Q2 2023

UK Dividend Monitor

Computershare

Foreword, by Mark Cleland, CEO Issuer Services

The Q2 Dividend Monitor covers a period that saw a sharp reassessment of the extent to which interest rates would have to rise to choke off UK inflation. The Bank of England duly increased its main policy rate by 0.5 percentage points in June. For the first time since before the Global Financial Crisis (GFC), this move has pushed yields on UK government bonds and even interest on cash savings accounts above equity yields. Income investors now have more choice on where to put their cash, though it bears repeating that dividends grow over time which is a vital component of equity returns over the long term.

At Computershare, we look after the registers of circa 800 companies in the UK and through timely and accurate shareholder register management, we provide the insight, comfort and assurance for companies and investors that records are up to date, accessible and secure. One of our key roles is to ensure dividends declared by the listed companies reach their shareholders. Our services are underpinned by smart technology and expert people.

The Computershare UK Dividend Monitor is the most comprehensive and widely followed research on dividends in the UK and we are proud to bring you the latest edition.

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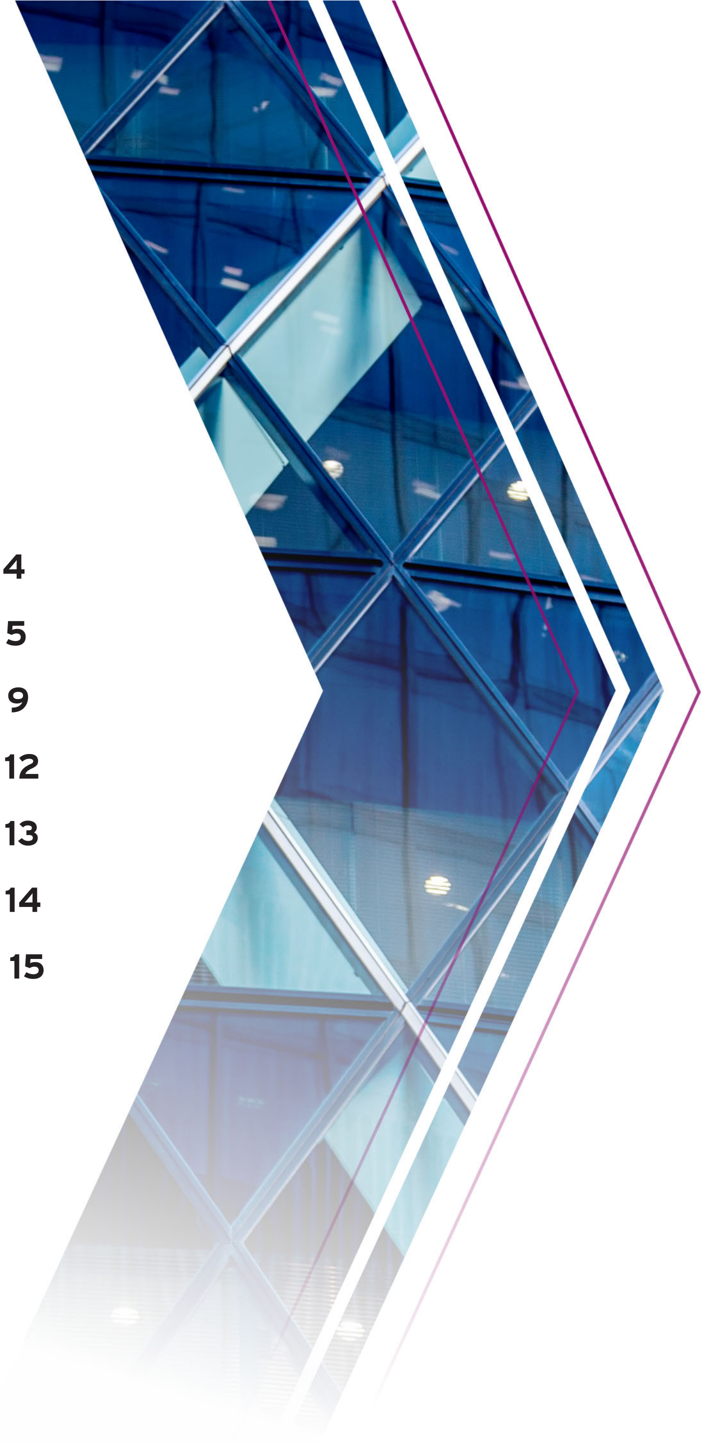
CONTENTS



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

- Q2 headline dividends fell 9.0% year-on-year to £32.8bn, a touch weaker than the Dividend Monitor's 8.6% forecast decline
- Headline growth was hit by sharply lower one-off special dividends – down 86% year-on-year in Q2
- The underlying trend was encouraging - regular dividends were £32.2bn in Q2, up 3.5%[1], and ahead of forecast

Sectors & Companies

- Banking dividends jumped by three fifths to £7.8bn and will provide the biggest engine of UK dividend growth in 2023
- The industrial goods & support sector delivered double-digit growth from a broad range of companies
- The airlines, leisure & travel sector is still restoring dividends post-pandemic, so growth is rapid but from a depressed base
- Mining dividends fell by a third, in line with the Dividend Monitor's forecast and there were pockets of weakness among retailers

Top 100 v Mid 250

- Top 100 dividends outpaced the mid-caps for the first time since Q2 2021 as the post-pandemic rebound faded

Yield

- Lower share prices and improved outlook for dividends have driven prospective UK equity yield up to 4.0% from 3.7% three months ago
- Yields on other asset classes now surpass equities for the first time since the GFC – 10-year UK government bond offers 4.66% and cash deposits 4.35%
- Dividends differentiate themselves because they grow over time, however

Outlook

- Accelerating banking dividend growth and resilience across a range of sectors in Q2 drove an upgrade for 2023
- Headline payouts still likely to fall owing to lower one-offs and negative exchange-rate effects in H2
- Forecast headline dividends down 1.7% to £92.4bn (upgraded by £1.0bn)
- Regular payouts upgraded by £2.7bn to £88.9bn, up 6.1% year-on-year on an underlying basis

[1] Underlying growth = change in regular dividends adjusted for exchange-rate movements. The exchange-rate impact was negligible in Q2 2023.

