

Bristol Gate Dividend Report



AS OF JUNE 30, 2023

The Dividend Information You Need, From Those Who Know It

Evidence shows that dividends, rather than capital gains, significantly contribute to the excess returns that stocks have historically offered. That is why our research begins by evaluating a company's financial strength, its ability to pay a dividend and management's support for their dividend policy. As investors, we want to have confidence we will be paid and, more importantly, that the company's growth will be shared with us through increasing dividends.

During the first half of this year, there were 398 dividend payers in the S&P 500®, delivering a median dividend growth rate of 7.70%. Despite investors staring up at a wall of worry, corporate America has steadily increased its payouts to shareholders.

Below we have compiled important dividend statistics for the first half of 2023, for both the S&P 500® and the S&P/TSX Composite indices:

S&P 500® DIVIDEND STATISTICS YTD 2023

Total Dividend Payers	398
Median Dividend Growth	7.70%
Dividend Cutters	9
Dividend Maintainers	44
Dividend Growers	331
Dividend Suspenders	0
Inadequate # of Payments (<2yrs)	14
Median Grower Dividend Growth	8.80%

S&P/TSX Dividend Statistics YTD 2023

Total Dividend Payers	176
Median Dividend Growth	6.70%
Dividend Cutters	8
Dividend Maintainers	42
Dividend Growers	113
Dividend Suspenders	0
Inadequate # of Payments (<2yrs)	13
Median Grower Dividend Growth	10.50%

Source: Factset, Bloomberg, Company Reports, Bristol Gate Capital Partners. Data as of June 30, 2023.

While corporations in both indices have largely provided dividend increases this year, we see that a few have not shared the same success with 9 dividend cuts in the S&P 500® and 8 in the S&P/TSX. As we noted in our 2022 Annual Dividend Report, not all dividend payers, and growers specifically, are made equal. Below is an analysis on the various sub-groups of dividend payers and their performance.

Dividend Paying Stocks Are Not a Monolith: Analyzing the Dividend Stock Universe

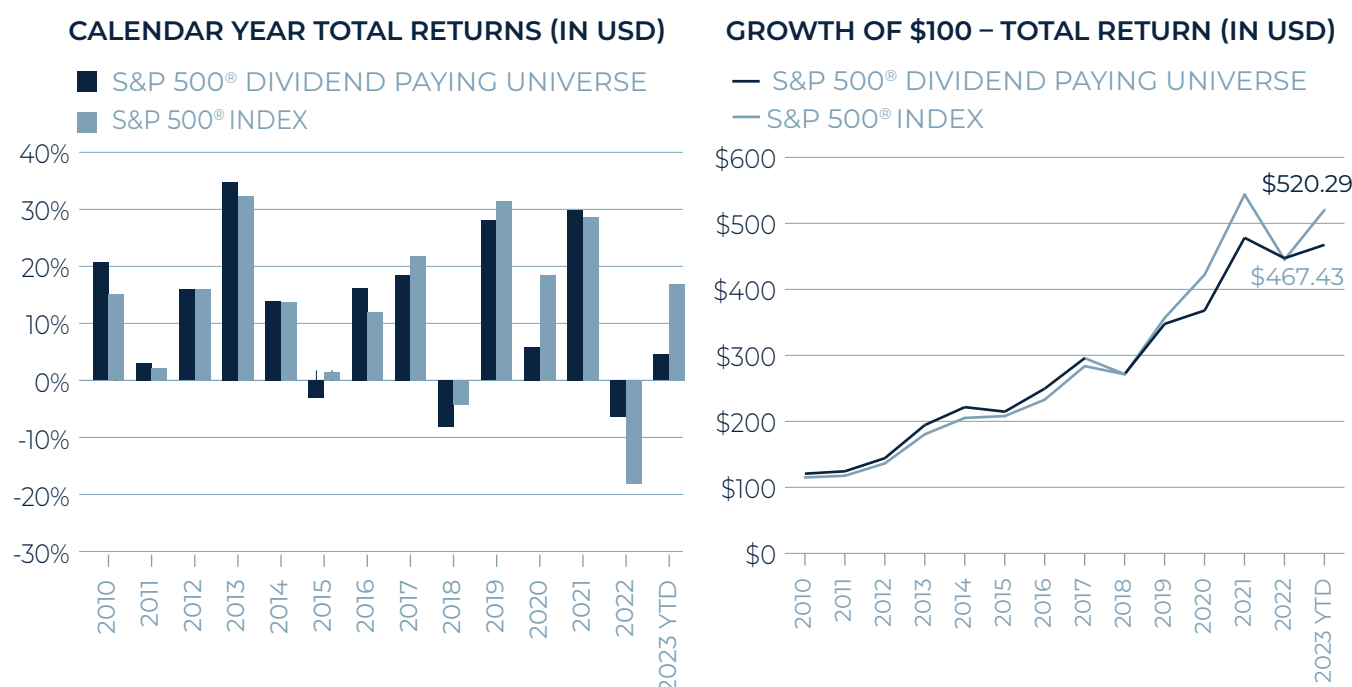
While using the entire index is a quick and easy way to look at dividend health and performance, it is important to note that not all companies that pay a dividend share the same financial attributes. In addition to examining the performance and characteristics of the dividend-paying universe, we believe you can gain a better understanding of these companies by segmenting them based on their ability to offer a high dividend yield versus a company's ability to grow its dividend.

