

Are Buybacks Always Good For Investors?

By Jacob Mullen

Quantitative Derivatives Trader
Summit Global Investments



SUMMITGLOBAL
INVESTMENTS



NVIDIA's \$150 Billion Question.

NVIDIA made headlines again recently—not because of a new chip or artificial intelligence breakthrough, but because of what it plans to do with some of the cash it is generating.

The company announced a **\$150 billion increase to its share-repurchase authorization**, bringing its remaining authorized repurchase capacity to approximately \$235 billion, which the company expects to execute through fiscal 2028. That is a significant amount of money.

It also raises a question that applies far beyond NVIDIA:

- **Are stock buybacks always good for investors?**

The short answer is: not necessarily.

Share repurchases are one-way companies can return capital to shareholders. But whether a buyback ultimately benefits remaining shareholders can depend on several factors—including the price paid for the shares, the company's financial position, alternative uses for the capital and whether the repurchases meaningfully reduce shares outstanding.

- **A Quick Refresher on Buybacks**

When a company buys back its own shares, it uses corporate cash to purchase outstanding shares. Depending on how those shares are treated, repurchases can reduce the number of shares outstanding and increase the proportional ownership represented by each remaining share.

But there is an important second question:

- **What did the company pay for those shares?**

Consider a hypothetical company valued at \$100 million with 1 million shares outstanding. If the company can repurchase shares at a price below what management believes represents their underlying value, remaining shareholders could potentially benefit.

If the company pays a price that ultimately proves high relative to the value of those shares, however, the capital might have produced greater value if deployed elsewhere.

In other words, the existence of a buyback doesn't tell us whether the capital was allocated effectively.

- **Why NVIDIA Is Interesting**

This question is particularly relevant when looking at NVIDIA. The company has recently reported significant growth in revenue and operating income while continuing to invest in its business. NVIDIA has also been returning substantial capital to shareholders through share repurchases and dividends.

The company's financial position gives management the ability to consider multiple uses of capital, including investing in its business and returning capital to shareholders.

But that alone doesn't determine whether every share repurchased will ultimately prove to have been purchased at an advantageous price.

If NVIDIA repurchases shares at prices that ultimately prove attractive relative to the company's future value, the repurchases could benefit remaining shareholders. If shares are repurchased at prices that ultimately prove expensive relative to future value, other uses of that capital could have produced different—and potentially better—economic outcomes.

Importantly, neither management nor investors can know a company's future value with certainty.

The Bigger Picture

A large buyback authorization can make for a compelling headline, but the dollar amount alone doesn't tell us whether shareholders will ultimately benefit.

When evaluating a company's capital-allocation decisions, investors may want to look underneath the headline and consider several questions:

- Is the company generating sufficient cash to support its ongoing operations and financial obligations?
- Is management continuing to invest in the business and its future growth?
- What other opportunities exist for the company's capital?
- At what valuation is the company repurchasing its shares?
- Are repurchases meaningfully reducing shares outstanding, or are they partly offsetting dilution from stock-based compensation?
- How do repurchases compare with other potential uses of capital, including acquisitions, debt reduction, dividends or additional investment in the business?

The answers can vary considerably from one company to another—and over time.

NVIDIA's \$150 billion authorization is notable for its size. But for investors, the more useful question may be what ultimately happens to that capital and whether the repurchases contribute to long-term shareholder value. That's a useful principle well beyond NVIDIA.

Buybacks aren't inherently good or bad. They are one of several ways management can allocate capital. Evaluating them requires looking beyond the headline number to the price paid, the alternatives available and the company's broader financial circumstances.

The discussion of NVIDIA is provided solely for informational and educational purposes and should not be construed as a recommendation to buy, sell or hold NVIDIA securities or any other investment. References to individual companies are intended to illustrate broader investment concepts. Investing involves risk, including possible loss of principal. Past or current financial results do not guarantee future performance.

This material is provided for informational purposes only and should not be construed as investment advice or a recommendation to buy or sell any specific security, strategy, or investment product. The information contained herein reflects the views of Summit Global Investments ("SGI") as of the date of publication and is subject to change without notice.

Investment advisory services are offered by Summit Global Investments, LLC, an SEC Registered Investment Adviser. Investing involves risk, including possible loss of principal, and there is no guarantee that targets or objectives will be met. Diversification does not eliminate the risk of loss.



KEY POINT



Buybacks are capital allocation decisions.

Like investing in growth, paying down debt or issuing dividends, repurchasing shares is one of several ways management can deploy capital. The important question is how effectively that capital is used.



SUMMITGLOBAL
INVESTMENTS
www.sgi.com