OVERVIEW

UK dividends fell 9.0% on a headline basis to £32.8bn in the second quarter. This was a touch below the Dividend Monitor's expectations of an 8.6% fall, but the figures belied significant underlying resilience. The headline total includes one-off special payments and these were sharply lower year-on-year, hampering the headline growth rate.

Regular dividends tell us more about the true trend and these rose ahead of forecast in the second quarter to £32.2bn. The underlying growth rate, which adjusts regular dividends for exchange rate movements, was 3.5% in Q2, down from 5.2% in the first quarter[2].

By far the biggest contribution came from the banks which have been reporting very strong profits. They paid £7.8bn, up by three fifths year-on-year. The banks are comfortably 2023's biggest engine of UK payout growth and the prospects have improved even further since the Q1 report. Meanwhile, the broadly based industrial goods and support sector delivered a double-digit dividend growth surprise in Q2 with 95% of companies in the sector delivering annual increases. The biggest negative impact came from sharply lower mining payouts. These fell by a third, in line with Dividend Monitor forecasts, as lower commodity prices impact cash flows in the sector.

Economists agree the economic outlook for the UK has deteriorated over the last three months. Inflation has confounded market optimism and interest-rate expectations have risen as a result. Nevertheless, the dividend picture has brightened. The banking sector in particular is benefiting from the interest-rate medicine the Bank of England is administering to cool the inflationary fever. Outside the banking sector, companies with pricing power are building margins, contributing to inflation of course, but in turn boosting their dividend fire power.

For the rest of 2023, the third quarter is already playing out in line with Dividend Monitor expectations earlier in the year, but the fourth quarter now looks likely to be markedly stronger. Headline payouts are still likely to fall in 2023, down 1.7% to £92.4bn, as lower one-off special dividends and negative exchange-rate effects in the third and fourth quarters take their toll, but this is nevertheless £1.0bn more than forecast three months ago. Regular payouts that exclude specials are now on track to reach £88.9bn, almost £2.7bn more than the forecast from three months ago, and equivalent to an encouraging underlying increase of 6.1% for the year.

