Q1 2023

UK Dividend Monitor

Computershare

Foreword, by Mark Cleland, CEO Issuer Services

At Computershare, we have a long history of safeguarding the shareholder registers of listed companies all around the globe, anticipating and servicing our clients' evolving governance needs, underpinned by smart technology and expert people.

We look after the share registers of 900 companies in the UK and through accurate and timely shareholder register management, we provide the insight, comfort and assurance for companies and investors that records are up to date, accessible and secure.

Dividends are a cornerstone of equity capital markets, providing a stream of income for investors and a vital means by which company valuations can be derived and compared. One of our key roles is to ensure that the tens of billions of pounds in dividends declared by listed companies each year are paid to their shareholders securely and on time.

We are proud therefore to bring you the first edition of the Computershare UK Dividend Monitor. The Dividend Monitor itself has an unrivalled fourteen-year pedigree providing insight on UK dividends, and a wide audience among investors, fund managers, advisers, regulators and issuers. Under Computershare, the Dividend Monitor will extend its reach, and, by tracking the big trends in UK equity income and providing forecasts for UK payouts, offer the readers a comprehensive and accurate analysis on UK dividends every quarter now and in the years to come.

The Q1 2023 Dividend Monitor covers a period during which financial markets have wrestled with the question of whether interest rates around the world are at or close to their peak, or have further to rise to squeeze out inflation. Higher rates have tested parts of the global banking sector. Energy prices have surged on OPEC production cuts. Metals prices are rangebound as markets assess the likely path for global growth. Slowing GDP and higher financing costs mean earnings for many UK listed companies are under pressure and this means dividend growth is slowing too.

We hope you enjoy reading the Computershare UK Dividend Monitor.

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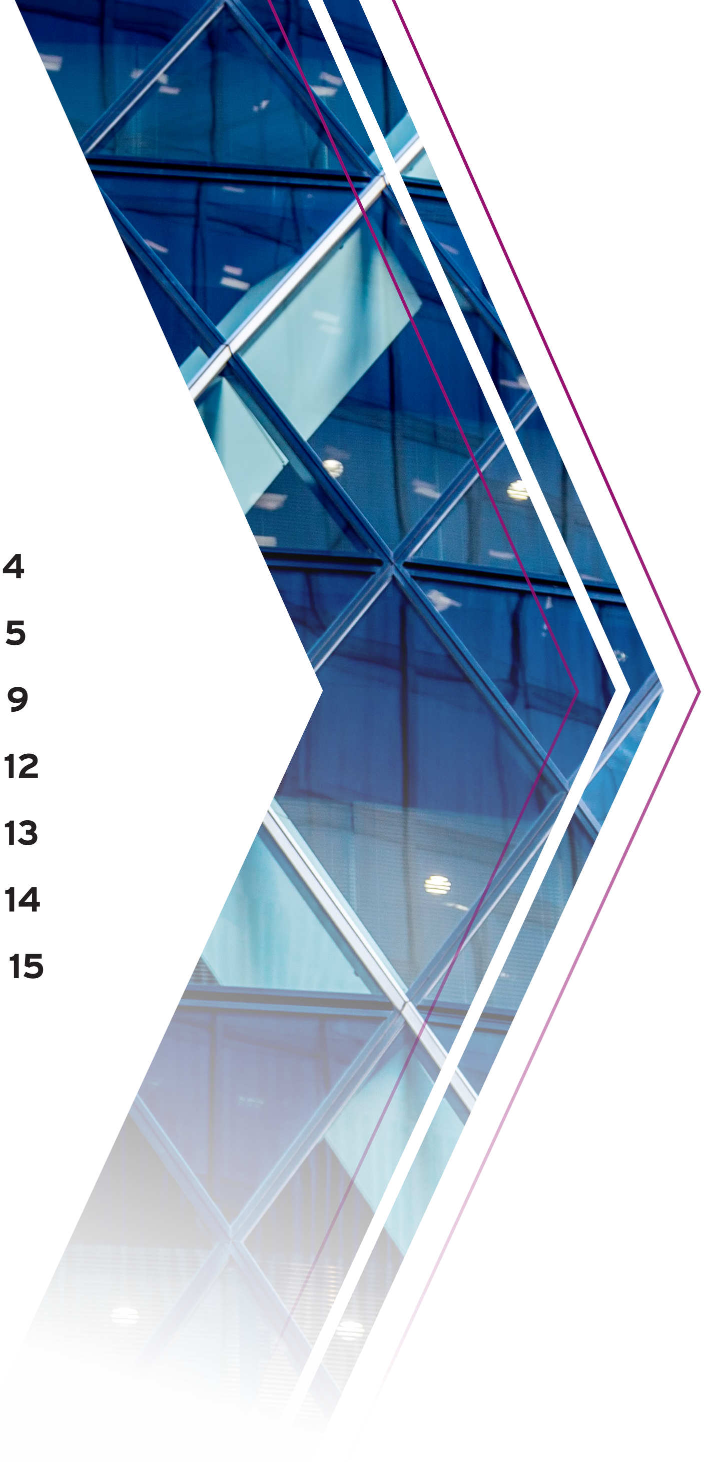


A note on methodology

The Dividend Monitor's methodology has been refined for calculating underlying dividend growth in the wake of significant swings in exchange rates over the last couple of years.

Underlying growth formerly only adjusted the headline change by stripping out one-off special dividends. Now, the underlying growth rate excludes these one-offs and adjusts for exchange rates as well. This gives a truer picture of the progress of UK dividends. See Methodology at the end of the report for more detail on how the figures are compiled.

