

# Tracking Buybacks Around the World

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Companies typically have four options when reallocating profits: distribute dividends, repay outstanding debt, reinvest for growth, or repurchase their own shares<sup>1</sup>. Share repurchases, commonly known as buybacks, have proved to be a popular strategy for redistributing profits back to shareholders. The buyback process involves a company purchasing its shares, often from the open market, reducing the total number of shares outstanding. Such a reduction boosts the company's earnings per share (EPS), rendering the remaining shares more valuable. In its simplest form, a reduction in shares outstanding has a direct inverse relationship to EPS and, at a constant price/earnings (P/E) ratio, will drive the stock price higher. Share repurchases at prices below a company's book value per share will increase that valuation measure. In theory, a dollar of buybacks should equal a dollar of dividends in terms of the net effect on shareholder returns, all else (e.g., differences in tax treatment) being equal. For equity market investors looking for income, focusing on dividends alone excludes a crucial component of total shareholder yield.

Stock buybacks present an attractive avenue for companies to put surplus cash to work, particularly when internal growth opportunities or external investment opportunities are limited. Beyond bolstering EPS and potentially elevating stock prices, buybacks consolidate ownership, which can streamline corporate governance and decision-making processes<sup>2</sup>. Companies can leverage buybacks to signal strength and stability to the market, reassuring investors of their solid financial standing and a bullish outlook for their business. Furthermore, buybacks serve as a tool for capital structure optimization, reducing the dilutive impact of stock options and other forms of equity compensation, thus safeguarding shareholder equity.

Many companies have accumulated substantial cash reserves due to conservative spending and strategic cost-cutting initiatives, leading to growth in both dividends and buybacks. Buybacks globally have tripled in value in ten years, however, compared to only a 54% increase in dividends, with almost every region and sector across the globe increasing their use of buybacks. 2022 was a record year globally, with share buybacks jumping to an all-time high of \$1.31 trillion<sup>3</sup>. While the U.S. still leads the world, buyback activity has increased in other countries, such as the U.K., which recently saw a record-high number of companies buying back at least 1% of their shares. This was also observed in Japan, Germany, and France<sup>4</sup>.

Stock buyback regulations differ globally and are shaped by regional legal and economic frameworks. In the U.S., the SEC's Rule 10b-18 provides a safe harbor for buybacks, setting specific conditions to avoid market manipulation. European buyback policies are influenced by EU directives and individual country laws, focusing on transparency and investor protection with objective guidelines on repurchase conditions. Asian-Pacific countries like Japan and China have their own regulatory frameworks, with Japan emphasizing procedural and disclosure requirements and China adapting its rules to encourage buybacks for market support. India, governed by SEBI regulations, imposes detailed disclosure norms and restrictions on buyback size and financing. Despite these

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<sup>1</sup> <https://www.morningstar.ca/ca/news/233644/what-does-a-tax-on-share-buybacks-mean-for-canadian-investors.aspx>

<sup>2</sup> <https://ca.andersen.com/blog/2-share-buyback-tax-what-to-expect/>

<sup>3</sup> <https://www.janushenderson.com/en-us/advisor/press-releases/global-share-buybacks-surge-to-a-record-1-31-trillion-almost-equaling-dividends/>

<sup>4</sup> <https://www.bloomberg.com/news/newsletters/2023-09-05/uk-stock-market-is-catching-up-with-the-us-on-share-buybacks>

regional differences, these regulations aim to ensure fair market practices and safeguard investors. In recent years, there has been increased scrutiny and debate over stock buybacks in the United States and beyond. Critics have called for more restrictive regulations governing repurchases, including proposed changes in tax policies. Despite these debates, stock buybacks remain a popular tool to return value to shareholders worldwide.

### ***Tracking Buybacks Around the World via the Nasdaq Global Buyback Achievers™ Index***

On August 11, 2014, the Nasdaq Global Buyback Achievers™ Index (DRBG™) was launched, providing investors with an objective way to track companies that have reduced their shares outstanding by 5% over the last 12 months. To be included in the index, a company must be a member of (1) the Nasdaq US Buyback Achievers™ (DRB™) OR (2) the Nasdaq International Buyback Achievers™ (DRBXUS™). At a high level, the Nasdaq Global Buyback Achievers is simply a product of the Nasdaq US Buyback Achievers and Nasdaq International Buyback Achievers indexes, delivering a truly global exposure.