UK dividends fell

9.0%

but the figures belied significant underlying resilience

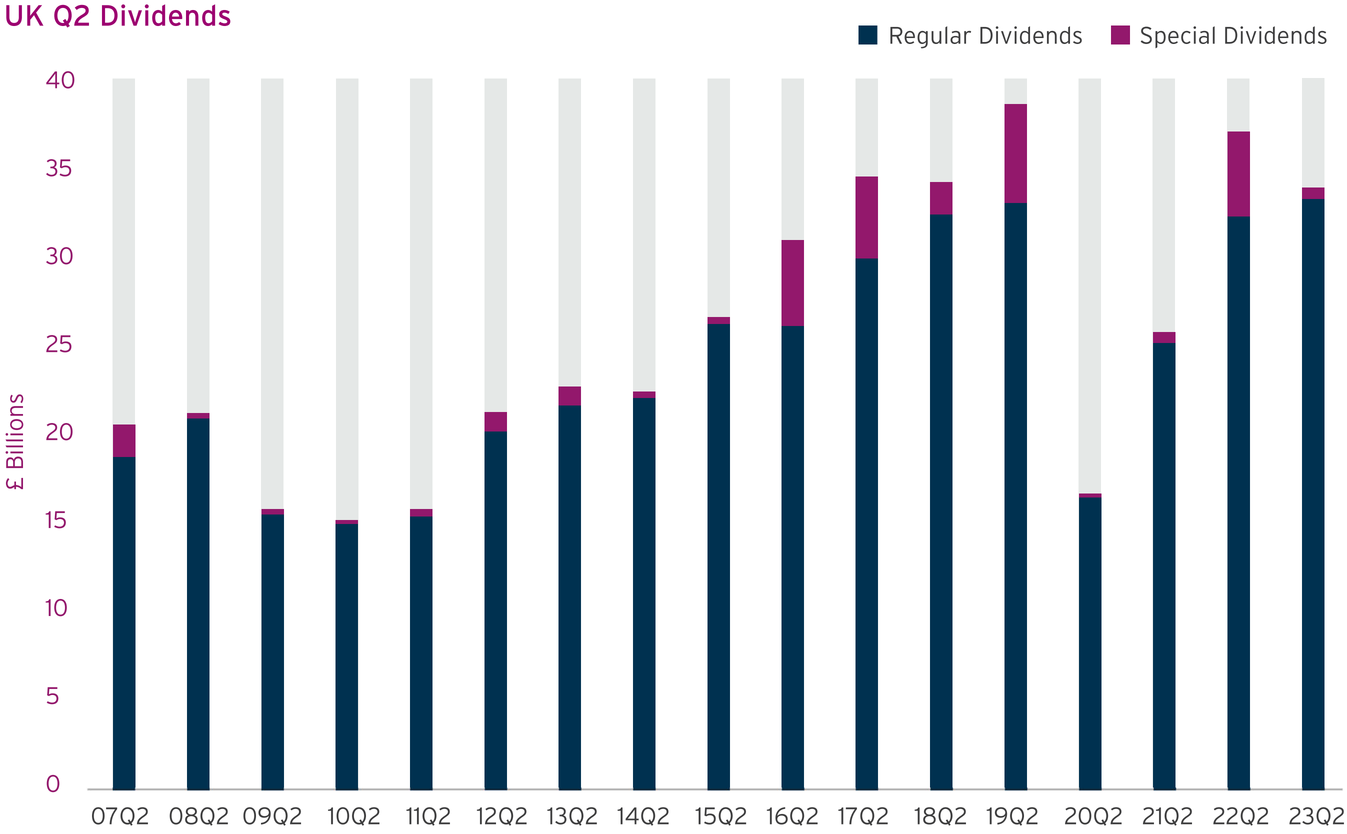
Banking dividends rose three fifths to

£7.8bn

Upgraded dividend forecast – now expecting 6.1% underlying growth for 2023.

[2] In order to minimise distortions in quarterly comparisons caused by companies changing their dividend calendars, the Dividend Monitor makes regular revisions to recent quarterly data. This has a negligible effect over the course of a full year but can affect individual quarters. In our last edition we reported underlying growth of 5.6%, now revised to 5.2%.

