Berkeley Center for Law and Business
University of California, Berkeley
School of Law
Boalt Hall #7200
Berkeley, CA 94720-7220

Thomson Reuters' Blackstone Deal Raises Questions for Shareholders in an Age of Buybacks

By: Joshua Trosch, J.D. Candidate 2020 | October 11, 2018

Thomson Reuters (NYSE: TRI) recently announced it would return $10 billion to shareholders after selling the majority position of its Financial & Risk (F&R) unit to private equity firm Blackstone (NYSE: BX). Of that $10 billion, representing the majority of the $17 billion sale price, Thomas Reuters announced it would use $9 billion to buy back shares, largely in connection with a substantial issuer bid (SIB). While some stockholders might be rejoicing, their exuberance may be misplaced.

Thomson Reuters is not alone in its desire to give back to its investors. Corporate tax cuts and steady earnings have prompted record stock repurchases with no indication of slowing down. By repurchasing shares, companies increase net earnings per share by decreasing the total number of outstanding shares. For instance, Apple (NASDAQ: AAPL) repurchased $112.8 million shares in the second quarter, adding five cents to its earnings. As a result, companies may hope to make their stock more attractive to potential buyers, though the extent to which higher earnings per share are driving stock prices is not without contention.

Not everyone agrees buybacks are a good idea. Critics of stock repurchases argue that buybacks are ineffective and irresponsible. By paying out surplus capital to shareholders, companies may miss out on critical investment opportunities they need to stay competitive. Moreover, stock repurchases that place a premium on the purchased stock, as with an SIB, may be hugely inefficient, overvaluing the company stock. Buybacks may also present a moral dilemma regarding the duties a corporation has towards its shareholders and the duties it owes its employees or society as a whole.

Granted, there are good reasons to like buybacks. Proponents argue they reward investors who carry the risk associated with holding the stock. In addition, stockholders may have a strong sense of how the company's money should be spent and should only want management to invest that capital if it can produce a higher return with it than they can do with it themselves.

Still, even for those who subscribe to the notion that a corporation's first priority is its shareholders, it is worth pondering what effect, if any, repurchases of this size and on this scale may have on how directors are expected to manage their money in future markets.