Global Index = US Index + International Index

The Nasdaq Global Buyback Achievers Index consists of 330 stocks as of the most recent rebalance and reconstitution on February 1, 2024. Of the 330 total stocks, 181 are US-listed (DRB), while 149 are international companies (DRBXUS), accounting for 60% and 40% of DRBG's total weight, respectively.

### ***US Exposure***

Global Index = [US Index](#) + International Index

The Nasdaq US Buyback Achievers Index (DRB) tracks companies that have effected a net reduction in shares outstanding of 5% or more in the trailing 12 months.

#### Other Eligibility Criteria

- be listed on The Nasdaq Stock Market® (Nasdaq®), the New York Stock Exchange, NYSE American, or the CBOE Exchange
- the issuer of the security must be incorporated in the United States or certain benefit-driven countries
- the security must have a minimum average daily cash volume of \$500,000 (calculated by summing the products of daily trading volume and daily closing price per share and then dividing by the number of trading days for each month), calculated as of the last trading day of October, November, and December of each year
- a minimum three-month average daily dollar trading volume of \$2.5 million
- a minimum market capitalization of \$500 million.

### ***International Exposure***

Global Index = US Index + [International Index](#)

The Nasdaq International Buyback Achievers Index (DRBXUS) tracks companies that have effected a net reduction in shares outstanding of 5% or more in its latest fiscal year.

#### Other Eligibility Criteria

- be included in the Nasdaq Global Ex-US™ Index (NQGXS™), excluding local Russian and Indian securities not represented by depository receipts.

- If depository receipts are represented for local Russian and Indian securities, they are reviewed for Index Inclusion instead of the local security and must meet the additional eligibility criteria below.
  - Chinese securities are limited to H-Shares and N-Shares only
- have a minimum market capitalization of \$250 million
- have a minimum three-month average daily dollar trading volume of \$1 million, calculated using the months of April, May, and June of each year

### **Index Evaluation Schedule**

The Nasdaq Global Buyback Achievers Index is evaluated semi-annually in January and July. The January evaluation coincides with the DRB evaluation, while the July evaluation coincides with the DRBXUS evaluation.

### **Index Weighting**

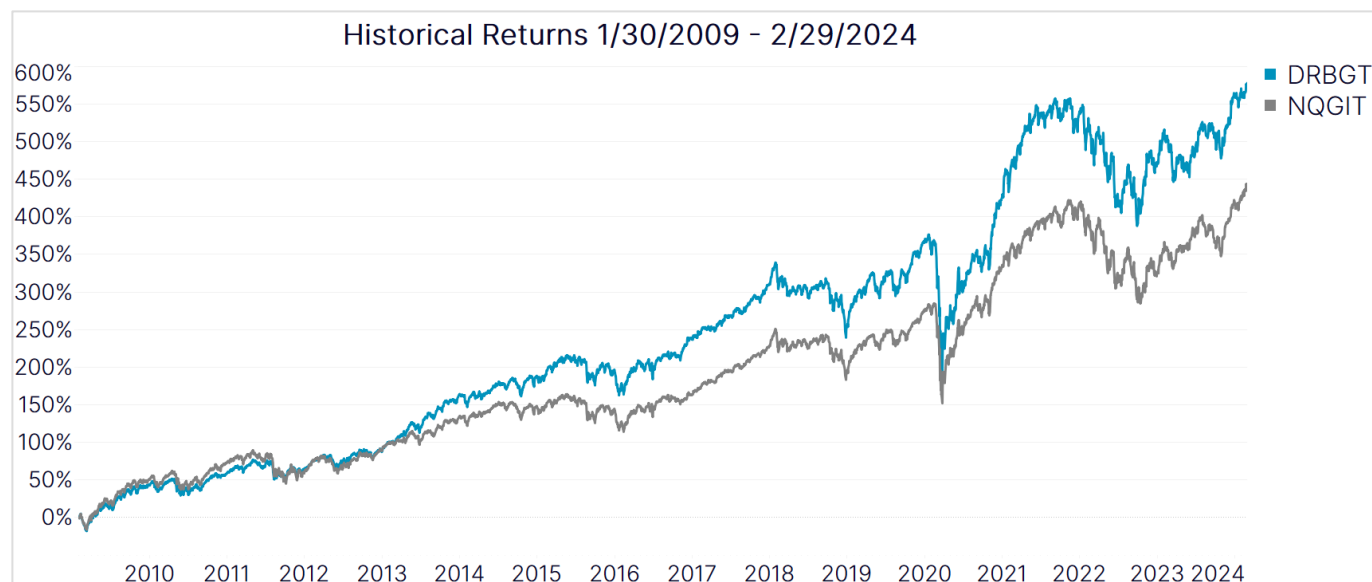
The Nasdaq Global Buyback Achievers Index employs a float-adjusted modified market capitalization weighting methodology. No country can have an aggregate weight greater than 60%, no single stock can have a weight of more than 5%, and the maximum number of securities capped at 5% is eight (8).