UK Q2 Dividends



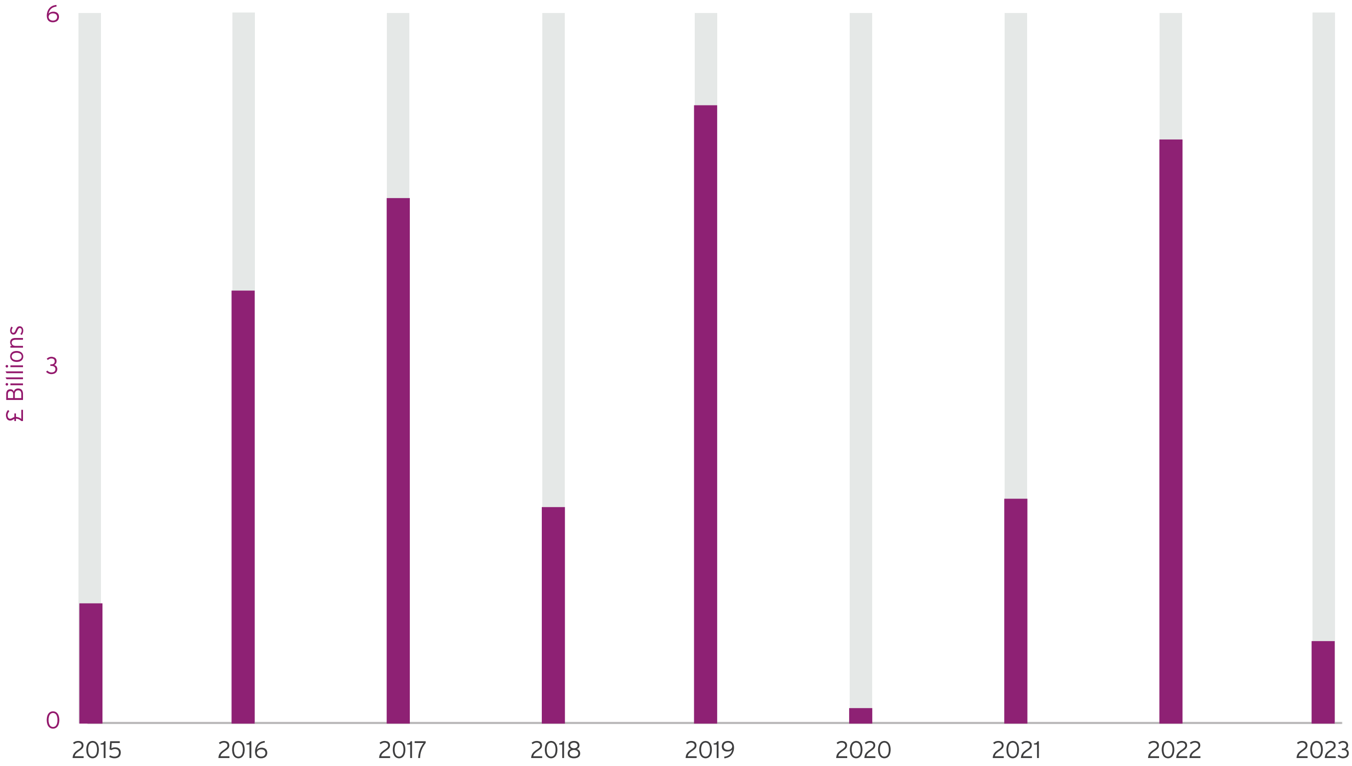
Dividends Paid £bn

£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%

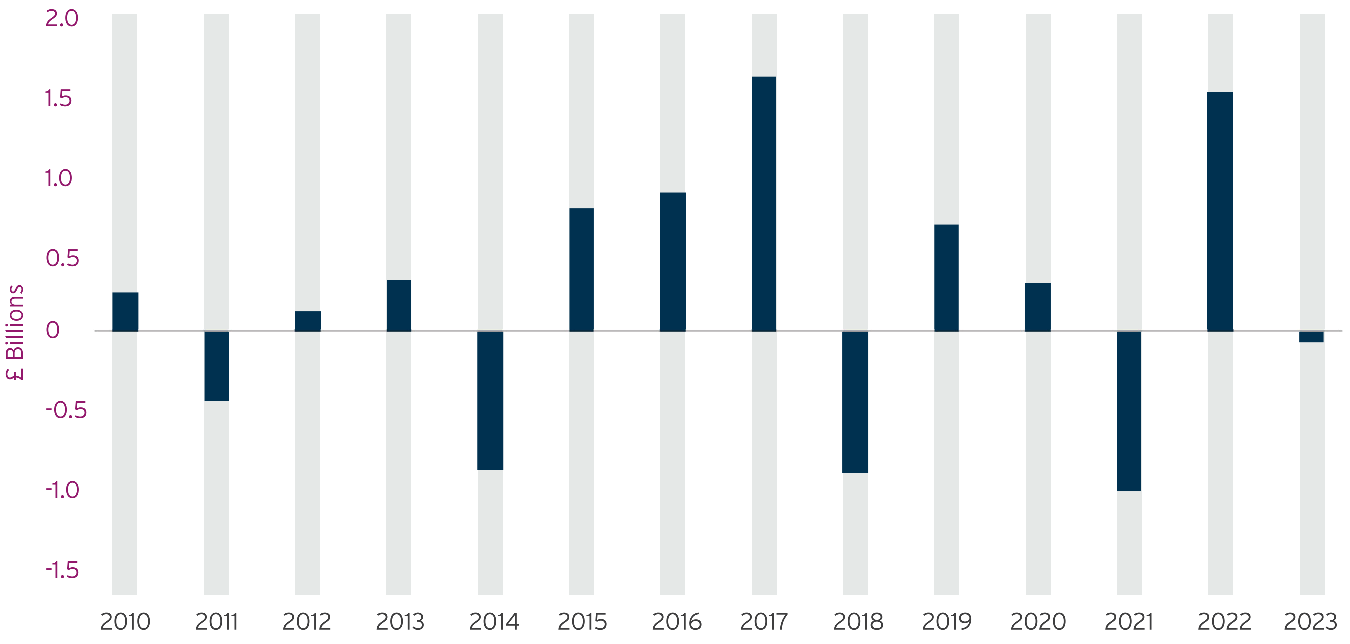
£bn	2017		2018		2019		2020	
Q1	£14.9	4.9%	£16.1	7.4%	£16.8	4.8%	£16.2	-3.9%
Q2	£33.7	11.5%	£33.1	-1.7%	£38.0	14.7%	£17.2	-54.7%
Q3	£30.4	19.2%	£31.5	3.7%	£33.8	7.3%	£16.8	-50.3%
Q4	£15.8	0.4%	£17.0	7.7%	£17.9	5.3%	£10.8	-39.8%
Full Year	£94.8	10.6%	£97.7	3.0%	£106.5	9.0%	£60.9	-42.8%

£bn	2021		2022		2023e	
Q1	£17.1	5.8%	£14.5	-15.2%	£15.1	4.6%
Q2	£25.7	59.1%	£36.0	40.3%	£32.8	-9.0%
Q3	£30.5	82.2%	£28.7	-6.0%	*£29.4*	*2.6%*
Q4	£12.6	17.0%	£14.8	17.1%	*£15.1*	*2.3%*
Full Year	£85.9	41.0%	£94.0	9.4%	*£92.4*	*-1.7%*

Q2 Special Dividends



Q2 Exchange Rate Boost / Penalty



Special dividends are one-off by their very nature. Companies allow regular dividends to be relatively well anchored in investors' minds and take pains to sustain them, but special dividends are discretionary, so they are difficult to predict. For example, they may reflect capital released during an asset sale that is surplus to need. In some cyclical sectors like mining, they are also used at high points in the cycle to distribute surplus profits without raising expectations for the regular dividend.

The second quarter of 2022 saw very large one-off dividend payments, so a sharp decline was on the cards for Q2 2023. In the event, they fell by almost nine tenths to just £704m, around half the longer-run quarterly average. The decline knocked twelve percentage points off the headline growth rate in Q2. Half the total was paid by cash-rich Capricorn Oil, which distributed surplus capital after shareholders rejected plans to make acquisitions and to undertake a merger with Tullow Oil. Tier 2 bank OSB also paid a special dividend in Q2 as part of the wider positive trend seen in the sector's profits this year.

After so few special dividends between January and June, the total is likely to be around two thirds lower for the full year, holding the UK's headline dividend growth rate down by almost seven percentage points in 2023.

With the pound tracking the second quarter roughly at the same level against the US dollar as a year before, the exchange-rate effect was negligible. For the second half of the year, the pound is currently on course to be stronger than it was in 2022, and is likely to reduce the headline growth rate by between one and two percentage points for the full year. By contrast, in 2022, the weak pound boosted headline growth by around five percentage points.

Lower one-off special dividends and exchange rate factors set to reduce the headline growth rate in 2023.

SECTORS & COMPANIES

As 2023 unfolds it is hard to remember that just three years ago as the pandemic struck, the UK's large banking sector was prohibited by regulators from paying any dividends at all. Despite some easing, constraints remained in 2021 even as the sector showed it had not suffered from the economic dislocation of the outbreak. By the end of 2022, profits had risen to almost £28bn and dividend restrictions had finally been lifted. Higher interest rates are now driving banking profits higher still and surge as a result. HSBC, the largest of them, tripled its profit in Q1 year-on-year, easily beating analyst expectations. It recently told shareholders that it has substantial capacity for further dividends and share buybacks. HSBC duly paid its first quarterly dividend since before the pandemic in Q2 and at a much higher rate (10c per share) than had seemed possible even a few months ago. Along with the strong performance of the other banks, the sector is therefore comfortably the biggest engine of UK dividend growth in 2023, on track to raise headline payouts by more than £3bn this year.

