

SLOAN EXPLAINS DIVIDEND POLICY

Payments by General Motors Determined by Earnings and Future Needs.

77% PAID IN LAST 10 YEARS

113% of Profits Disbursed in Period of Depression— Stockholders Decrease.

In explanation of the recent declaration by General Motors Corporation of an extra dividend of 50 cents a share, in addition to the regular quarterly dividend of 25 cents, Alfred P. Sloan Jr., president, stated yesterday in distributing the dividends to shareholders that payments were determined solely by earnings and the future needs of the business.

In the ten years from 1925 to the end of last year, Mr. Sloan said, the company disbursed 77 per cent of its earnings. In the five years from 1925 to 1929 inclusive, the company disbursed 63 per cent of its earnings, while in the five years from 1929 to 1934, it paid to stockholders 113 per cent of its earnings, drawing on its reserves, Mr. Sloan said.

Mr. Sloan emphasized the difficulty, at times, of establishing a dividend policy. Since the dividend must reflect prospective earning and capital needs, he said, it was necessary to make an appraisal of the future of business.

"Under conditions existing today," Mr. Sloan said, "such an appraisal is difficult. There is involved unusual uncertainty.

Two Conditions Considered.

"The directors of General Motors Corporation have consistently taken the position that there should be only two considerations in determining dividend action—first, earnings, which alone make dividends possible, present as well as future; second, the future needs of the business. Generally speaking, any business, if it performs a useful service to the community, and is properly administered, must continually develop. This does not mean that it must necessarily grow in size, but it must at least keep pace with the evolution of things if it is to continue to exist. This principle applies importantly to a highly technical business, such as that of General Motors.

"No business is safe, and, as a matter of fact, no business should be safe if it stands still, because progress is essential in all things. To go ahead usually involves some capital outlay. There is available for this the amount set aside yearly for depreciation and obsolescence, but frequently that is not sufficient, especially when applied to any one year, or in the event of any unusual circumstances. Still again, even if the business is not expanding, changed circumstances may require additional working capital to carry on its day-to-day operations.

Reasons for Some Payments.

"I make this explanation to reach the point that it is not always desirable, in fact, it is usually not either desirable or even possible over the years to pass out all the earnings of a business; some should be set aside for the purposes above mentioned. On the other hand, conditions do arise where it is entirely justifiable and to the interest of the stockholders to pay out in any one year more than that year's earnings. General Motors, during the depression from which we are just emerging, did that very thing—as a result, it was able to maintain payments to the stockholders during the entire depression.

"A reduced volume of business releases working capital which can be made available to the stockholders for their use. Again the necessity for capital expenditures such as plant and machinery is minimized. When the amounts we are dealing with are large, as in the case of General Motors, an appreciable contribution is made in maintaining the purchasing power of the community.

"Applying the above thinking to the case of General Motors, it may be interesting to point out that if we consider the ten-year period, beginning in 1925 and ending in 1934, five years fairly representing a period of unusual prosperity and five years representing a period of unusual depression, there was disbursed to the stockholders 77 per cent of the earnings, leaving 23 per cent for the purposes of the business itself. If we take the first five years, the proportion disbursed as dividends was 63 per cent; for the second five years, 113 per cent.

Accumulated Earnings Used.

"The recent announcement made by General Motors that the management felt conditions had sufficiently adjusted themselves to warrant the belief that there was an opportunity for profitable investment, and that an expenditure of \$50,000,000 would be made to improve and expand the corporation's productive facilities, both at home and overseas, is another illustration of the point. This highly essential development became possible because of the accumulation of earnings.

"Therefore the problem of dividend policy is not always a simple one. A rate of dividend when once declared carries with it the desirability of continuity. The declaration must reflect not only the current condition of the business but there must be considered the future trend, especially with respect to prospective earnings and possible capital needs. Under conditions existing today such an appraisal is difficult. There is involved unusual uncertainty. This must be appreciated by the stockholders.

"The most important point I want to make is that General Motors stockholders can rely upon the directors to pass on the largest possible share of the earnings consistent with the needs of the business."

The number of common and preferred stockholders of General Motors declined by more than 6,000 during the second quarter and the early part of the third quarter of this year, it was announced yesterday.