AT A GLANCE

Overview

- Q1 headline dividends rose 4.6% to £15.2bn, ahead of the last edition's 3.9% forecast
- Exchange rates provided a modest boost, but one-off special dividends were sharply lower
- Regular dividends were £14.9bn, up by an underlying 5.6% year-on-year after adjusting for special dividends and exchange rates

Sectors & Companies

- Seasonal patterns meant pharmaceuticals, oil companies and tobacco dominated the first quarter
- Oil companies contributed most to Q1 growth, rising one sixth year-on-year on an underlying basis; the headline total was boosted by exchange rate effects
- Consumer discretionary companies and banks also made a significant contribution to growth
- In the big defensive sectors, most companies delivered steady single-digit increases
- There were no significant areas of weakness in Q1, but some sectors will see cuts in Q2

Top 100 v Mid 250

- Mid-cap companies saw faster growth than the top 100 for the 8th consecutive quarter; +18.1% on an underlying basis
- Top 100 saw 4.4% underlying growth
- History shows that mid-cap companies typically suffer a significant earnings impact in a slowing economy and a more severe impact on dividends than top 100

Yield

- UK listed companies forecast to yield 3.7% over the next twelve months
- Top 100 forecast to yield 3.8% and mid-caps 3.2%
- Cash deposits now offer 3.6% for instant access – almost equalling equities for the first time since the GFC

Outlook

- Banks are providing the main engine of UK dividend growth in 2023 for the second year running, supplemented by oil companies
- Declining mining payouts acting as a brake on growth
- Headline payouts expected to fall owing to likely lower one-off special dividends, and an expected drag from exchange rates in the second half, but prospects are brighter than three months ago
- Headline forecast for 2023 steady at £91.3bn, a fall of 2.8% year-on-year

OVERVIEW

UK dividends rose to £15.2bn in the first quarter, up 4.6% on a headline basis. This was a little ahead of the Dividend Monitor's 3.9% forecast, despite a three-quarters fall in one-off special dividends to £223m. With less reliance on special dividends, the quality of growth was therefore better than expected. The underlying increase, which excludes both the drag from lower special dividends and the boost delivered by the weakness of the pound, was 5.6%. Regular dividends (which exclude special payouts) were £14.9bn.

Oil companies easily contributed the most to first-quarter growth as high energy prices continue to generate very large cash flows for the sector. At £2.8bn their payouts were up by a sixth year-on-year on an underlying basis and beat the Dividend Monitor's forecast for Q1 2023 by bringing forward a dividend uplift by three months.

The housebuilding, consumer goods & services sector delivered the second-most significant contribution to growth in Q1, followed by banks that have benefited from rising interest rates. Among the big defensive sectors that include basic consumer goods, tobacco, telecoms and utilities most companies delivered flat payouts or single-digit increases.

The outlook for 2023 has improved slightly over the last three months. Dividend data shows that the UK economy has so far held up better than feared and markets have come to judge that interest rates may peak at a lower level than was originally deemed necessary to tame inflation. Banks, oil companies, utilities and food retailers are already contributing to growth this year, but elsewhere corporate earnings are under pressure and some companies have started to make dividend cuts. The biggest drag is coming from a weaker mining sector.

Expected lower special dividends for the year and likely negative exchange-rate effects in the second half mean headline dividends are likely to drop by 2.8% to £91.3bn for 2023, in line with the forecast published in the last edition three months ago. Regular payouts, that exclude specials, are on track to rise to £86.1bn, equivalent to an underlying increase of 2.0%.

