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Market Intelligence

Dividend forecasting

Special Report

April 24, 2024

Google dividends: To initiate or not?

Alphabet Inc. (US02079K3059)

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Table of contents

The Take

– Magnificent 7 capital allocation policy analysis

– Apple's and Microsoft's dividends: Initiation rationales and evolution

– Meta's initiation and TMT dividends sectorial breakdown

– TMT initiations in the US market (2011–24): Key metrics

– Google (Alphabet): On track to initiate dividends?

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‘Magnificent 7’ capital allocation: Past and present

Capital allocation trends

– How have dividend and capital allocation policies evolved over time for the ‘Magnificent 7’ companies?

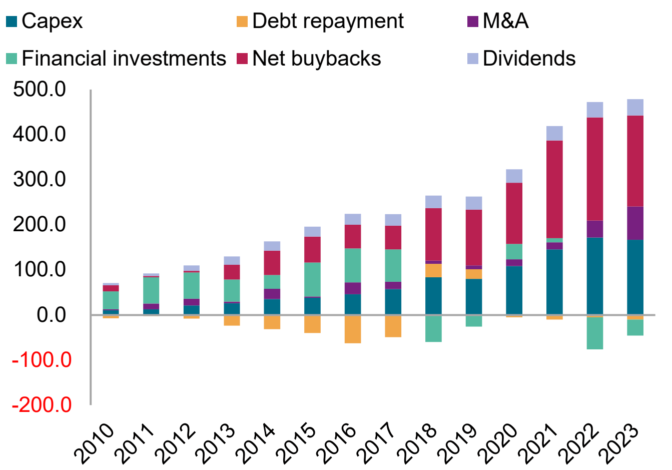
– What triggered Microsoft Corp. and Apple Inc. to initiate dividends?

Capital allocation: Past decade

Buybacks lead capital allocation uses. Share repurchases amounted to US$201.5 billion in 2023, above capital expenditures (US$167 billion). Buybacks have exceeded capex for six years in a row. While large in terms of amounts, 2023 repurchases were below the level reached in 2022 (US$228 billion). Only one of the Magnificent 7 does not engage in buybacks: Tesla Inc.[1] Google and Nvidia Corp. slightly increased their repurchases in 2023. In contrast, Apple, Microsoft and Meta Platforms Inc. (META) reduced them at a double-digit annual pace. Apple explains the largest drop by amount (US$10.1 billion), and Microsoft the highest by percentage change (-32.8% year over year). Microsoft’s repurchase slowdown was a consequence of its acquisition of Activision Blizzard (US$69 billion), the largest in the company’s history. While in aggregate, M&A was the third-largest capital allocation use for the Magnificent 7 in 2023 (US$74 billion), 90% of it was exclusively done by Microsoft. The company has explained half or more of the Magnificent 7 cash deployed into M&A in the past three years.

Magnificent 7 capital allocation

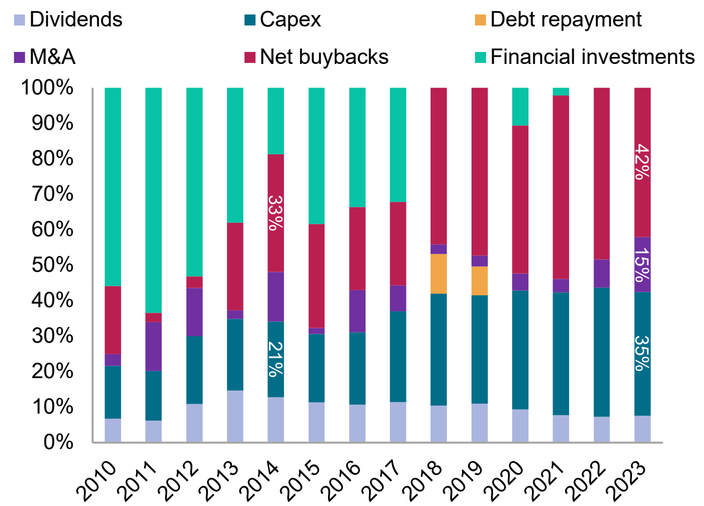
Buybacks and dividends reached US$237.7B in 2023, above capex



As of March 15, 2024.
Amounts in US$B per calendar year.
Negative amounts imply net debt issuance and/or a net sale of invesments in equity and marketable securities.
Source: S&P Global Market Intelligence.

Magnificent 7 capital allocation

Breakdown (%) by capital uses



As of March 15, 2024.
Financial investments: Investments in equity and marketable securities.
Source: S&P Global Market Intelligence.

1. When asked about it in 2022, Tesla CEO Elon Musk stated that the company could do a US$5 billion-US$10 billion buyback and considered share repurchases “made sense.” To date, the company continues to reinvest in organic and inorganic growth and neither does buybacks nor dividends.