The industrials sector also saw encouraging dividend growth in Q2. Payouts rose by 12% on an underlying basis, with strong growth from companies as diverse as pest and hygiene group Rentokil, packaging producer Smurfit Kappa and car dealership Inchcape. The sector also received a minor boost from a few smaller companies that had not yet fully restored their dividends after cuts made in the pandemic. Industrials will likely feel the chilling effect of higher interest rates in due course, but profit margins are currently high, providing cash for shareholders.

Oil prices have moderated so dividend growth cannot match the levels seen last year. But cash flow is still very strong in the sector and payouts rose 10% year-on-year on an underlying basis in the second quarter.

Elsewhere the dividends from the airlines, leisure and travel sector have been the slowest to make a comeback, given how hard it was hit in 2020 and 2021. Payouts rose by two thirds in Q2 from a very low base, boosted by Mobico (formerly National Express) and Entain, each of which have recommenced regular payouts. The sector is still some way off restoring dividends back to pre-pandemic levels, however.

The weakest sector was mining, in line with our expectations. Profits from miners have been falling in tandem with commodity prices. Headline dividends are a better measure for this cyclical sector and they fell by a third in Q2, down £2.8bn. Nevertheless, mining companies are still likely to deliver more in dividends this year than any year before 2020. There were also pockets of weakness among retailers with cuts from DFS Furniture and Wickes, both of which suffered a significant margin squeeze from inflation in their supply chains.

Banks are on track to raise headline payouts by more than

£3bn

this year

Industrial payouts rose by

12%

in Q2 on an underlying basis

Banks benefit from higher interest rates and are the engine of UK dividend growth for 2023.

Dividends By Industry £m

	16Q2	change yoy	17Q2	change yoy	18Q2	change yoy	19Q2	change yoy	20Q2	change yoy	21Q2	change yoy	22Q2	change yoy	23Q2	change yoy
Resources & Commodities	£1,491	-42%	£2,453	65%	£4,185	71%	£6,506	55%	£3,194	-51%	£5,935	86%	£8,791	48%	£5,946	-32%
Consumer Basics	£4,490	-19%	£4,751	6%	£3,968	-16%	£4,278	8%	£4,451	4%	£4,329	-3%	£4,975	15%	£4,607	-7%
Consumer Discretionary	£4,125	19%	£3,076	-25%	£2,669	-13%	£2,589	-3%	£748	-71%	£1,320	76%	£2,225	69%	£2,266	2%
Banks & Financials	£10,248	21%	£10,422	2%	£11,239	8%	£12,564	12%	£3,663	-71%	£7,706	110%	£13,066	70%	£12,556	-4%
Healthcare & Pharmaceuticals	£2,372	18%	£1,528	-36%	£1,608	5%	£1,436	-11%	£1,454	1%	£1,550	7%	£1,471	-5%	£1,101	-25%
Industrials	£2,476	7%	£2,626	6%	£3,827	46%	£3,057	-20%	£617	-80%	£2,733	343%	£2,660	-3%	£3,021	14%
Oil, Gas & Energy	£4,117	22%	£4,790	16%	£4,614	-4%	£4,937	7%	£2,730	-45%	£1,760	-36%	£2,483	41%	£3,013	21%
Information Technology	£269	13%	£213	-21%	£347	62%	£1,898	448%	£198	-90%	£173	-13%	£199	15%	£148	-26%
Telecoms	£110	4%	£129	18%	£77	-40%	£57	-26%	£17	-71%	£50	203%	£20	-59%	£25	23%
Domestic Utilities	£508	1%	£3,686	625%	£565	-85%	£636	13%	£138	-78%	£110	-20%	£126	15%	£85	-32%
Total	**£30,206**	**6%**	**£33,674**	**11%**	**£33,098**	**-2%**	**£37,959**	**15%**	**£17,210**	**-55%**	**£25,666**	**49%**	**£36,016**	**40%**	**£32,768**	**-9%**

Dividends By Sector £m

Sector £m	22Q2	23Q2	Headline change year on year	Underlying change year on year
Mining	£8,712	£5,860	-32.7%	-24.4%
Industrial Chemicals	£79	£85	8.1%	8.1%
Basic Consumer Goods	£1,655	£1,756	6.1%	6.2%
Food Retail	£669	£560	-16.2%	-10.8%
Food, Drink & Tobacco Producers	£2,651	£2,291	-13.6%	3.1%
Airlines, Leisure & Travel	£154	£252	63.5%	64.6%
General Retail	£228	£230	1.3%	-25.8%
Housebuilding, Consumer Goods & Services	£885	£701	-20.8%	-19.7%
Media	£952	£1,074	12.9%	8.0%
Motor Manufacturing & Parts	£6	£7	8.1%	8.1%
Banks	£4,865	£7,753	59.3%	60.6%
General Financials	£2,063	£1,795	-13.0%	-2.1%
General & Life Insurance	£5,457	£2,305	-57.8%	-4.5%
Property	£680	£704	3.5%	6.3%
Healthcare & Pharmaceuticals	£1,471	£1,101	-25.1%	-25.3%
Building Materials & Construction	£738	£774	4.8%	1.4%
Industrial Goods & Support	£1,922	£2,247	16.9%	12.0%
Oil, Gas & Energy	£2,483	£3,013	21.4%	10.4%
Information Technology	£199	£148	-25.7%	-24.5%
Telecoms	£20	£25	23.4%	26.4%
Domestic Utilities	£126	£85	-32.4%	-32.4%
Total	**£36,016**	**£32,768**	**-9.0%**	**3.5%**