UK dividends rose

5.6%

on an underlying basis in Q1 2023, but growth is likely to slow

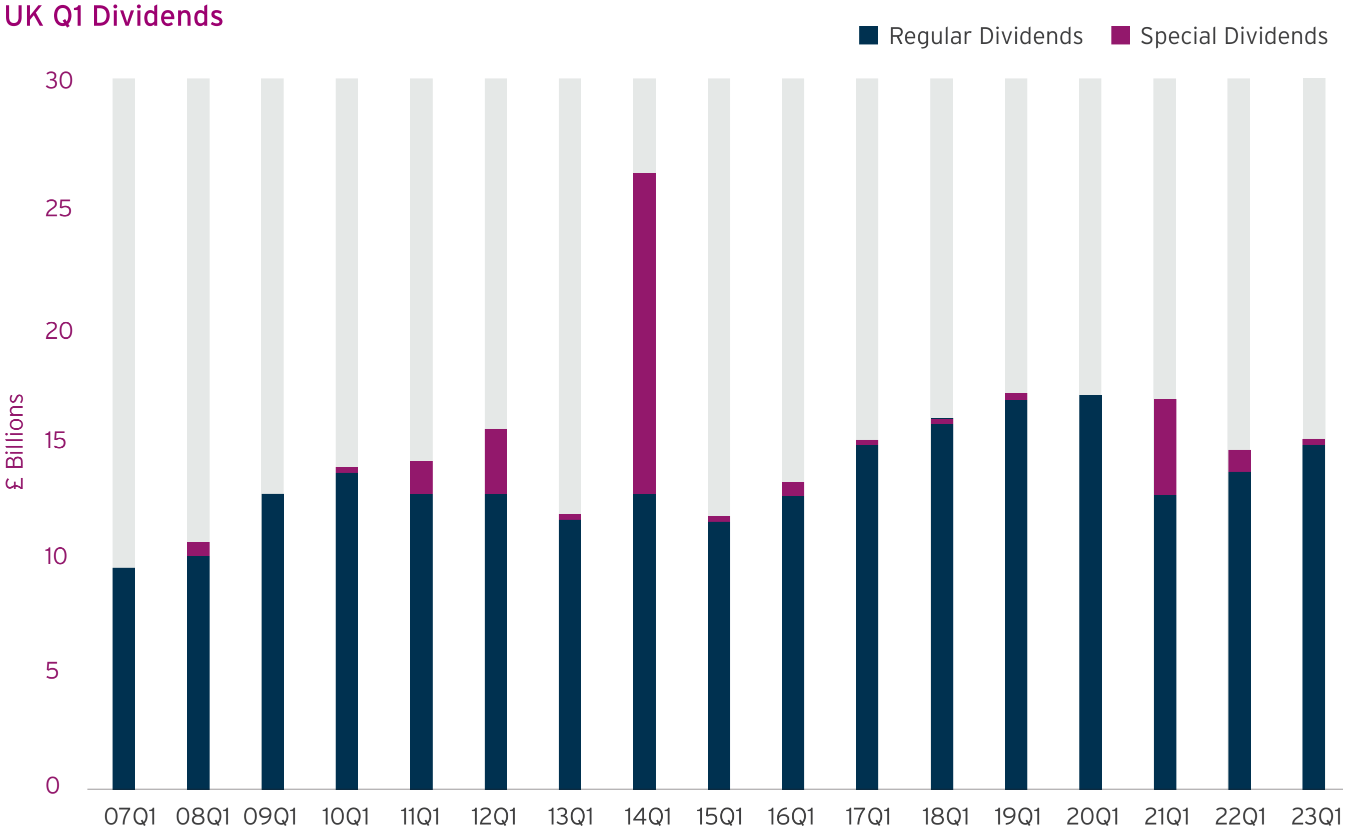
Oil payouts rose by

17%

(underlying) and made the biggest contribution to Q1 growth

2023 headline payouts to fall 2.8% to £91.3bn, impacted by lower special dividends; Underlying growth of 2.0% held back by weakness from mining sector.

UK Q1 Dividends



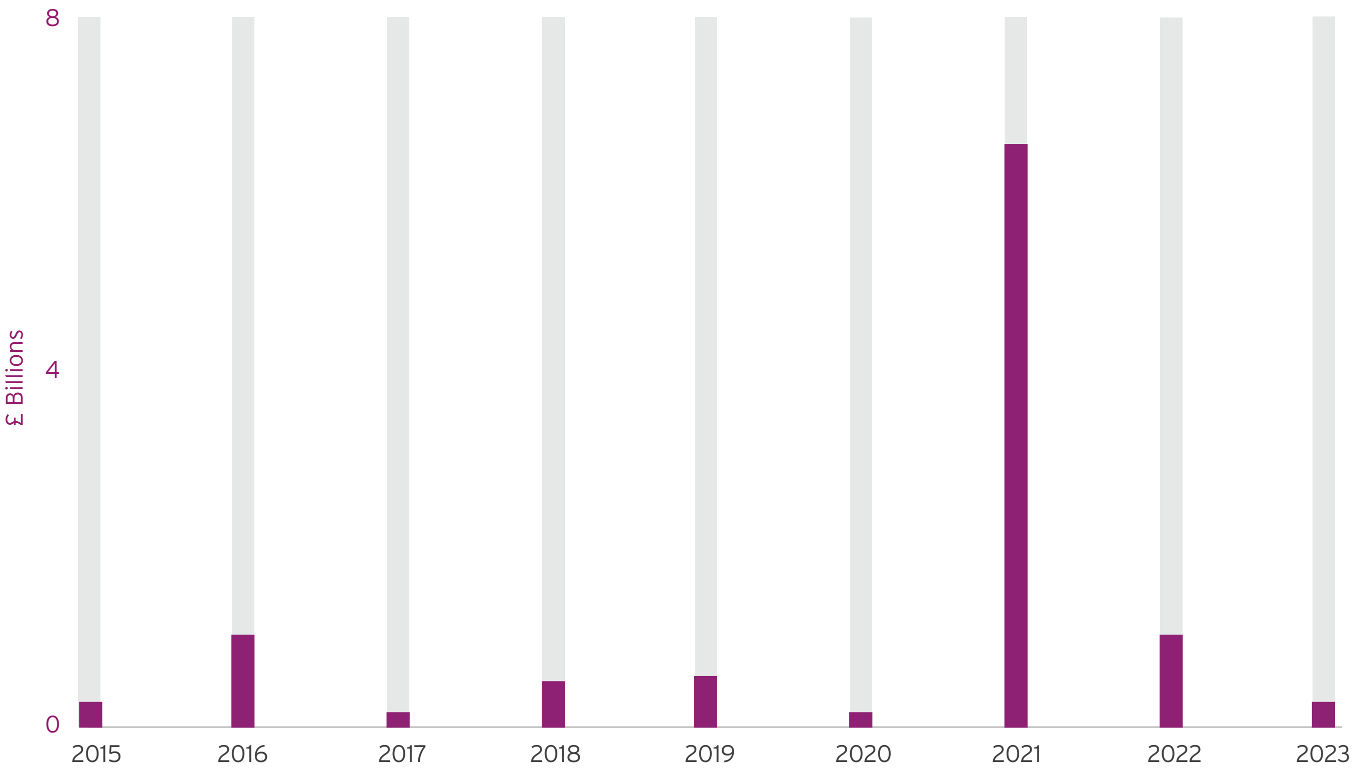
Dividends Paid £bn

£bn	2013		2014		2015		2016	
Q1	£12.3	-26.5%	£27.4	123.3%	£12.8	-53.5%	£14.3	11.7%
Q2	£23.8	9.7%	£23.9	0.2%	£27.1	13.5%	£30.2	11.4%
Q3	£21.6	6.3%	£22.0	1.7%	£23.1	5.3%	£25.5	10.2%
Q4	£13.9	4.6%	£13.9	-0.5%	£15.0	8.3%	£15.8	5.1%
Full Year	£71.6	-0.6%	£87.1	21.6%	£78.0	-10.5%	£85.7	9.9%