Capex pace has accelerated in the last few years. Despite a minor decrease versus 2022 levels as Amazon.com Inc. cut its capex outflow by more than US$10 billion in calendar 2023, aggregate capex reached US$170 billion in 2023. Capex sequentially explains a larger share of the Magnificent 7 capital allocation uses over time. It accounted for more than a third of their capital uses in 2023, showing an increase of 14 percentage points in the last decade. In the last three years, Microsoft doubled its capex and META expanded it by 80%. AI investments drive these increases, combined as well with research and development (R&D) expenditures.

An interesting highlight arises from Magnificent 7 financial investments[2]. In aggregate, **these companies have been net sellers of financial investments for two consecutive years.** Liquidation of financial investments represented an inflow of over US$71 billion and US$36 billion in the last two calendar years, respectively, for these companies. In contrast to M&A trends, this is not explained by a single-company situation. While Microsoft indeed had a substantial cash inflow of US$13.1 billion and US$19.8 billion in 2022 and 2023, respectively, by reducing its investments in equity and marketable securities (comparable with 15% and 19% of the cash from operations it generated in both years, respectively), Google, Apple, Amazon and META were net sellers as well. Only Tesla grew its financial investments position in the last two years, while Nvidia did in 2023.

In summary, share repurchases lead most Magnificent 7 companies' capital allocation policies. While capex has accelerated in recent years and M&A share is volatile over time, dividends arise as a stable use of capital for some of these companies.

Dividends and shareholder return

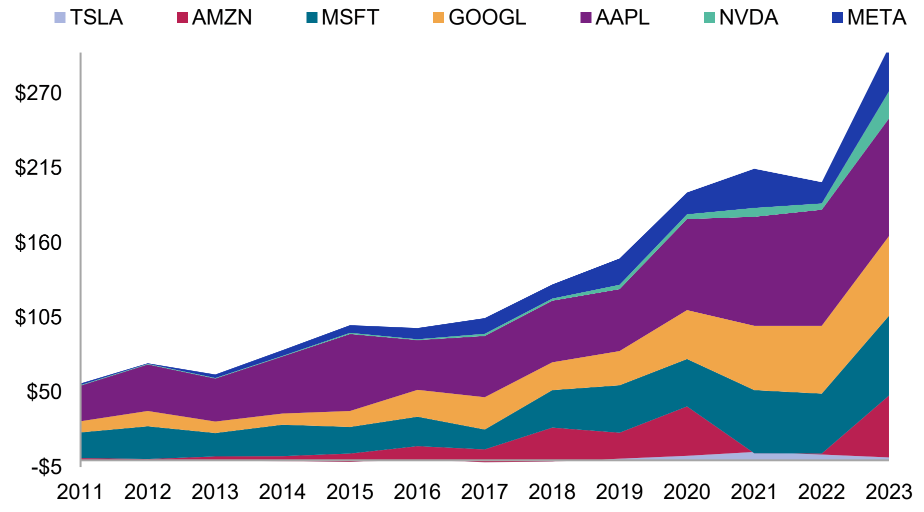
Without a doubt, the Magnificent 7 can organically finance dividend payments to their common stock shareholders. Most of them have a net cash position, and all of them exhibit positive free cash flow (FCF).

In aggregate, these companies have grown FCF at a 17% 10-year compound annual growth rate (CAGR). While Nvidia and Amazon lead growth, all others managed to deliver double-digit FCF CAGRs to their shareholders in the last decade (excluding Tesla)[3].

Despite this strong cash generation record, **only Microsoft, Apple and Nvidia paid dividends in past years until META's surprising decision to initiate.** According to our forecasts, **META's** (previously Facebook) **dividend initiation is expected to boost Magnificent 7 dividends above US$43 billion in 2024.** Only Amazon, Google and Tesla stand

Magnificent 7 free cash flow

Surpassed US$303B in 2023, 17% 10-year CAGR



As of March 15, 2024.
Levered FCF in US$B per calendar year.
Source: S&P Global Market Intelligence.

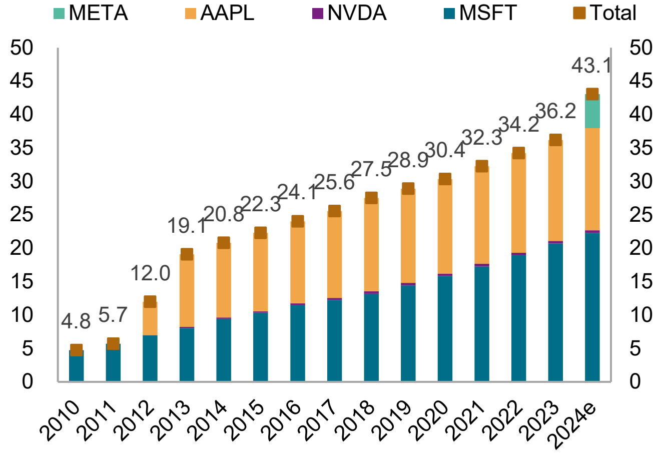
2. We define financial investments as investments in equity and marketable securities.

