Jour de paiement*	*Dividende par action*	*Type de versement*	*Bénéfice par action*	*Ratio de distribution*	*Timing de versement*
10/09/03	17/10/03	31/10/03	0.0575	Cash ordinaire	0.47	0.1223	51
09/12/03	20/01/04	03/02/04	0.0575	Cash ordinaire	0.66	0.0871	56
03/03/04	21/04/04	03/05/04	0.0663	Cash ordinaire	0.61	0.1086	61
07/06/04	20/07/04	02/08/04	0.0663	Cash ordinaire	0.58	0.1143	56
14/09/04	20/10/04	01/11/04	0.0663	Cash ordinaire	0.45	0.14733	48
05/12/05	20/01/05	04/02/05	0.0663	Cash ordinaire	0.63	0.1052	61
02/03/05	20/04/05	02/05/05	0.0725	Cash ordinaire	0.71	0.1021	61
12/05/05	07/06/05	06/06/05	-	Dilution 2 pour 1	-		-
07/06/05	19/07/05	01/08/05	0.0363	Cash ordinaire	0.34	0.1067	55
14/09/05	19/10/05	01/11/05	0.0363	Cash ordinaire	0.31	0.1170	48
01/12/05	19/01/06	03/02/06	0.0363	Cash ordinaire	0.49	0.0740	64
01/03/06	20/04/06	03/05/06	0.0388	Cash ordinaire	0.40	0.097	63
07/06/06	19/07/06	01/08/06	0.0388	Cash ordinaire	0.41	0.0946	55
20/09/06	19/10/06	01/11/06	0.0388	Cash ordinaire	0.34	0.1141	42
01/11/06 Date d'annonce							

Source: *Annual reports-cvscaremark.com Compustat and CRSP- Merged*

This table shows the quarterly evolution of the dividend metrics (amount to be paid DPA, BPA and payment timing). It shows two phases of evolution of these indicators. The first phase is the foregoing dilution and shows a variation of the distribution ratio of the dividend around 10%. This percentage varied after dilution between 7% and 11%. This variation is the result of the instability of quarterly earnings per share. The average payout ratio is in the order of 10.69%. It is considered low. But after dilution, the dividend per share becomes more stable. Finally, the CVS dividend policy appears stable over the two years preceding dilution, but the amount payable was down compared to the policy of payment of the dividend prior to dilution of capital. For the whole period of analysis, we note that the payment rate has not exceeded 14%. This may be due to the expansion strategies for CVS at the expense of shareholder interests. Nevertheless, the timing of payments declined, this could be due to improved availability in the company, which could be used to offset the decline in the amount of the dividend payable.

Table 2. Descriptive Statistics of indicators for measuring CVS dividends before the merger

	Mean	*Median*	*Standard deviation*	*Min*	*Max*
Dividend payout ratio	0.1069	0.1067	0.0178	0.074	0.1473
Timing of payment	55,46	56	6,67	42	64

In order to study the binding of the payment timing after the merger, we also opt for the analysis of the target "Caremark» dividend policy. Table 3 displays the evolution of indicators for measuring the dividend policy (DPA, EPS and dividend payment of timing). We calculated, as with CVS, the payout ratio and timing of dividend payment. Table 3 displays the amount of stability to be paid during the period which runs from 2003-2006 with a gradual uptrend. However, earnings per share increased gradually during the study period by reducing the dividend payout ratio of 26 % in 2003 to 14% by the end of 2006.

Table 3. Details DPA, EPS and dividend payment timing of CVS
Before the merger with Caremark

Declaration day	*ex-dividend day*	*Day of payment*	*Dividend per share*	*Type of dividend*	*Earnings per share*	*Dividend payout ratio*	*Timing of payment in days*
14/12/03	29/12/03	04/01/04	0.079	Cash ordinaire	0.3	0.2633	20
24/01/04	09/02/04	25/02/04	0.0788	Cash ordinaire	0.32	0.2462	31
05/04/04	1/05/04	15/05/04	0.0788	Cash ordinaire	0.30	0.2626	40
04/07/04	29/07/04	15/08/04	0.0788	Cash ordinaire	0.30	0.2626	32
4/09/05	19/10/05	24/11/04	0.0878	Cash ordinaire	0.38	0.2310	81
21/01/05	09/02/05	15/02/05	0.0878	Cash ordinaire	0.46	0.1908	25
10/03/05	27/03/05	14/04/05	0.0878	Cash ordinaire	0.44	0.1995	35
09/06/05	25/06/05	12/07/05	0.0978	Cash ordinaire	0.48	0.2037	33
08/09/05	13/09/05	29/10/05	0.0978	Cash ordinaire	0.52	0.1880	51
17/11/05	26/12/05	05/01/06	0.0978	Cash ordinaire	0.65	0.1504	49
30/01/06	15/02/06	02/03/06	0.0988	Cash ordinaire	0.52	0.19	30
04/05/06	30/06/06	17/07/06	0.1	Cash ordinaire	0.59	0.1694	74
17/08/06	29/09/06	16/10/06	0.1	Cash ordinaire	0.68	0.1470	60
01/11/06	Date d'annonce						

Source: Associated Press Report Compustat and CRSP- Merged

Table 4 shows the descriptive statistics for measuring indicators of Caremark's dividend policy. The average timing of dividend payment is 43 days. The average payout ratio is about 20.8 %. It is almost twice the average payout ratio of CVS. We also calculated by us on the dividend payment timing.