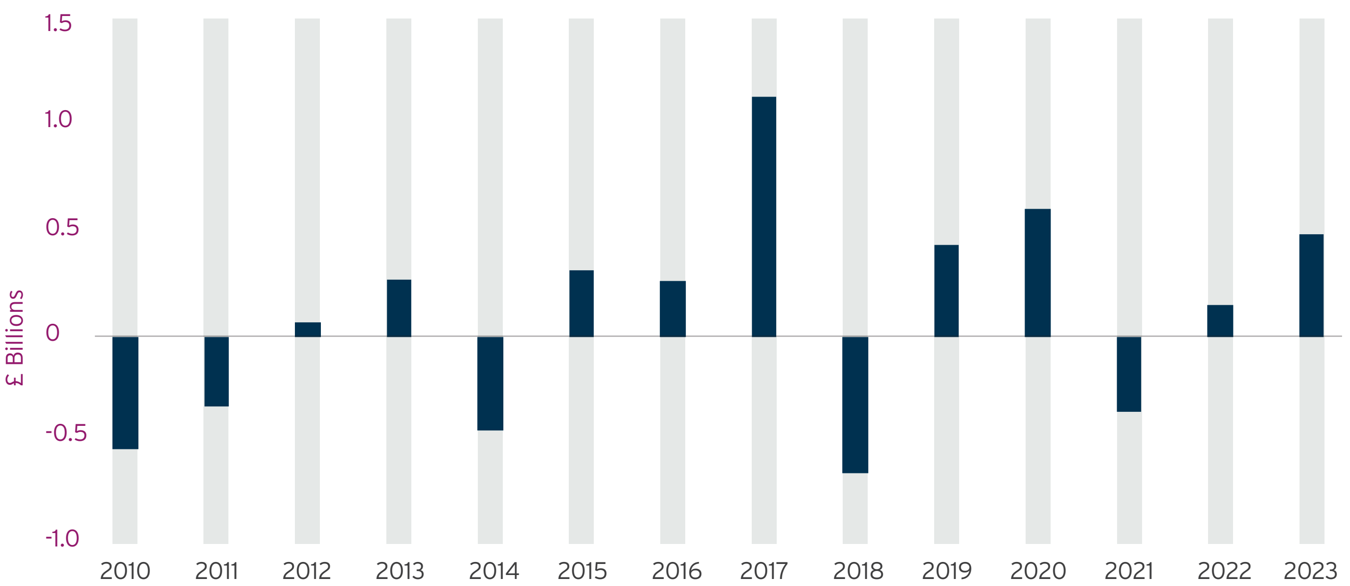
£bn	2017		2018		2019		2020	
Q1	£14.9	4.9%	£16.1	7.4%	£16.8	4.8%	£16.2	-3.9%
Q2	£33.7	11.5%	£33.1	-1.7%	£38.1	15.2%	£17.2	-54.9%
Q3	£30.4	19.2%	£31.5	3.7%	£33.6	6.8%	£16.8	-50.1%
Q4	£15.8	0.4%	£17.0	7.7%	£17.9	5.3%	£10.8	-39.8%
Full Year	£94.8	10.6%	£97.7	3.0%	£106.5	9.0%	£60.9	-42.8%

£bn	2021		2022		2023e	
Q1	£17.1	5.8%	£14.5	-15.2%	£15.2	4.6%
Q2	£25.8	50.2%	£36.1	39.8%	*£33.0*	*-8.6%*
Q3	£31.1	85.7%	£31.3	0.5%	*£29.9*	*-4.4%*
Q4	£11.9	9.9%	£12.1	1.8%	*£13.2*	*9.5%*
Full Year	£85.9	41.0%	£94.0	9.4%	*£91.3*	*-2.8%*

Special Q1 Dividends



Q1 Exchange Rate Boost / Penalty



Special dividends have been very high over the last two years compared to the historic average. As the disruption to dividend patterns caused by the pandemic fades, as the mining sector (which favours special dividends) adjusts to lower commodity prices, and as economic growth slows, the Dividend Monitor has been expecting these unpredictable one-off distributions to revert to more normal levels. In the first quarter special dividends duly fell by three quarters year on year to just £223m, around half the median Q1 figure over the last 15 years. This was also well below the £500m estimated in the Dividend Monitor's forecast for the first quarter. Lower special dividends held back the headline growth rate by almost five percentage points in Q1.

The largest special dividend, at £200m, was paid by B&M European Value Retail which announced strong trading results, benefiting from cash-strapped consumers trading down from more expensive competitors. It is the third consecutive year the company has distributed an additional one-off payment, which may mean investors are coming to expect one in future too.

Special dividends are very volatile and unpredictable by their nature. Moreover, pickings are usually thinner in the first quarter. The Dividend Monitor forecast assumes they will roughly halve this year to bring them down to more normal historical levels, but nailing down an accurate estimate is very difficult.

The pound was weaker in the first quarter than it was in the same period of 2022. The translated value of headline payouts declared in dollars and euros was therefore boosted by £325m in Q1, in line with £321m forecast. This pushed the headline growth rate up by just under four percentage points. More than half of this effect was felt in the oil sector via the dollar, though there was also a modest impact from the stronger euro in the telecoms (Vodafone) and food sectors (Unilever).

With the pound now trading more strongly, exchange rates are set to hold back headline dividend growth in the second half of 2023, assuming sterling holds on to its recent gains.