3. Tesla has a positive FCF since 2019. Previously, the company reported a negative FCF in seven out of eight calendar years. Of the remaining seven companies, only Amazon exhibited a negative FCF in 2021. By amount, Apple generates the largest FCF of all (US$86.6 billion in 2023), followed by Microsoft and Google (US$58.7 billion both). While Nvidia has the lowest FCF of all (excluding Tesla), the company has returned the highest growth (44.7% 10-year CAGR) supported by a leading market position and soaring demand for its AI chips.

as nonpayers now. In the decade before (2014–23), cash spent in dividends by Apple, Microsoft and Nvidia grew at a 6.6% CAGR. The first two accounted for most of it (US$134.9 billion and US$144.1 billion, respectively). Nvidia spent US$3.3 billion in the same period.

Magnificent 7 dividends

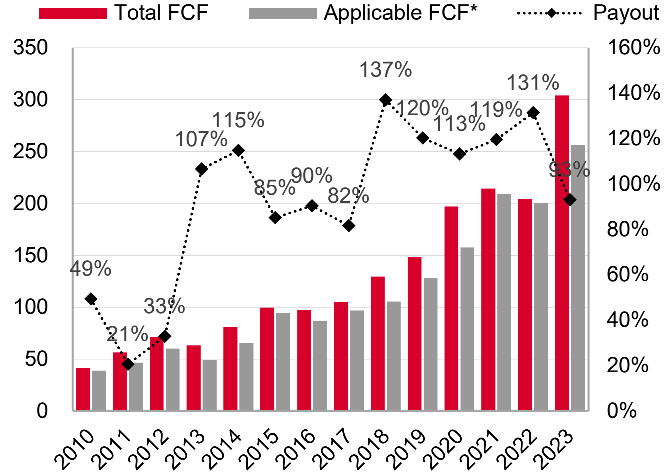
META's initiation will boost Magnificent 7 dividends above US$43B



As of March 15, 2024.
e = estimated.
US$B per calendar year.
AMZN, GOOGL and TSLA do not pay dividends on their common stocks.
Source: S&P Global Market Intelligence.

Magnificent 7 dividend + buyback payouts

Exceeded 100% on average in last decade



As of March 15, 2024.
* Excludes FCF of companies without dividends or repurchases in the year.
Amounts in US$B per calendar year.
Source: S&P Global Market Intelligence.

Tesla and Amazon do not return cash to their shareholders on a regular basis. While Google is a nonpayer, this does not translate into a lack of shareholder return. Google has deployed more than US$171 billion into share repurchases in the last three years, exceeding a 100% buyback FCF payout since 2021. In aggregate, we estimate that the Magnificent 7 dividend + buyback FCF payouts exceeded 100% in the last decade on average. The ratio dropped from 131% in 2022 to 93% mostly due to Microsoft's decision to reduce buybacks while closing the Activision Blizzard acquisition.

Apple and Microsoft

Evolution of dividend policies

Microsoft has uninterruptedly paid dividends since 2003. Despite not being the first of the Magnificent 7 which ever paid a dividend, **Microsoft leads all dividend-related categories: amount, payout, dividend per share (DPS) growth and yield.**

Microsoft's dividend earnings payout averaged 29.6% in the last two fiscal years. This payout has declined over time (42.9% 10-year average) as earnings growth outpaces dividend increases and substantial buybacks reduce the per share amount impact. Microsoft's FCF payout is more stable and averaged 40% in the last five fiscal years. The company grew its DPS by between 9.5% and 10.9% in seven out of the last 10 years and returned a 10.6% 10-year DPS CAGR to its shareholders. Because of capital appreciation, the yield of today's most valuable public company stock has also compressed from an average of 2.9% in fiscal years 2014–18 to 1.1% in fiscal year 2023.

Key dividend statistics

Metric/period	Microsoft Corp. FY 2023	3-year avg.	5-year avg.	10-year avg.	Apple Inc. FY 2023	3-year avg.	5-yr avg.	10-yr avg.
DPS growth	10.2%	10.2%	10.2%	10.6%	4.4%	5.7%	6.7%	8.7%
Dividend yield	1.1%	1.0%	1.2%	2.0%	0.6%	0.6%	0.9%	1.4%
Earnings payout	28.9%	32.4%	37.1%	42.9%	15.3%	15.1%	18.9%	21.9%
FCF payout	33.4%	36.8%	39.7%	42.9%	18.1%	17.8%	21.7%	24.1%

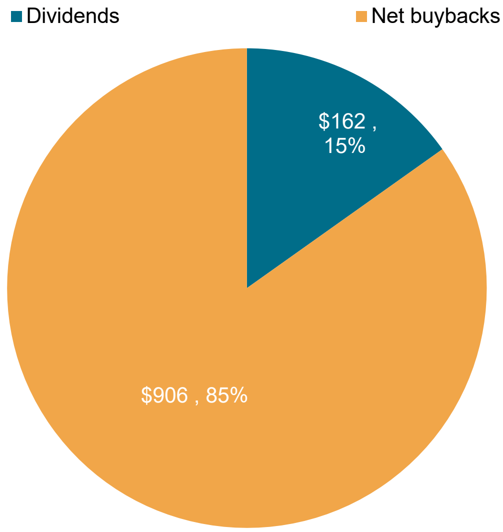
Data compiled March 15, 2024.
DPS CAGR growth rates. Earnings payout considers normalized EPS.
Source: S&P Global Market Intelligence.

