Bristol Gate Dividend Report

BRISTOLGATE CAPITAL PARTNERS

FY 2022

The Dividend Information You Need, From Those Who Know It

2022 challenged investors with a myriad of headwinds. From inflation digging in, tightening monetary policy, and geopolitical conflict in the Ukraine, there were few places to hide. The S&P 500® Total Return Index posted its worst year since the Global Financial Crisis, declining over 18%, alongside the US Aggregate Bond Index which declined over 12% (represented in USD). As this was the only second negative year for the broad market in 14 years, it certainly was a hard pill to swallow.

During times of uncertainly it is important to look deeper than just stock prices to confirm your conviction in what you own. Assessing the dividend landscape can help put things into perspective. Despite a tough macroeconomic environment, dividend performance remained quite resilient. For the full year in 2022 the 407 dividend payers in the S&P 500® delivered a median dividend growth of 8.00%. During a year when earnings estimates were being revised down, dividend performance was a shining light coming from these companies' management.

Below we have compiled important dividend statistics for the full year 2022 for both the S&P 500® and S&P/TSX Composite indices.

S&P 500® DIVIDEND STATISTICS 2022	
Total Dividend Payers	407
Median Dividend Growth	8.0%
Dividend Cutters	5
Dividend Maintainers	47
Dividend Growers	333
Dividend Suspenders	1
Median Grower Dividend Growth	9.2%

S&P/TSX Dividend Statistics 2022	
Total Dividend Payers	188
Median Dividend Growth	7.6%
Dividend Cutters	5
Dividend Maintainers	40
Dividend Growers	129
Dividend Suspenders	1
Median Grower Dividend Growth	11.1%

Source: FactSet, Bloomberg, Company Reports, Bristol Gate Capital Partners Inc.

DIVIDEND GROWTH IS ROLLING OVER – BUT NOT ALL DIVIDEND GROWERS ARE MADE EQUAL

With the highest rates of inflation since the 1970's and the subsequent increase in interest rates across central banks globally, the need to preserve purchasing power has heightened significantly. A tried and true approach to combat increased costs of living is by owning high quality dividend growth stocks. This provides the investor an opportunity to earn a rising stream of income each year, ideally one that grows in excess of inflation. But what happens when the rate of those dividend hike slows while still facing stubbornly high CPI readings? This puts investor portfolios in a position to lose purchasing power. With increased uncertainty and decreased visibility, an actively managed dividend portfolio becomes much more important because not all dividend growers are made equal.

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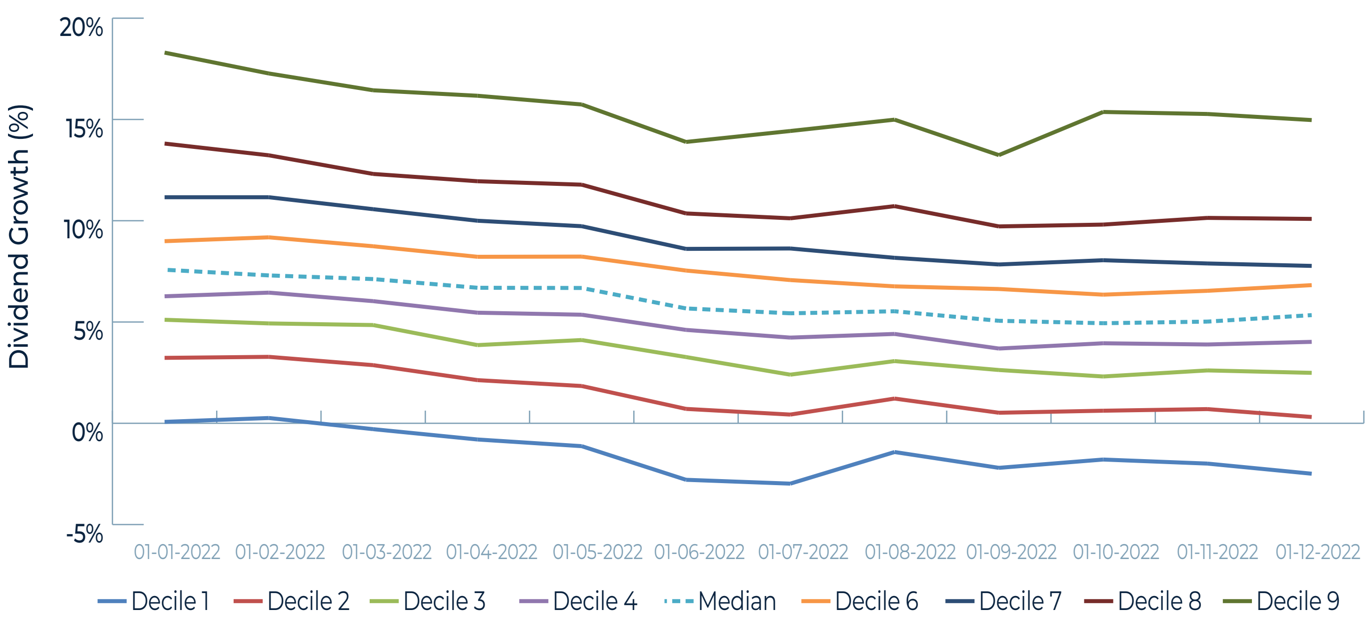
At Bristol Gate, we have a hybrid investment process, the Human + Machine approach. Our team of Data Scientists have developed a Machine Learning model that we use to predict future dividend growth. These capabilities provide us with unique insights on the dividend landscape today, and what it may look like tomorrow.

As we enter 2023, our model is forecasting dividend growth to slow across the board which may pose issues for client portfolios. Interestingly, however, each segment of dividend growers is impacted differently.

As seen below, our median prediction for dividend growth has fallen by almost half since the start of 2021. Looking at the data more granularly, the cutoff for the top decile of dividend growers (Decile 9) has fallen as well. However, on an absolute basis, the top decile of dividend growers are still providing at least 15% dividend growth, more than offsetting the loss of purchasing power in today's inflationary environment.

EXHIBIT 1: BRISTOL GATE'S PREDICTED DIVIDEND GROWTH BY DECILE (2021-2022)



Source: Bristol Gate Capital Partners, FactSet. Data represents the Next Twelve Month prediction of Dividend Growth. As an example, the 01/01/21 point represents the prediction for 01/01/22.

This contrasts dramatically to the bottom decile of dividend growers, which were predicted to provide low single digit dividend growth - markedly below the level of inflation. They are now predicted to cut their dividends by at least 2%, exacerbating the loss of purchasing power for investors.

While these are just predictions, they can be meaningful in showing us which way the tide is going. Dividend growth is not a monolith, and investors still need to make sure the stocks they own are providing sustainable dividend growth, especially if they are looking to grow their income and offset the impacts of inflation.

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