SECTORS & COMPANIES

The first quarter is dominated by the pharmaceutical, oil and tobacco sectors, which together account for more than half of Q1 dividends paid, roughly double their share of the annual total. Pharmaceutical payouts appeared to fall in Q1, but this is because Haleon demerged from GSK in 2022 and will pay its first dividend as an independent company in the second quarter. Meanwhile AstraZeneca held its distribution steady (in dollar terms) despite very strong sales and profit growth, opting instead to reduce debts.

Oil companies raised their payouts by £587m[1] as their cash flows have grown on the back of high energy prices. Newly listed Ithaca Energy gave the sector a boost, as did the weaker pound compared to Q1 2022, but over half the increase reflected a further dividend boost by both Shell and BP. Dividends are only part of the story for this booming sector. Having spent £24bn between them buying back their own shares in 2022, more than double what they distributed as dividends, the two oil majors have both announced further share repurchases for 2023 too.

The housebuilding, consumer goods & services sector raised dividends by 58% in Q1, and made the second largest contribution to growth overall. Contract caterer Compass, which services the travel industry, completed its journey back from the pandemic, with a dividend almost as large as in the first quarter of 2020. It accounted for half the growth from the sector, while the tail end of the strong housing market boosted housebuilders. Looking ahead, some housebuilders are already announcing dividend cuts as the market turns down.

The first quarter is not typically a big one for banking dividends, but all those that paid made a significant increase year-on-year. The largest of these was Barclays. Further strong growth from the banks is expected for the rest of 2023.

In the utilities sector most companies delivered characteristically low single-digit increases in their dividends, but SSE made a splash with a 14% hike. The company, which controls a large share of the UK's gas storage as well as delivering power to homes and businesses, is enjoying strong revenue and margin growth during this period of market disruption.

There were no major sector weak spots, though there have been individual company cancellations. For example, Royal Mail, hit by a protracted strike, scrapped its dividend, while Ferrexpo, the Ukrainian miner, remains unable to pay while the war disrupts its operations.

Banks were minor contributors in Q1 but will be the biggest driver of growth for

2023

Mid-cap dividends jumped an underlying

18.1%

in Q1, beating top 100 for eighth quarter in a row

UK plc predicted to yield 3.7% over the next twelve months, but other asset classes have closed the gap.

[1] +26% headline, +17% underlying

Dividends By Industry £m

	16Q1	change yoy	17Q1	change yoy	18Q1	change yoy	19Q1	change yoy	20Q1	change yoy	21Q1	change yoy	22Q1	change yoy	23Q1	change yoy
Resources & Commodities	£391	-42%	£85	-78%	£164	94%	£201	22%	£205	2%	£160	-22%	£224	40%	£183	-19%
Consumer Basics	£1,507	-19%	£1,707	13%	£2,852	67%	£3,031	6%	£3,167	4%	£7,784	146%	£2,957	-62%	£2,968	0%
Consumer Discretionary	£1,569	19%	£1,437	-8%	£2,177	51%	£2,220	2%	£1,502	-32%	£758	-50%	£1,036	37%	£1,083	5%
Banks & Financials	£751	21%	£743	-1%	£542	-27%	£674	24%	£693	3%	£992	43%	£1,503	51%	£1,713	14%
Healthcare & Pharmaceuticals	£2,983	18%	£2,853	-4%	£2,645	-7%	£2,829	7%	£2,893	2%	£2,780	-4%	£3,214	16%	£3,089	-4%
Industrials	£603	7%	£568	-6%	£634	12%	£565	-11%	£533	-6%	£361	-32%	£844	134%	£654	-23%
Oil, Gas & Energy	£3,962	22%	£4,776	21%	£4,281	-10%	£4,511	5%	£4,521	0%	£1,920	-58%	£2,237	16%	£2,824	26%
Information Technology	£131	13%	£176	35%	£135	-23%	£144	7%	£150	5%	£222	48%	£152	-32%	£158	4%
Telecoms	£1,355	4%	£1,576	16%	£1,622	3%	£1,596	-2%	£1,478	-7%	£1,073	-27%	£1,243	16%	£1,316	6%
Domestic Utilities	£998	1%	£1,020	2%	£999	-2%	£1,044	5%	£1,022	-2%	£1,049	3%	£1,097	5%	£1,179	7%
Total	**£14,250**	**6%**	**£14,942**	**5%**	**£16,051**	**7%**	**£16,814**	**5%**	**£16,164**	**-4%**	**£17,101**	**6%**	**£14,506**	**-15%**	**£15,167**	**5%**

Oil companies raised their payouts by £587m in Q1 as their cash flows have grown on the back of high energy prices.