While Microsoft's payouts and yield have decreased over time, the company maintained a high-DPS-growth policy. In contrast, **Apple's dividend policy has matured from a high-growth DPS and average yield dividend, to a low-growth dividend with declining payouts and yield.** Apple's fiscal year 2023 yield stood at 0.6%, substantially below the 1.8% it averaged in fiscal years 2014–18. Similarly, its earnings payout decreased from 28% a decade ago to an average of 15% in the past three fiscal years. Apple's FCF payout followed a similar trend. Since its reinstatement in 2012 and until 2019, Apple used to deliver double-digit DPS growth in the low-teens area. DPS growth slowed to 4.4% in the last fiscal year. This occurred despite Apple's cash-neutral position midterm target.

Regarding this objective, **Apple's management clearly prefers buybacks.** As previously mentioned, Apple historically returns more than 100% of its FCF. It has done it every year since 2012 (except for 2015). There are two key reasons that Apple particularly and companies in general prefer buybacks over dividends: discretion and tax treatment.

When financed organically, **dividends signal a medium-to long-term commitment to regularly deliver cash to their shareholders.** The market typically expects dividends to be paid at regular intervals. Most companies aim to increase dividends along with earnings and FCF growth. Dividends can boost investor confidence in a company's earnings and cash flow growth reliability, as well as expectations of future growth, provided these cash distributions are sustainable from a financial standpoint.

Magnificent 7: Dividends vs. buybacks (2019–23)



As of March 15, 2024.
Amounts in US$B per calendar year.
Source: S&P Global Market Intelligence.

On the contrary, **share repurchases are flexible and largely discretional.** Instead of being set and announced on a fixed per share amount, buyback programs are usually announced for multiyear periods. Regarding timing, companies report the cash deployed into buybacks ex post, usually during earnings calls. As for the pace, repurchases are made at the full discretion of management based on its view of stock valuation, market trends and the company's current and expected performance. In the event of a downturn or adverse circumstances, management may choose to reduce or suspend buybacks before affecting dividends. Cutting or even suspending the DPS can have profound reputational consequences for companies.

Finally, **buybacks generally face lower effective tax rates against dividends.** This occurs even despite the new 1% excise tax on net buybacks imposed in the Inflation Reduction Act of 2022. For domestic investors holding shares in taxable accounts, dividends are taxable when earned. In contrast, if a company decides to deploy the same amount via buybacks instead of dividends, all things equal, the stock share price would increase but investors would only be taxed if they face realized capital gains. Investors not selling the stock would have seen an increase in its valuation (ceteris paribus), are left with an unrealized capital gain and defer taxes of the current period into the future.

Why dividends then? Apart from the signaling effect dividends produce, other reasons arise.

Dividend initiation rationales

Microsoft's and Apple's initiations share some key common events:

- Abundant and unutilized cash reserves[4]
- Stagnant (Microsoft) or downward (Apple) stock price performance prior to the initiation[5]
- A lack of innovation (Apple) or non-core investments which proved to be wrong business decisions (Microsoft)[6]
- Substantial pressure from activist investors[7]

In addition, Microsoft's initiation took place after two events: the company settled a major obstacle posed by an antitrust lawsuit by the US government and, more importantly, the US Congress decided to cut the tax rate on dividends from 35% to a maximum of 15% in 2003. Regarding Apple's initiation, the new management's need to depart from Steve Jobs' dividend reluctancy played a key role as well.[8]

Microsoft initiated dividends in 2003 and combined them with a 2:1 split and a buyback program of US$30 billion, the largest in the US market back then. After two annual payments and a one-time substantial special dividend in 2005, the computer company adopted a quarterly dividend policy. Since then, Microsoft grew the regular DPS by a

4. Apple's cash reserves ballooned to levels that seemed unjustifiable considering the low yield cash returned (below 1%) and the size (over US$100 billion, almost doubling those of its closest follower, Microsoft).

5. Microsoft's stock was barely flat since the dot com burst until the initiation. Apple's stock plummeted from over US$700 per share to US$420 per share in April 2012.

6. Microsoft made investments in cable TV and telecom companies which proved to be significant losses. Apple had lacked groundbreaking innovations for a couple of years since the release of the iPad in 2010.