TOP COMPANIES

Largest Dividend Payers

Rank	18Q2	19Q2	20Q2	21Q2	22Q2	23Q2
1	HSBC Holdings Plc	Rio Tinto Plc	Rio Tinto Plc	Rio Tinto Plc	Rio Tinto Plc	HSBC Holdings Plc
2	Royal Dutch Shell Plc	HSBC Holdings Plc	BP Plc	HSBC Holdings Plc	Aviva Plc	Rio Tinto Plc
3	Rio Tinto Plc	Royal Dutch Shell Plc	British American Tobacco Plc	British American Tobacco Plc	HSBC Holdings Plc	Glencore Plc
4	BP Plc	BP Plc	Glaxosmithkline Plc	Glaxosmithkline Plc	Anglo American Plc	Shell Plc
5	Lloyds Banking Group Plc	Micro Focus International Plc	Royal Dutch Shell Plc	Unilever Plc	Shell Plc	British American Tobacco Plc
Subtotal £bn	£10.6	£13.5	£7.3	£9.2	£13.8	£11.4
% of total dividends	32%	36%	42%	53%	80%	66%
6	Glaxosmithkline Plc	Lloyds Banking Group Plc	Unilever Plc	Royal Dutch Shell Plc	Glencore Plc	Lloyds Banking Group Plc
7	British American Tobacco Plc	Royal Bank of Scotland Group Plc	Legal & General Group Plc	BP Plc	British American Tobacco Plc	NatWest Group Plc
8	Glencore Plc	British American Tobacco Plc	Reckitt Benckiser Group Plc	Legal & General Group Plc	Antofagasta Plc	Unilever Plc
9	Unilever Plc	Glaxosmithkline Plc	Diageo Plc	Reckitt Benckiser Group Plc	Lloyds Banking Group Plc	BP Plc
10	Prudential Plc	Glencore Plc	RELX Plc	Anglo American Plc	Unilever Plc	Legal & General Group Plc
11	Ferguson Plc	Unilever Plc	Prudential Plc	Diageo Plc	BP Plc	Anglo American Plc
12	Aviva Plc	Prudential Plc	Anglo American Plc	RELX Plc	NatWest Group Plc	Reckitt Benckiser Group Plc
13	Reckitt Benckiser Group Plc	Aviva Plc	M&G Plc	Glencore Plc	Legal & General Group Plc	RELX Plc
14	Legal & General Group Plc	Reckitt Benckiser Group Plc	Standard Life Aberdeen Plc	Aviva Plc	Reckitt Benckiser Group Plc	Diageo Plc
15	Diageo Plc	Legal & General Group Plc	CRH Plc	BAE Systems Plc	RELX Plc	CRH Plc
Subtotal £bn	£8.6	£10.2	£5.8	£6.8	£9.3	£9.1
Grand Total £bn	£19.2	£23.7	£13.1	£15.9	£23.1	£20.4
% of total dividends	58%	62%	76%	62%	64%	62%

Top 5	**£11.4bn**	**34.8%**
Next 10	**£9.1bn**	**27.6%**
The rest	**£12.3bn**	**37.6%**