### **Historical Index Performance Comparison**

Looking at the overall performance comparison between the Nasdaq Global Buyback Achievers Total Return™ Index (DRBGT™) and the Nasdaq Global Total Return™ Index (NQGIT™) since the beginning of the DRBGT backtest, we can see a significant difference in cumulative return between the two, with DRBGT displaying impressive outperformance with only marginally higher annualized volatility vs. NQGIT. Since the indexes began diverging in early November 2020, DRBGT has gained 57.2%, while NQGIT is up 47.5%. Over the last ten-year period ending 2/29/2024, DRBG has outperformed NQGIT by over 27%.

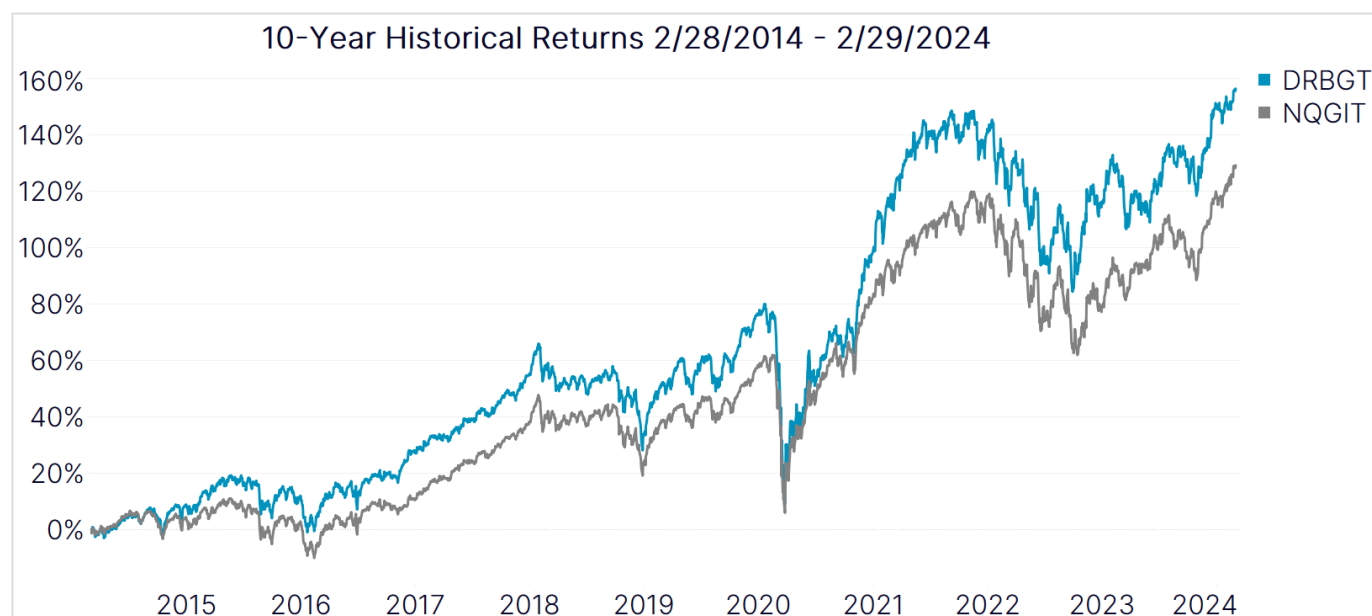
#### **Start of DRBG Backtest: 1/30/2009 – 2/29/2024**

Performance Metric	DRBGT	NQGIT
Cumulative Return	577.8%	444.0%
Annualized Return	13.5%	11.9%
Annualized Volatility	15.7%	15.1%



### 10 Years: 2/28/2014 - 2/29/2024

Performance Metric	DRBGT	NQGIT
Cumulative Return	156.2%	129.2%
Annualized Return	9.9%	8.6%
Annualized Volatility	15.5%	14.2%



### Risk Statistics

Beta for the Nasdaq Global Buyback Achievers Index (DRBG) relative to the Nasdaq Global Index (NQGI) was 1.03 for 10 years ending February 29, 2024, suggesting marginally higher volatility than NQGI. However, when we extend to the beginning of DRBG's backtest in January 2009, DRBG shows a beta of 0.98, slightly lower than NQGI's. Annualized volatility for the same 10-year period for DRBG was 15.5%, higher than that of NQGI, which came in at 14.2%. The Sharpe Ratio of DRBG was 0.98, higher than that of NQGI, which was 0.77. Similarly, since January 2009, DRBG has shown a Sharpe ratio of 0.70 versus 0.63 for NQGI.