7. Apple in particular faced growing pressure from activist investors as the lack of innovation and a large hoard of cash left the door open to potential disastrous acquisitions. Some investors even suggested Apple to issue an "iPref," a prototype of preferred stock. Back then, approximately two-thirds of Apple's cash balances were originated in Ireland. Full repatriation of Apple's overseas cash would have resulted in approximately a 25% decrease in Apple's total cash reserves, considering the repatriation tax imposed by the US and the overseas cash share in the overall balance. When dividends were reinstated, officials claimed that these expenses were not to be financed using cash generated overseas.

8. Apple had paid dividends in the past until their suspension in 1995 when cash reserves were running dry. Back then, CEO and co-founder Steve Jobs rejoined the company in 1997 and rescued Apple from almost going bankrupt. This was a key factor in Jobs' negative opinion on dividends. Dividends are often seen as a sign that cash-rich companies are running out of growth opportunities to invest in, opting instead to achieve a higher return on investment (ROI) by returning cash to shareholders. Jobs had an entrepreneurial vision, and the "near-death" experience the company faced in the late 1990s prevented him from heeding mainstream calls to adopt dividends or buybacks. Tim Cook, Jobs' successor, needed to depart from the philosophy of his predecessor.

factor of 36.5x (19.8% CAGR). Apple reinstated dividends in July 2012 and combined the dividend payments with a 3-year US$10 billion share repurchase program.

Essentially, we observe many similarities in the rationales behind dividend initiation among these tech giants: **stagnant price performance, misguided investments or a lack of innovation, abundant yet low-yielding cash reserves and pressure from institutional investors.** In addition, management's need to turn things around arises as another key reason.

Do these initiations relate to that of META's? Besides low-yielding cash reserves, META's only had in common with Apple and Microsoft its board's need to prove to the market that AI investments paid off and that the company "was back" in the game, as depicted by the recent price performance.

META's initiation, TMT trends and market momentum

TMT dividends

– What is the market momentum for tech-dividend initiations?

– How have dividend ratios evolved over time and how could these play into a Google initiation scenario analysis?

META: Initiation highlights

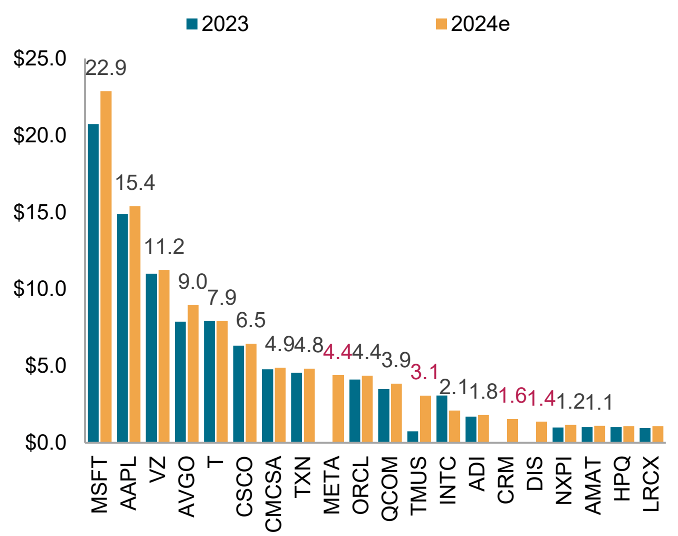
By the beginning of 2024, **Meta Platforms** (XNAS: META) announced its groundbreaking initiation of a quarterly dividend policy, with an initial DPS of US$0.50. Assuming annual increases to its regular dividend (as with most US-listed companies), the US$2.00 annual DPS would imply dividend expenses of US$5.1 billion in 2024.

By the time of the announcement, the dividend implied an expected payout of 10.9% FCF and 10.2% earnings and a forward yield of 0.5%. We estimate that the initiation will have an impact of 0.5248 dividend index points (DIPs) for the S&P 500 Index annual expiry.

While large in terms of amounts, buybacks remain META's main capital allocation use, in line with the abovementioned trends. META's share repurchases amounted to US$125 billion in the past five years. As of December 2023, META had a remaining authorized amount of US$30.9 billion. Along with the initiation, META's board authorized an additional US$50 billion increase to its stock repurchase authorization program.

S&P 500 TMT dividends

Top 20 TMT dividend payers forecast for 2024 (US$B)



As of March 27, 2024.
Source: S&P Global Market Intelligence.