In sum, it is clear from the univariate analysis of the two policies Caremark pays a higher and more stable dividend than the acquiring CVS over the years preceding the merger. But Caremark better dividend varies depending on earnings. For CVS, the adjustment of the dividend per share earnings seems slower. This difference payment of dividend policy pushes us to think about the post- merger dividend policy of the new combined entity.

Table 4. Descriptive statistics of indicators for measuring Caremark dividend before the merger

	Mean	*Median*	*Standard deviation*	*Min*	*Max*
Dividend payout ratio	0.2080	0.1995	0.0414	0.147	0.2633
Timing of payment	43,15	35	18,82	20	81

Study Of Post- Fusion Dividend Policy Cvs Caremark

Analysis of the CVS post-merger dividend policy that emerges from Table 5 shows an improvement of the dividend per share between 2007 and 2010. The DPA has almost doubled from 0.0388 to 0.0875 dollar per share dollar after three years. Over this period, earnings per share have fluctuated a lot. However, the dividend payable was chosen to overcome this variation of BPA and thus neutralize its variation. We also calculated the dividend payment timing.

Table 5. Details DPA, EPS and dividend payment timing
After the merger with Caremark

Declaration day	*ex-dividend day*	*Day of payment*	*Dividend per share*	*Type of dividend*	*Earnings per share*	*Dividend payout ratio*	*Timing of payment in days*
14/12/03	29/12/03	04/01/04	0.079	Cash ordinaire	0.3	0.2633	21
24/01/04	09/02/04	25/02/04	0.0788	Cash ordinaire	0.32	0.2462	32
05/04/04	1/05/04	15/05/04	0.0788	Cash ordinaire	0.30	0.2626	40
04/07/04	29/07/04	15/08/04	0.0788	Cash ordinaire	0.30	0.2626	42
4/09/05	19/10/05	24/11/04	0.0878	Cash ordinaire	0.38	0.2310	91
21/01/05	09/02/05	15/02/05	0.0878	Cash ordinaire	0.46	0.1908	25
10/03/05	27/03/05	14/04/05	0.0878	Cash ordinaire	0.44	0.1995	35
09/06/05	25/06/05	12/07/05	0.0978	Cash ordinaire	0.48	0.2037	33
08/09/05	13/09/05	29/10/05	0.0978	Cash ordinaire	0.52	0.1880	51
17/11/05	26/12/05	05/01/06	0.0978	Cash ordinaire	0.65	0.1504	50
30/01/06	15/02/06	02/03/06	0.0988	Cash ordinaire	0.52	0.19	30
04/05/06	30/06/06	17/07/06	0.1	Cash ordinaire	0.59	0.1694	74
17/08/06	29/09/06	16/10/06	0.1	Cash ordinaire	0.68	0.1470	60
01/11/06	Date d'annonce						

Source: Annual reports of cvscaremark.com Compustat and CRSP- Merged

Table 6. Descriptive statistics of indicators for measuring dividend CVS- Caremark after the merger

	Mean	*Median*	*Standard deviation*	*Min*	*Max*
Dividend payout ratio	0.1200	0.1132	0.0203	0.0776	0.1562
Timing of payment	44,92	40	20,18	21	91

Table 6 presents descriptive statistics of the timing of payment of dividends and the distribution ratio of the combined entity.

Note that the average payout ratio posted a slight increase. By comparing the payout ratio before the merger of Caremark (20.8 %) and CVS Caremark after the merger (12%) , we note a downward trend in the payment policy of the combined entity , yet this policy s' pays more to adjust to Caremark 's dividend policy. The dividend payment timing has also evolved to position than Caremark, hence it is possible to infer that the combined entity rather stay true to its distribution patterns and do not change the interests of its shareholders.

5. CONCLUSION

Referring to previous research, it can be argued that the confrontation of two different decision structures can lead to some conflicts should be resolved in order to finalize the merger. These factors to approximate, we can include the dividend policy via its key factors that are determining the amount to be paid and the appropriate timing of dividend payment. Therefore, the post-merger dividend policy is at stake in various shareholdings in various applications. This customer fact already raised by Black and Scholes (1974) must balance the interests of shareholders of the target company and the acquiring company; for fear that the shareholders of the target entity sell their shares if they are not satisfied after fusion. The sale of units may also cause the destruction of value of the combined entity, hence the growing interest in the study of post-merger dividend policy and its scope is critical to the success of any merger. For this, we examined the merger of two American companies CVS Caremark and operating in the pharmaceutical sector and which took place towards the end of 2006. This study found that both companies had two different policies for payment of dividends but that the merger was actually successful. However, we raise the higher post-merger dividend of the purchaser in the direction followed by the target company's dividend policy.

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