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High dividend yielders are typically in a more mature phase of their business, paying out a larger percentage of their earnings as dividends as their reinvestment opportunities have slowed. Ignoring current yield and focusing on dividend growth companies helps to identify growing businesses. Growth-oriented companies often have lower current yields and direct more of their cash flows towards business reinvestment as they look to expand their earnings. When this capital allocation decision is successful it often leads to a faster growing dividend than provided by the more established steady dividend paying companies.

Below we examine how the universe overall and each of these buckets has performed over time.

THE DIVIDEND PAYING UNIVERSE



Source: Bloomberg, Bristol Gate Capital Partners. As of June 30, 2023

ANNUAL RETURNS (IN USD)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD
S&P 500® Dividend Paying Universe TR	20.7%	3.0%	16.0%	34.8%	14.0%	-3.1%	16.3%	18.5%	-8.2%	28.0%	5.8%	29.9%	-6.5%	4.5%
S&P 500® TR Index	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%	21.8%	-4.4%	31.5%	18.4%	28.7%	-18.1%	16.9%

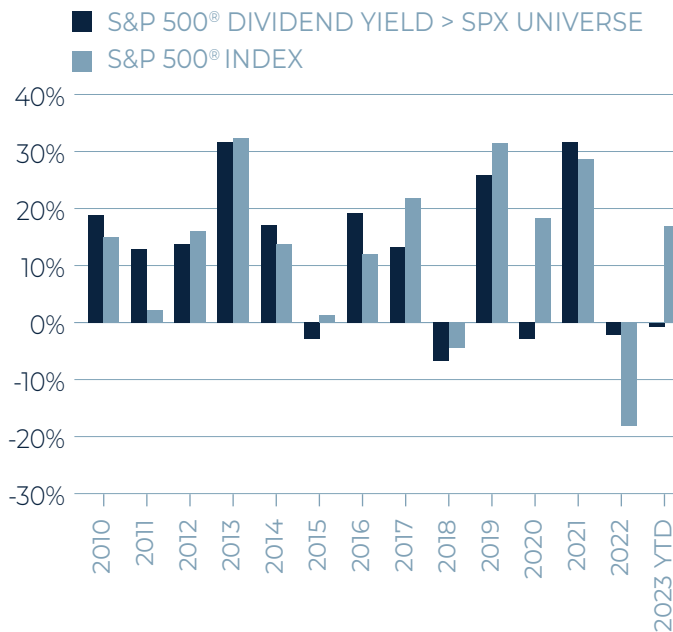
To examine the performance of the overall dividend paying universe of stocks in the S&P 500, we developed a methodology to identify a universe of stocks at the end of each year, equal weighted, and rebalanced back to equal weights quarterly. For the universe of dividend payers this includes any stocks that paid a dividend in the previous 12 months. As the charts and table above shows, the overall universe of dividend paying stocks has slightly underperformed the S&P 500 Index overall since 2010.

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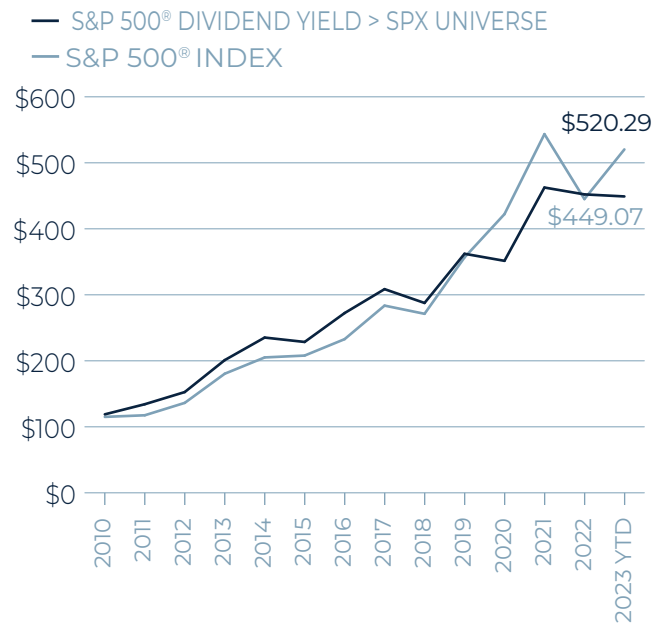
THE HIGH YIELD UNIVERSE

For yield-focused investors, we examined the performance of the high dividend yield universe of stocks in the S&P 500, by isolating the performance of stocks that had a dividend yield greater than that of the S&P 500 Index.