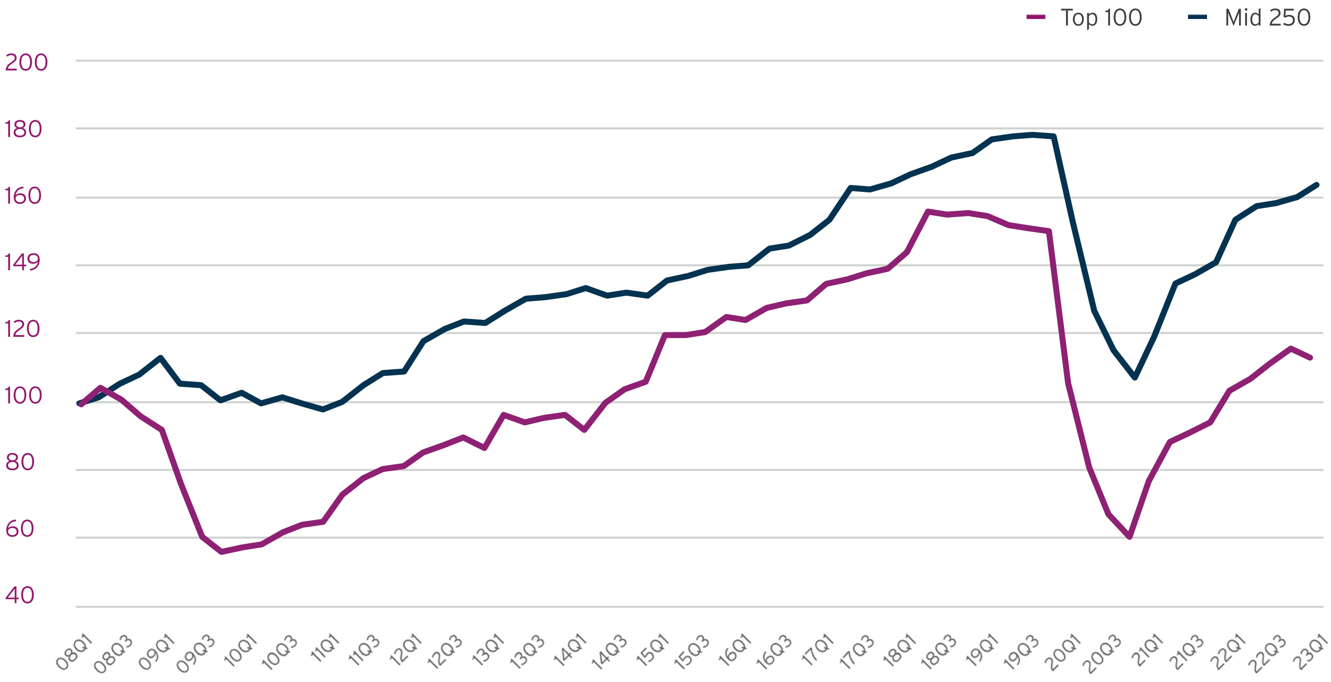
TOP 100 v MID 250

The strength in bank dividends and among larger industrials like Rentokil meant that top 100 payouts outpaced the mid-caps for the first time since Q2 2021 when the recovery from the pandemic favoured the smaller companies that had been compelled to cut their dividends more steeply in order to preserve precious cash through lockdowns. Underlying growth among the top 100 was 5.8% in Q2. Headline dividends declined 8.1% owing to lower one-off special dividends. This time last year Aviva made a very large one-off payment, along with mining companies and these were not matched this year.

Mid-cap payouts fell in the second quarter though this was entirely due to the takeover and delisting by private equity groups of Direct Line Insurance and Homeserve and the takeover of Micro Focus International. Without this effect, payouts would have been around 3% up year-on-year on an underlying basis. The slower progress for the mid-caps may reflect greater caution as the economy slows.

Top 100 dividend growth outpaced mid-caps for the first time since Q2 2021.

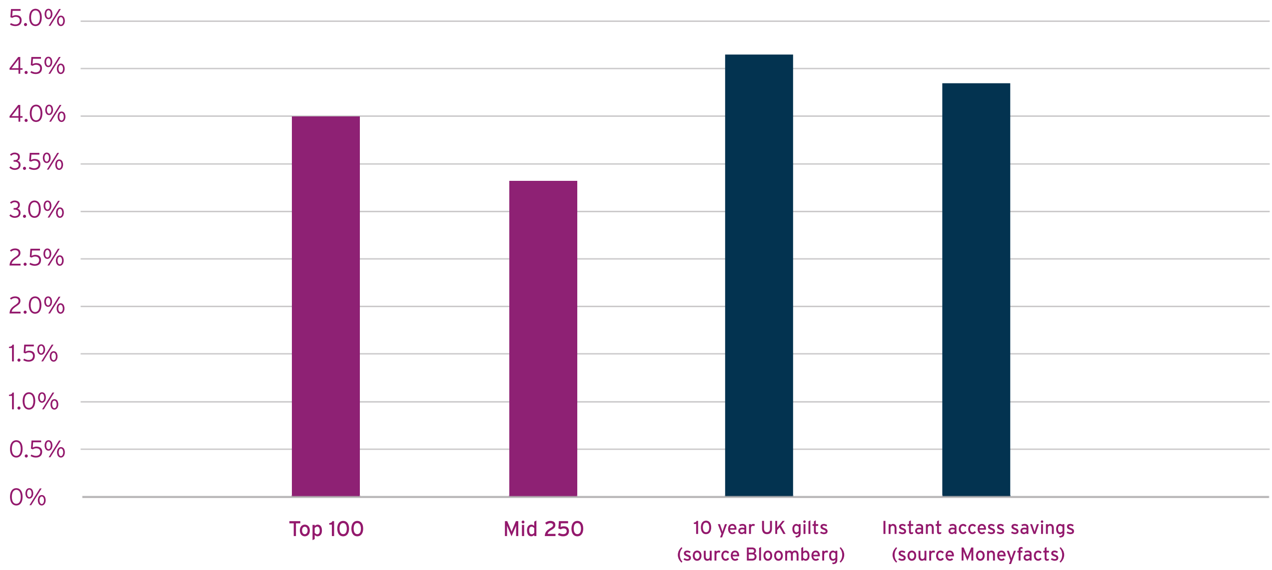
Top 100 v Mid 250 - Regular Dividends, Indexed



Top 100	**89%**
Mid 250	**8%**
The rest	**3%**

YIELD

UK Income



The stock market declined modestly during the quarter, and the outlook for dividends has improved. This means the prospective 12-month yield on UK equities has risen since the last edition of the Dividend Monitor, rising from 3.7% to just under 4.0%. The yield on the top 100 companies is now 4.0% (up from 3.8%) while the mid-cap 250 yield has risen to 3.3% (from 3.2%).

However, yields on other asset classes have risen even further during the quarter. The inflation shock in June along with the MPC's 0.5 percentage point hike in Bank Rate has pushed the 10-year benchmark gilt (a key UK government bond) up an extraordinary 120 points to 4.66%. Best-buy instant access savings accounts now offer 4.35%[3], up from 3.60% in April.