Sectorial breakdown

META's initiation places the company as the ninth-largest dividend payer in the TMT[9] sector and the 33rd-largest dividend by amount in the AMER region (North, Central

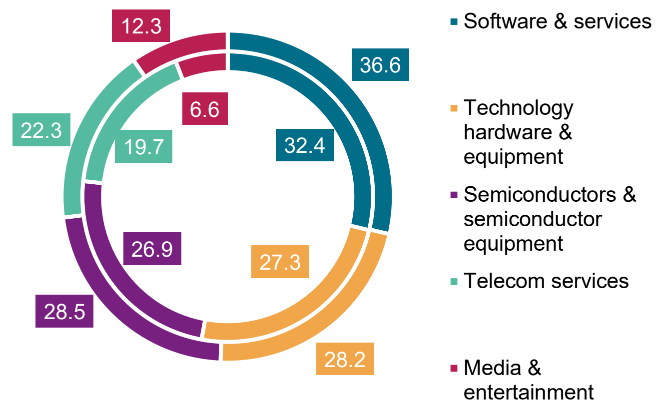
9. S&P Global Market Intelligence uses GICS for sector definition. GICS sectors included in our definition of "TMT" are

and South America). Within **media and entertainment,** META is only surpassed by Comcast Corp. (US$4.9 billion expected in 2024). The sector's dividends are forecast to reach US$12.3 billion in 2024, 86% higher than in 2023. META was not the only recent initiation: **The Walt Disney Co.** reinstated its long-dated semiannual dividend policy and arises as the third-largest media and entertainment contributor, with dividend forecast to exceed US$1.3 billion in 2024. Despite these sizable contributions, the sector remains the lowest TMT contributor with less than 10% of TMT's total expected dividends for 2024.

The **software and services** sector leads S&P 500 TMT dividends. With US$36.6 billion forecast for 2024, the sector is poised to grow dividend payments by 12.9% year over year. **Microsoft** accounts for two-thirds of software and services dividends and usually delivers low double-digit annual dividend growth. **The sector growth is also leveraged by a new payer: Salesforce Inc.** (NYSE: CRM).

S&P 500 TMT dividends: 2023 and 2024e

Total regular dividends on common stock by TMT sectors



As of March 27, 2024.
Amounts in US$B.
Inner circle: 2023 data. Outer circle: 2024 Dividend Forecasting estimates.
Source: S&P Global Market Intelligence.

CRM initiation is expected to cost the company US$1.5 billion in 2024. By the time it initiated dividends, CRM's forward yield was close to META's and Apple's: 0.53%. Unlike its tech peers, Salesforce's capital allocation is heavily oriented toward M&A: it spent US$25.4 billion in acquisitions in the past 10 years. Nonetheless, CRM has recently adopted a buyback program, with repurchases amounting to US$7.6 billion in fiscal year 2024 and US$4 billion in fiscal year 2023. Like its peers, buybacks largely exceed dividends: CRM's annual dividend payments would account for just 20% of the cash deployed into buybacks in 2023. By its last earnings call, CRM had an authorized repurchase amount of approximately US$18 billion. Excluding CRM's initiation, software and services dividends would have been expected to grow by 8.3% in 2024, above the 6% median dividend growth rate forecast for the S&P 500 for 2024.

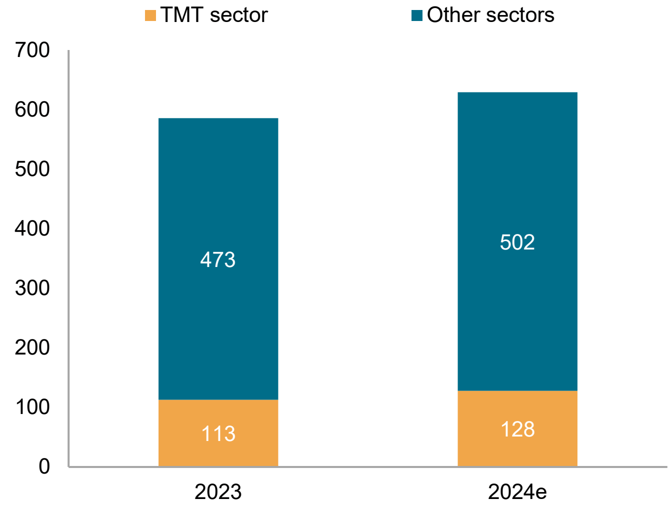
Telecom services had an initiation recently as well. T-Mobile US Inc. (XNAS: TMUS) started a quarterly dividend policy by the end of 2023 and is expected to exceed US$3 billion in dividend expenses in 2024, resulting in a 19.6% FCF payout given consensus estimates. The company's dividend policy comes in stark contrast to the other two peers in the S&P 500 Index: Verizon Communications Inc. and AT&T Inc. T-Mobile offers a forward yield of 1.7%, substantially below that of its peers (6.3% both). Nonetheless, its management expects to grow the dividend 10% annually, opposite to AT&T's flat DPS since it cut the dividend in 2022 and Verizon's sluggish 2% average DPS growth in almost a decade.

Only **technology hardware and equipment** and **semiconductors and semiconductor equipment** did not register an initiation recently. Within hardware, Apple accounts for more than half of the sector's dividends. Apple's decreasing DPS growth rate combined with Intel Corp.'s dividend cut poses technology hardware and equipment as the lagger among TMT sectors in 2024.

"media and entertainment," "semiconductors and semiconductor equipment," "software and services," "technology hardware and equipment" and "telecom services."