## 10 Years: 2/28/2014 – 2/29/2024

Index Risk Metrics Comparison	DRBG	NQGI
Beta	1.03	1.00
Volatility	15.5%	14.2%
Sharpe Ratio	0.49	0.44

## Start of DRBG Backtest: 1/30/2009 – 2/29/2024

Index Risk Metrics Comparison	DRBG	NQGI
Beta	0.98	1.00
Volatility	15.7%	15.1%
Sharpe Ratio	0.70	0.63

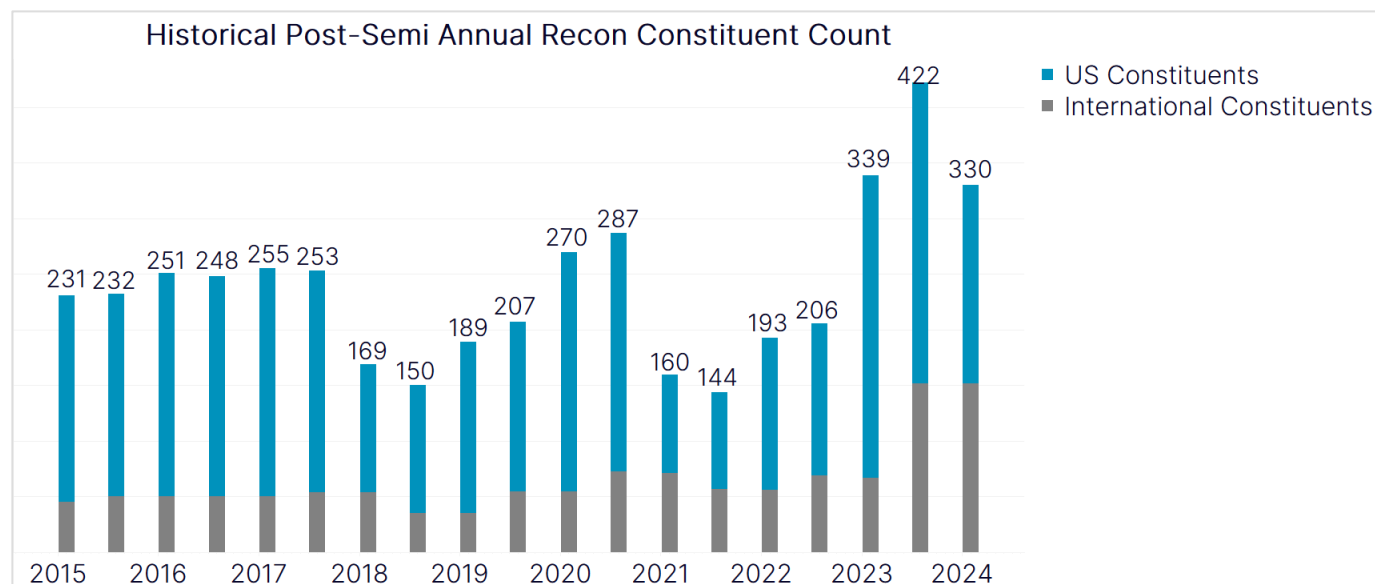
**Share Repurchase Volumes**

The table below provides data on the annual dollar value (USD) of shares repurchased by DRBG constituents for 2015-2022. After a strong 2015, buyback activity declined over the next few years. In 2018, another surge in buyback activity continued for the next three years. In 2021, buybacks declined; however, they increased in 2022. While it is less common to see firms cut dividends as investors view them as a dependable source of income, buybacks can be suspended more readily. To this end, they offer companies more flexibility. This feature of buybacks likely explains why we see fluctuations in activity over time.