CALENDAR YEAR TOTAL RETURNS (IN USD)



GROWTH OF \$100 – TOTAL RETURN (IN USD)



Source: Bloomberg, Bristol Gate Capital Partners. As of June 30, 2023

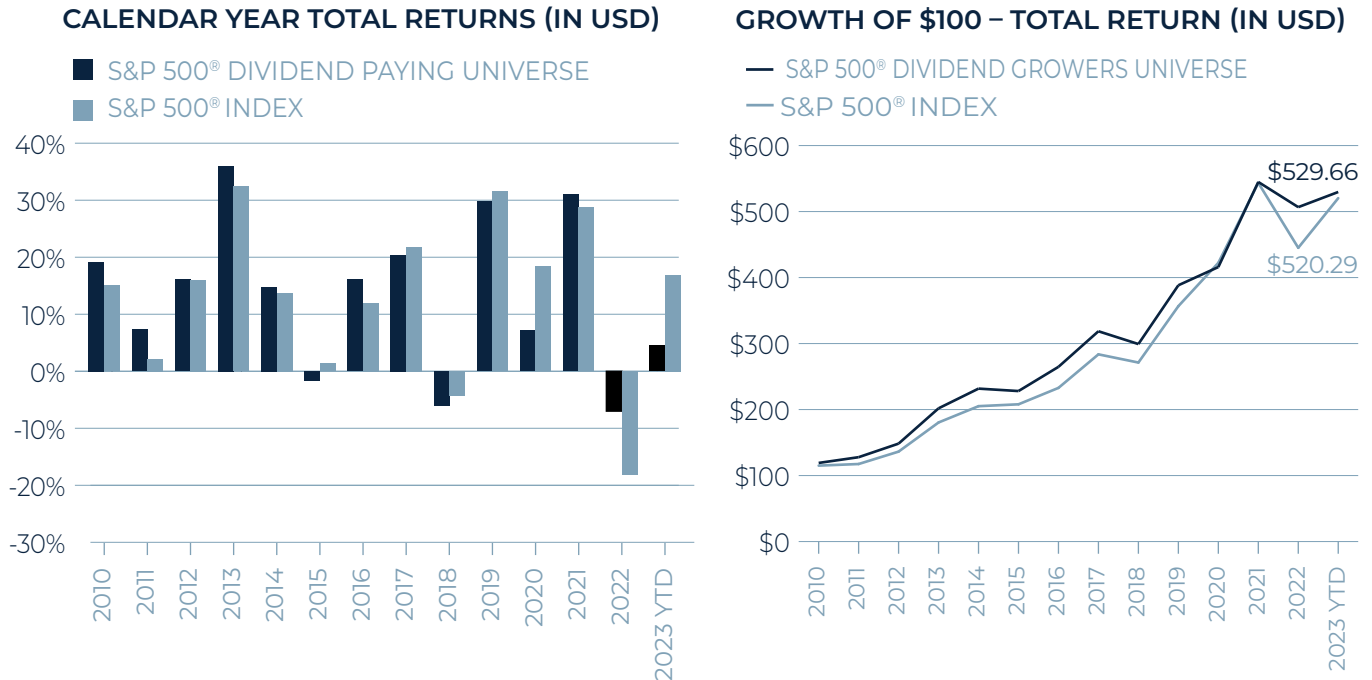
ANNUAL RETURNS (IN USD)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD
S&P 500 Dividend Yield > SPX Universe TR	18.9%	12.9%	13.7%	31.7%	17.1%	-2.8%	19.2%	13.3%	-6.8%	25.9%	-3.0%	31.6%	-2.4%	-0.7%
S&P 500® TR Index	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%	21.8%	-4.4%	31.5%	18.4%	28.7%	-18.1%	16.9%

As shown, investors in search of income who focus on higher yields have given up returns relative to the broad market. In 2022 however, that did allow them to preserve capital in a year where the market declined by double digits. In a year like the one we currently find ourselves in, high yielders are lagging the index which is being driven by low or non-yielding growth stocks.