Dividends By Sector £m

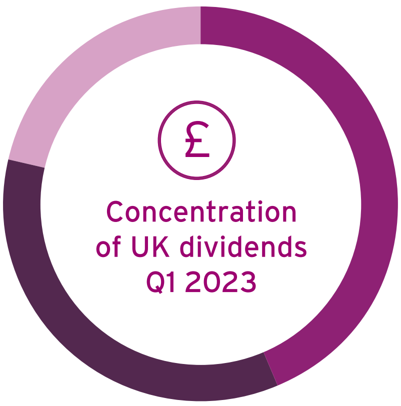
Sector £m	22Q1	23Q1	Headline change year on year	Underlying change year on year
Mining	£95	£99	4.5%	4.5%
Industrial Chemicals	£129	£84	-35.3%	-2.6%
Basic Consumer Goods	£923	£964	4.5%	-1.1%
Food Retail	£0	£0		
Food, Drink & Tobacco Producers	£2,034	£2,004	-1.5%	4.1%
Airlines, Leisure & Travel	£2	£22	1245.4%	925.1%
General Retail	£584	£344	-41.1%	14.3%
Housebuilding, Consumer Goods & Services	£447	£706	58.0%	58.0%
Media	£3	£11	238.7%	21.5%
Motor Manufacturing & Parts	£0	£0		
Banks	£753	£936	24.3%	24.3%
General Financials	£376	£364	-3.0%	4.7%
General & Life Insurance	£0	£0		
Property	£375	£413	10.2%	10.7%
Healthcare & Pharmaceuticals	£3,214	£3,089	-3.9%	-9.6%
Building Materials & Construction	£7	£8	11.3%	11.3%
Industrial Goods & Support	£837	£646	-22.8%	-1.2%
Oil, Gas & Energy	£2,237	£2,824	26.3%	17.3%
Information Technology	£152	£158	4.2%	4.2%
Telecoms	£1,243	£1,316	5.9%	0.3%
Domestic Utilities	£1,097	£1,179	7.5%	7.5%
Total	**£14,506**	**£15,167**	**4.6%**	**5.6%**

Banks predicted to deliver further strong growth over the rest of 2023

TOP COMPANIES

Subtotal Of Total Dividends

Rank	18Q1	19Q1	20Q1	21Q1	22Q1	23Q1
1	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Royal Dutch Shell Plc	Tesco Plc	AstraZeneca Plc	AstraZeneca Plc
2	AstraZeneca Plc	AstraZeneca Plc	AstraZeneca Plc	AstraZeneca Plc	Shell Plc	Shell Plc
3	BP Plc	BP Plc	BP Plc	British American Tobacco Plc	British American Tobacco Plc	British American Tobacco Plc
4	Vodafone Group Plc	Vodafone Group Plc	British American Tobacco Plc	Vodafone Group Plc	Vodafone Group Plc	Vodafone Group Plc
5	British American Tobacco Plc	British American Tobacco Plc	Vodafone Group Plc	Unilever Plc	GSK Plc	BP Plc
Subtotal £bn	£7.8	£8.6	£8.6	£10.1	£6.9	£7.5
% of total dividends	49%	51%	53%	59%	47%	49%
6	GSK Plc	GSK Plc	GSK Plc	GSK Plc	Unilever Plc	Unilever Plc
7	Unilever Plc	Unilever Plc	Unilever Plc	Royal Dutch Shell Plc	BP Plc	Barclays Plc
8	Imperial Brands Plc	Imperial Brands Plc	Imperial Brands Plc	BP Plc	National Grid Plc	National Grid Plc
9	National Grid Plc	National Grid Plc	National Grid Plc	National Grid Plc	Imperial Brands Plc	GSK Plc
10	BT Group	BT Group	BT Group	Imperial Brands Plc	SSE Plc	Imperial Brands Plc
11	Persimmon Plc	Compass Group Plc	Compass Group Plc	Persimmon Plc	Associated British Foods Plc	Compass Group Plc
12	Compass Group Plc	Persimmon plc	Associated British Foods Plc	Aviva Plc	Royal Mail Plc	SSE Plc
13	SSE Plc	Intercontinental Hotels Group	SSE Plc	SSE Plc	B&M European Value Retail S.A.	Associated British Foods Plc
14	Associated British Foods Plc	SSE Plc	Easyjet Plc	Cairn Energy Plc	Compass Group Plc	BT Group
15	Sky Plc	Greencore Group Plc	3i Group Plc	Sage Group Plc	BT Group	B&M European Value Retail S.A.
Subtotal £bn	£4.8	£5.2	£4.9	£4.9	£4.4	£4.8
Grand Total £bn	£12.7	£13.8	£13.5	£15.0	£11.2	£12.3
% of total dividends	79%	82%	83%	88%	77%	81%