S&P 500 dividends, TMT weight

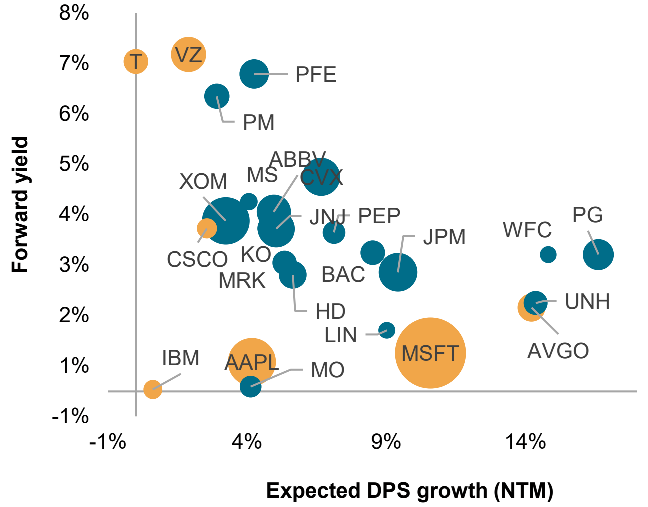
TMT is expected to account for 20.3% of S&P 500 2024 dividends



As of March 27, 2024.
US$B.
Source: S&P Global Market Intelligence.

Top 25 S&P 500 dividends

A third of it comes from TMT companies



As of March 26, 2024.
Data points sized by dividend payment forecast for 2024.
Source: S&P Global Market Intelligence.

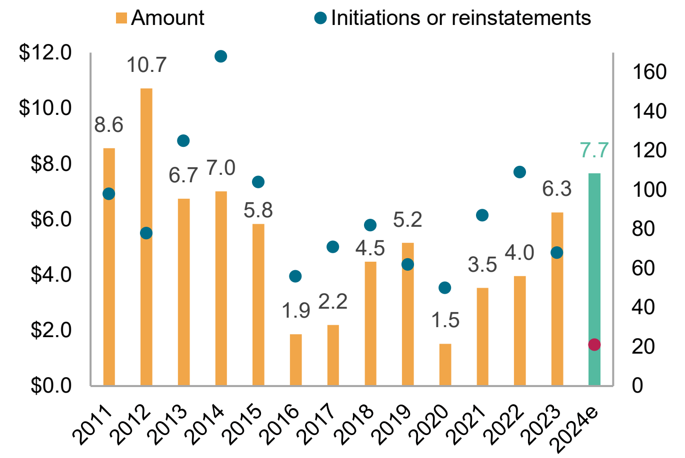
Initiations: Momentum and key metrics

With more than 2,700 companies in the US market that we have analyzed and forecast in the past 10 years, we estimate that there were over 850 dividend initiations or reinstatements in the last decade. Similarly, our data shows that companies in the US market have poured into the market on average US$4.2 billion via newly or reinstated dividends every year in the same period. Nonetheless, as shown in the chart, both the cash flow of new dividends poured into the market and the count of companies adopting (or restarting) this capital allocation policy widely vary from year to year.

By far, 2012 was the largest in recent years, with an estimated amount of US$10.7 billion spent by companies in newly adopted dividends or policy reinstatements. Almost half of it was explained by Apple's reinstatement in July 2012. Had Apple paid dividends throughout the entire calendar year, 2012's new dividends would have amounted to US$15.7 billion, almost quadrupling the average for the upcoming decade. While other large companies initiated or reinstated dividends in 2012 (such as Las Vegas Sands Corp., Ford Motor Co., The Kraft Heinz Co., American Tower Corp. and Nvidia, among others), not even the top 15 exceeded Apple's half-year dividend payments by amounts.

US market dividend initiations or reinstatements

2024: Largest new dividends by amount since Apple's reinstatement



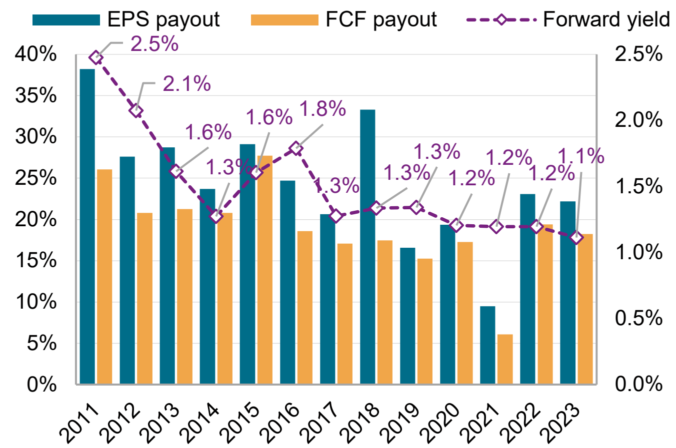
As of March 19, 2024.
US$B.
Apple reinstated dividends in 2012. Its annualized dividend would have triggered 2012's new or reinstated dividends to reach US$15.7 billion.
Source: S&P Global Market Intelligence.