THE DIVIDEND GROWTH UNIVERSE

Focusing on the universe of companies that have grown their dividend in the previous 12 months and analyzing their performance in the subsequent year, we see that the dividend grower cohort has delivered the most success against the S&P 500 Index since 2010. This is not surprising since there is a plethora of academic research that supports buying companies that pay a dividend and grow it over time, leading to attractive risk-adjusted returns over long periods



Source: Bloomberg, Bristol Gate Capital Partners. As of June 30, 2023

ANNUAL RETURNS (IN USD)

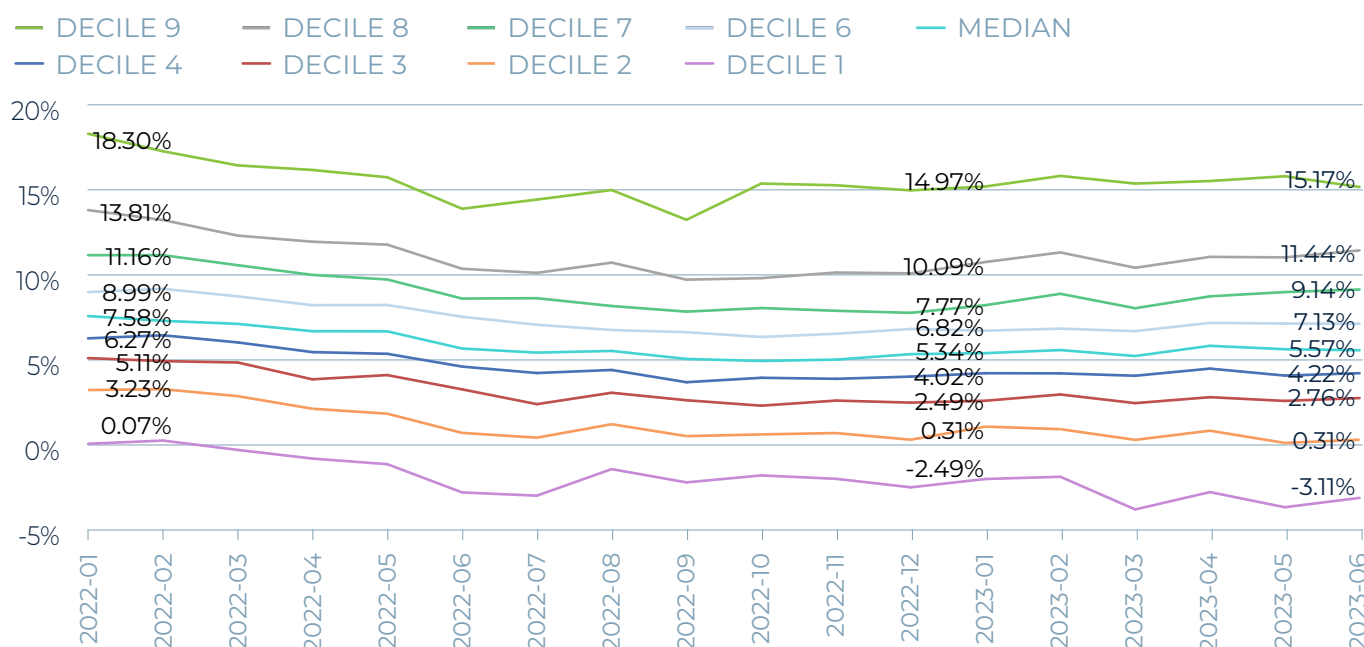
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD
S&P 500 Dividend Growers Universe TR	19.1%	7.3%	16.1%	36.1%	14.8%	-1.6%	16.1%	20.4%	-6.1%	29.8%	7.1%	31.0%	-7.0%	4.5%
S&P 500® TR Index	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%	21.8%	-4.4%	31.5%	18.4%	28.7%	-18.1%	16.9%

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DIVIDEND GROWTH TRENDS – LOOKING FORWARD TWELVE MONTHS

In our 2022 Annual Dividend Report we introduced our proprietary predictions of dividend growth by decile. As it was very well received information, we are excited to include our updated predictions on a go forward basis. Below you will find our median prediction for dividend growth looking forward over the next 12 months, broken into 9 deciles of dividend payers. Decile 1 are the fastest dividend growers, with Decile 9 representing the slowest.

12 MONTH FORWARD DIVIDEND GROWTH PREDICTION BY DECILE



Source: Bristol Gate Capital Partners, FactSet. Data represents the Next Twelve Month prediction of Dividend Growth. As an example, the 01/01/23 represents the prediction for 01/01/2024

The decline in expected dividend growth we saw at the end of 2022 has, for the most part, levelled off for the top eight deciles, with the predictions for that cohort remaining relatively stable through the first half of 2023. The bottom decile, however, continues to decline indicating dividend cuts or suspensions are a risk to be aware of for investors. Overall, the data shows that strong levels of dividend growth are still expected for a large number of companies in the dividend paying universe and that discerning investors can continue to seek opportunities to grow their income.

If you would like to learn more about dividend payers, please reach out to anyone on our Relationship Management Team who will be happy to share information on the constituents in these deciles.

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