Year End	Global Shares Repurchased (\$B)	US Shares (\$B)	International Shares (\$B)
2015	\$234.2	\$207.8	\$26.4
2016	\$149.5	\$136.9	\$12.6
2017	\$126.9	\$113.0	\$10.9
2018	\$156.5	\$146.5	\$10.0
2019	\$318.9	\$268.3	\$50.6
2020	\$425.9	\$377.4	\$48.5
2021	\$132.6	\$100.4	\$32.2
2022	\$228.5	\$176.6	\$51.9

**Historical Growth in Constituent Count**

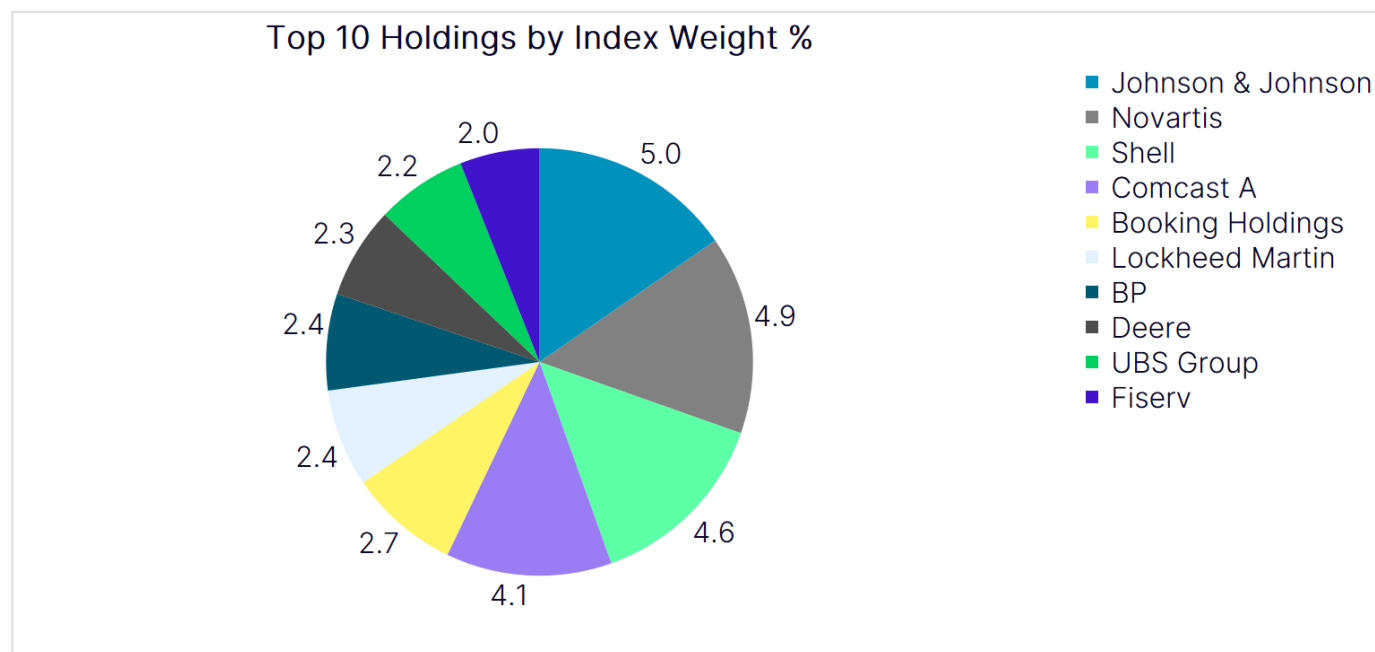
The number of securities comprising the Nasdaq Global Buyback Achievers Index has varied, although the index has always had more US constituents than international ones. Regarding each semi-annual reconstitution in the table below, August 1, 2023, had the highest number of holdings at 422. The period with the fewest securities was August 1, 2021, when the index consisted of 144 names. With the general rise in global buyback activity over the past decade, the eligible pool of international securities will most likely continue to grow.