Top 5	£7.5bn	49.5%
Next 10	£4.8bn	31.6%
The rest	£2.9bn	18.9%

TOP 100 v MID 250

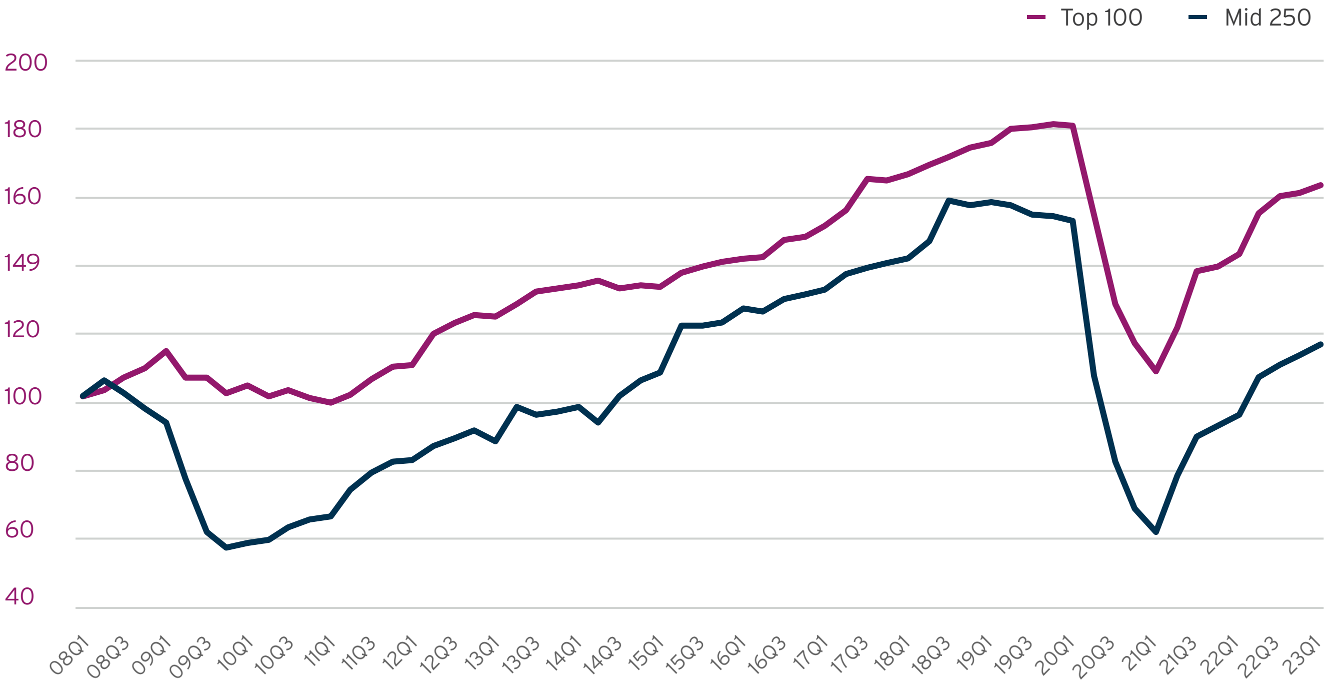
The mid-cap 250 companies extended their winning streak in Q1, enjoying faster underlying growth than the top 100 for the eighth consecutive quarter. This has been a feature of the post-Covid rebound, given the much larger extent to which mid-cap payouts fell during the pandemic. Q1 underlying growth was 18.1%, four times faster than the top 100, whose payouts rose 4.4%. Companies outside the top 350 showed even faster growth.

Mid-cap dividends reached £1.3bn in Q1, with banks and financials contributing most to growth. The headline figures show a decline for the mid-caps but only because of lower one-off special dividends. Top 100 payouts were £13.6bn - oil was the biggest driver of growth.

If as many expect, the economic cycle turns downwards, history shows that mid and small-cap dividend growth will typically come under greater pressure than it will for the biggest companies that often have sufficient financial resilience to sustain progressive dividend policies, even when earnings are under pressure.

Top 100 payouts were £13.6bn - oil was the biggest driver of growth.

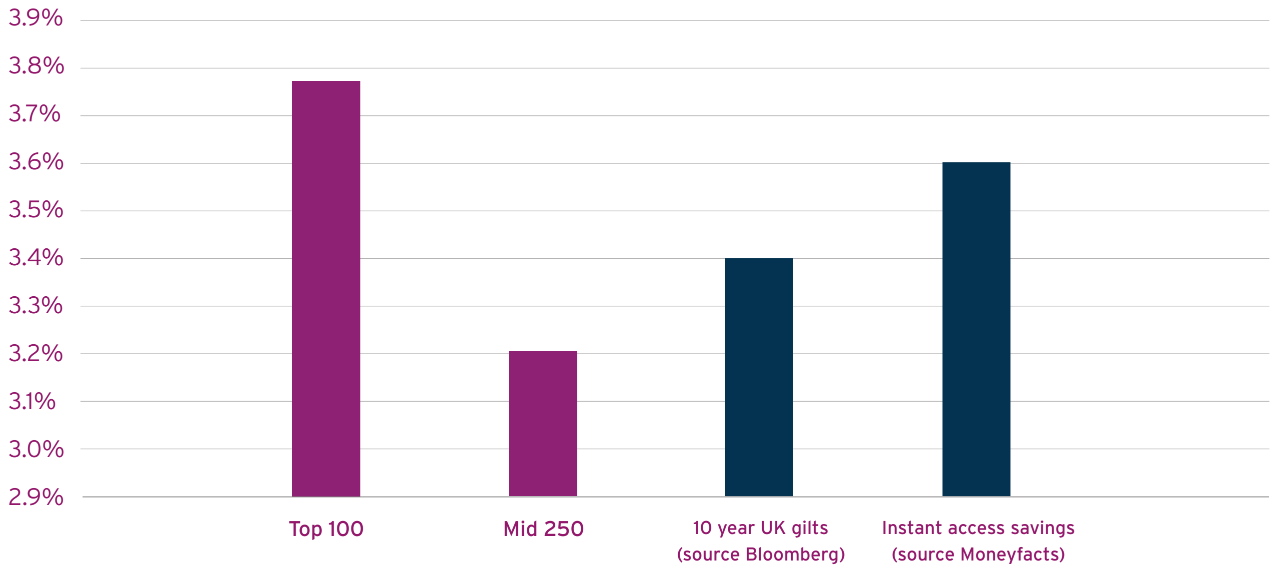
Top 100 v Mid 250 - Regular Dividends, Indexed



Top 100	90%
Mid 250	8%
The rest	2%

YIELD

UK Income



The stock market ended the quarter more or less where it began, despite some significant ups and downs in between. The prospective 12-month yield on UK equities has held steady at 3.7% since the last edition of the Dividend Monitor. The top 100 are forecast to deliver 3.8% (unchanged) while the mid-caps are on track to provide 3.2% (up from 3.1%).

The yield on the 10-year benchmark gilt has fallen a touch during the quarter as the markets absorb the likelihood of a slowing economy and future rate cuts. It now yields 3.4%, down from 3.6%. It is now therefore back below equities, having briefly gone higher in the autumn.