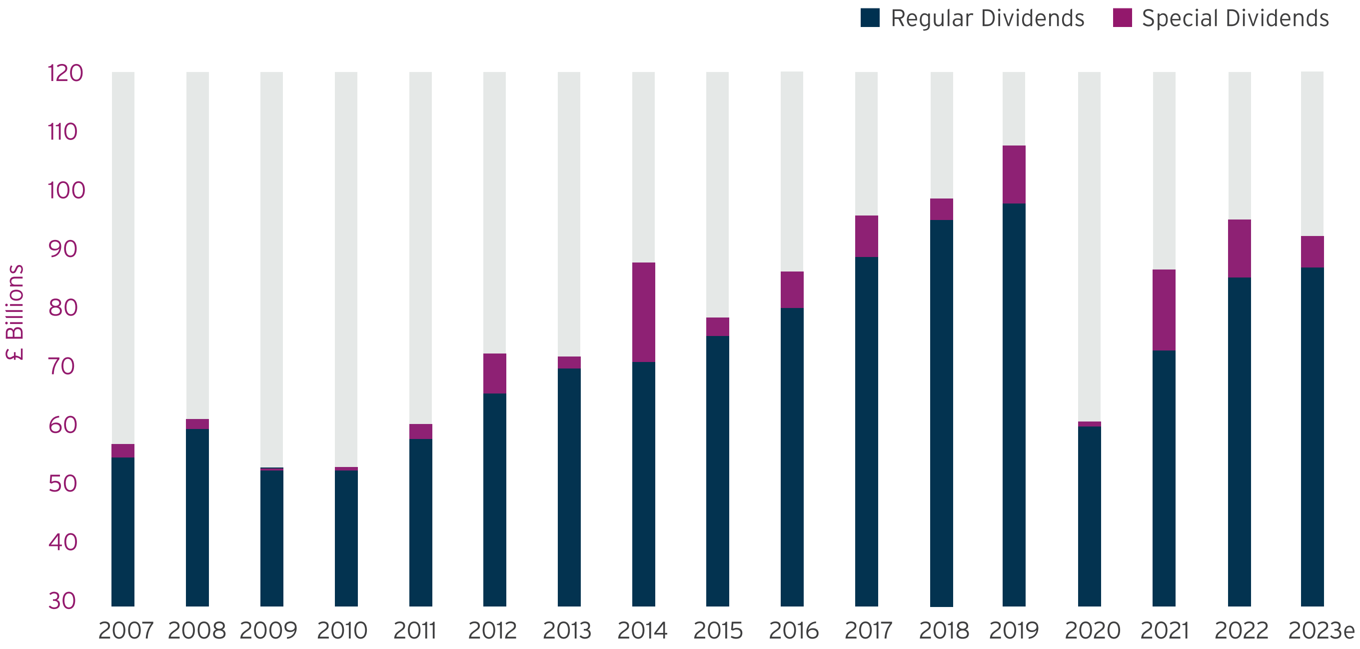
This big shift in the income landscape means equities now yield less than cash or bonds. It is important to remember, however, that dividends tend to grow over time, whereas bond coupons and cash interest do not, which helps tip the scales back in favour of equites as a long-term investment.

The big rate shift has pushed the income on government bonds above equity yields.

[3] As of 11 July 2023.

VIEWPOINT AND OUTLOOK

UK Dividends - Annual



UK companies collectively made record profits last year, and in common with their international peers have proved resilient in the face of interest rates. This has provided significant support for dividends and share buybacks. Two of the UK's three big sectors, banking and oil, are firing on all cylinders, more than compensating for a downturn in mining, the third of the trio. But even mining dividends remain high by historic standards.

The economic picture for the UK has darkened over the last three months. Inflation has confounded market optimism and interest-rate expectations have risen as a result, even as other parts of the world are starting to price in the end of the credit cycle. Policymakers in the UK are prepared to accept the risk of a recession if it helps achieve the aim of squeezing out inflation.

Some observers believe the Bank of England has already done more than enough as the cooling effect of higher rates take time to transmit to household and corporate budgets, and smaller companies are more immediately exposed than larger ones. Others think the Bank must go further. Recessions are obviously bad for corporate profits and earnings forecasts are now coming down both here and abroad.

In the short term, the dividend outlook has brightened, however. The banking sector in particular is benefiting from the interest-rate medicine the Bank of England is administering to cool the inflationary fever. Bad debts are likely to rise in due course, but for now banking profits are soaring and dividends are following suit. Outside the banking sector, companies with pricing power are building margins, contributing to inflation but in turn boosting their dividend fire power. And there are still small pockets of post-pandemic dividend restorations to boost the totals paid.

For the rest of 2023, the third quarter is playing out in line with Dividend Monitor expectations earlier in the year, but the fourth quarter now looks likely to be markedly stronger. Headline payouts are still likely to fall this year, down 1.7% to £92.4bn, as lower one-off special dividends and negative exchange-rate effects in the third and fourth quarters take their toll, but this is nevertheless £1.0bn more than we forecast three months ago. Regular payouts that exclude specials are now on track to reach £88.9bn, almost £2.7bn more than our forecast from three months ago, and equivalent to an encouraging underlying increase of 6.1% for the year.

Banking profits are soaring and dividends are following suit.

Methodology

The Dividend Monitor analysed data on all the individual dividends payments made by UK companies listed on the main market of the London Stock Exchange, including those incorporated in the Channel Islands and other offshore British territories. Listed investment funds are excluded. All raw dividend data is supplied by Exchange Data International. Computershare supplemented raw data with reference to 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, Computershare tracked the exchange rate impact on each dividend paid as part of the underlying growth calculation.

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