### Index Allocation Stats as of February 29, 2024

#### Top 10 Companies by Weight

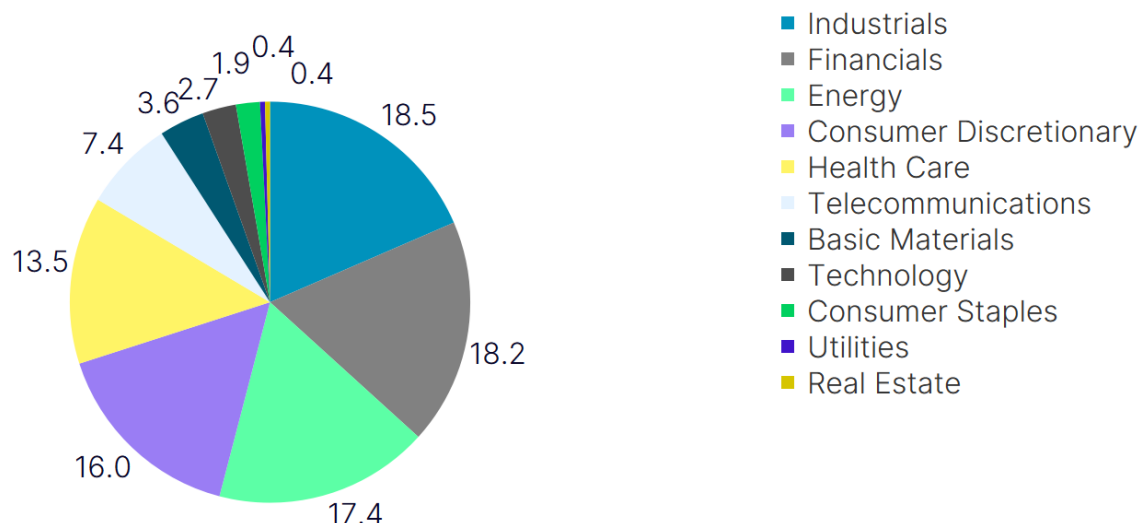
Below are the top 10 holdings for DRBG as of February 29, 2024, accounting for 32.7% of the total index weight. The largest allocation was Johnson & Johnson at 5.0%, followed by Novartis at 4.9%.



#### ICB Industry Weight

As of February 29, 2024, the Nasdaq Global Buyback Achievers Index has exposure to all 11 ICB Industry groups. The Index is most heavily allocated towards Industrials (18.5%), Financials (18.2%), and Energy (17.4%). The smallest allocations are in Real Estate (0.4%) and Utilities (0.4%)

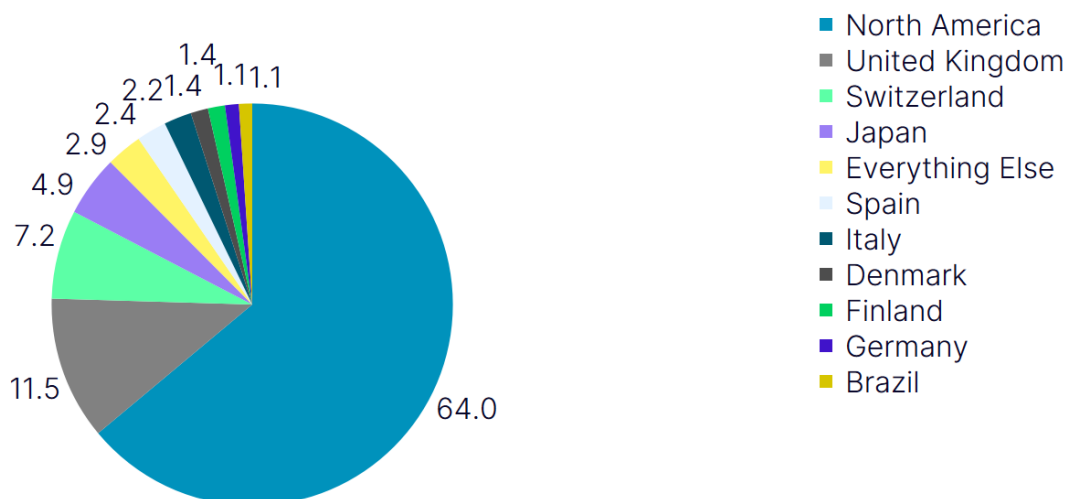
ICB Industry by Index Weight %



### Country Allocations

The Nasdaq Global Buyback Achievers Index has exposure to 30 countries. The top 10 countries by weight account for over 96% of the total index weight. The index is most heavily allocated toward the United States (59.3%), the United Kingdom (11.5%), Switzerland (7.2%) and Japan (4.9%). When classified by region, the index has the highest exposure to North America (64.0%), followed by Europe (28.5%) and Asia-Pacific (5.5%).

Top 10 Countries/Regions by Index Weight %



The Invesco Global Buyback Achievers ETF (BUYB) tracks the Nasdaq Global Buyback Achievers Index.

Sources: Nasdaq Global Indexes, FactSet, Bloomberg, Nasdaq Dorsey Wright.

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