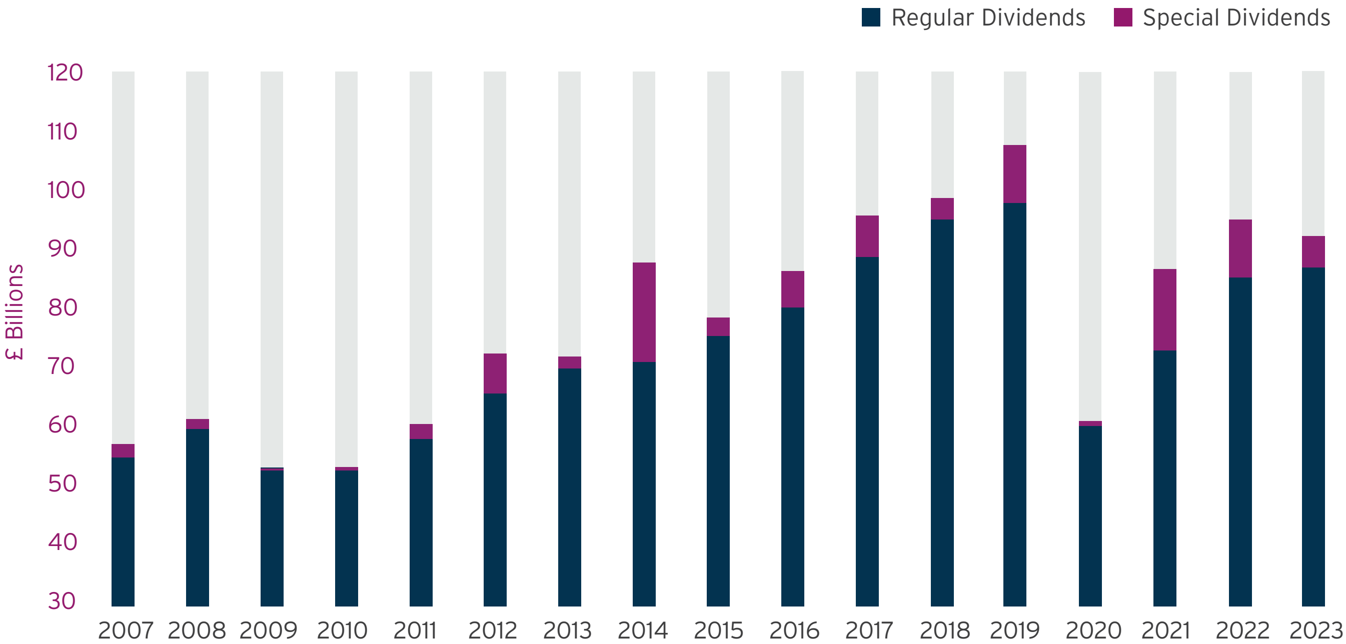
Cash is currently offering its most attractive interest rates for many years, almost equalling equities. With Bank Rate in the UK now at 4.25%, the best deposit accounts now offer 3.6% for instant access, even more if you are prepared to tie your cash up for longer. This is 0.9 percentage points more than three months ago as banks compete harder for deposits.

We must not forget that share buybacks are also part of the story. They reached a record level in 2022 thanks mainly to the oil sector and they continue in 2023. Dividends and share buybacks together constitute the so-called total shareholder yield which is likely to be in excess of 5% in 2023.

The yield gap between equities and other asset classes has narrowed markedly.

VIEWPOINT AND OUTLOOK

UK Dividends - Annual



Market expectations are for corporate earnings to come under pressure as higher interest rates slow the economy both here and abroad, but companies have a lot of discretion over how much of their profits they distribute over the cycle. In addition, share buybacks can be turned off quite easily if companies wish to preserve cash. This all means dividends are typically relatively resilient in bad times and grow less quickly during a boom.

The UK banking system is very well capitalised and unless there is a major upset, the banks can grow dividends by roughly a fifth this year, which would make them by far the most important engine of payout growth for the second year running. HSBC is a major contributor to this increase. The oil sector is proving to be be the next largest contributor to 2023's higher dividends. Utilities and food retailers look set to deliver good payout growth too.

With commodity prices having fallen, mining will act as a significant brake on progress in 2023, though slightly less forcefully than the last edition of the Dividend Monitor expected thanks to very large increases announced by Glencore, for which coal is a major earner. The other large mining groups have all announced lower dividends in line with or slightly below expectations. Housebuilders and some consumer-sensitive retailers have started to announce cuts too.

The good start to 2023 nevertheless brings a small upgrade to the underlying forecast, though there is no change to the headline rate. One-off special dividends are still expected to be lower than 2022 which will act as a drag on the headline total. Later in the year, exchange rates are also likely to drag on the headline growth rate. If the pound maintains its current level, it will pass the anniversary of its low point against the dollar and euro during the third quarter. This will mean the value of payments declared in those currencies will be translated at less favourable exchange rates. On the plus side, company announcements are more positive than looked likely three months ago. All this means that the Dividend Monitor expects headline payouts to fall 2.8% to a total of £91.3bn for 2023. Regular dividends, that exclude one-off specials will reach an expected £86.1bn, equivalent to an underlying increase of 2.0%[2].

Banks on track to be the largest contributor to 2023's higher dividends.

[2] January 2023 forecast 1.7% year-on-year

Methodology

The Dividend Monitor analyses all the individual dividends payments made by UK companies listed on the main market of the London Stock Exchange. Listed investment funds are excluded. All raw dividend data is supplied by Exchange Data International. The Dividend Monitor also analyses the company announcements and financial statements. Dividends are calculated and included in the Dividend Monitor model based on the date they are paid, not declared, as this provides certainty that the cash actually moved from company to shareholder. Where a company produces its financial statements in a currency other than sterling, the Dividend Monitor tracks exchange rate impact on each dividend paid as part of the underlying growth calculation.

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