Similarly, we have analyzed more than 100 dividend initiations or reinstatements announced by TMT companies since 2011. We estimated the implied earnings and FCF payouts by the time of each initiation, as well as the forward yield. For this analysis, we considered companies with available earnings per share (EPS) and FCF S&P Capital IQ (CIQ) Consensus Estimates for the next 12 months (NTM) as of the trading day before the dividend initiation/reinstatement announcement date. Our sample returns implied forward EPS and FCF payouts of 40.7% and 23.4%, respectively. Similarly, the average forward yield by the time of each TMT initiation was 2.2%. Nonetheless, averages are skewed by the presence of large outliers. In particular, **the median forward EPS and FCF payouts were 24.3% and 20%, respectively, while the median forward yield was 1.5%.**

While cash poured into the market shows no discernable trend in the midterm despite an uptick in recent years, **we observe a declining trend in forward yields and implied forward EPS and FCF payouts for new dividend payers.** Regarding yields, the highest forward yield for new payers was observed in 2011 (2.5%), when companies like Cisco Systems Inc., Intuit Inc., Motorola Solutions Inc., Seagate Technology Holdings PLC and Interpublic Group initiated dividends. Most of these large-cap companies initiated dividends with a forward yield below 2%, while many media and entertainment companies started paying dividends with high forward yields at the same time. The lowest median implied forward yield for TMT dividend initiations occurred in 2023 (1.1%). Excluding Townsquare Media Inc., not a single company initiated or reinstated dividends offering shareholders a forward yield above 2% in 2023. **The median forward initiation yield has been set at about 1.1%-1.3% in the most recent years.** In contrast, forward yields for TMT companies already paying dividends do not show a declining trend in the same period.

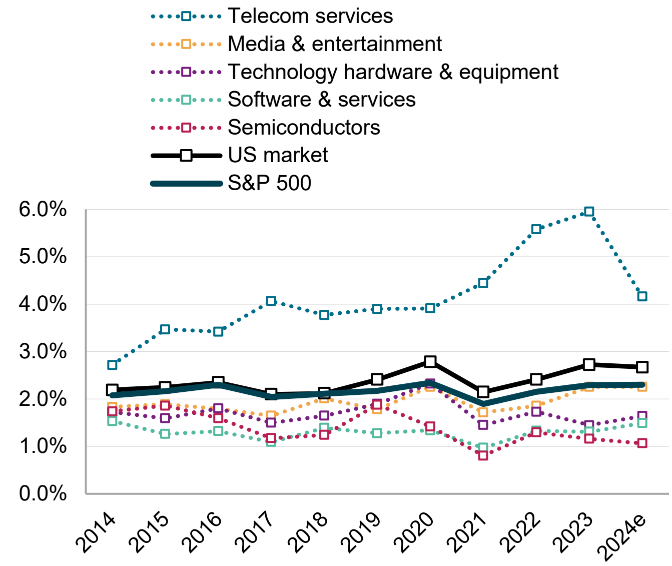
TMT dividend initiations or reinstatements

Implied payouts and yield based on pre-initiation estimates and stock price



As of March 19, 2024.
Forward yield data reflected in the secondary vertical axis.
CIQ NTM Estimates trading day before the announcement date.
Source: S&P Global Market Intelligence.

Median forward yield by sector



As of Jan. 2, 2024.
Source: S&P Global Market Intelligence.

Implied forward earnings and FCF payouts exhibit a volatile, although slightly declining, trend over time. A possible explanation for this trend could rely on the increasing preference that companies show for buybacks over dividends. Dividend initiation metrics vary across TMT sectors as well. Excluding telecom services (with just three initiations in over a decade), media and entertainment companies exhibit the highest median EPS payout but the lowest FCF payout. Semiconductors show the lowest forward EPS payout and the lowest initiation forward yield.

In addition, we considered the **largest 20 initiations** by present market capitalization (see tables below). As expected, implied **forward payouts and yields are on average lower than the overall.** These top 20 companies exhibit forward payouts of 18.9% earnings and 17.2% FCF, while the forward yield they offered by the time of the initiation averaged 1.4%.

Interestingly for Google's scenario analysis, we observe that **recent nontelecom TMT initiation metrics were substantially below historic median levels, which averaged an implied forward yield of 0.5% and forward FCF payouts of below 15%.**

In summary, our data reflects four **key takeaways:** market dividend initiation momentum is high; initiation payouts and yields have declined in recent years; larger-cap companies tend to announce lower yields and payouts than their peers with smaller capitalization levels; and recent nontelecom TMT dividend initiations metrics were below historic averages.

TMT dividend initiation key statistics (median)

Sector	EPS payout	FCF payout	Forward yield
Media & entertainment	36.6%	17.3%	1.5%
Semiconductors & semiconductor equipment	19.2%	21.2%	1.3%
Software & services	29.5%	18.8%	1.5%
Technology hardware & equipment	21.5%	20.1%	1.7%
Telecom services	N/A	25.0%	1.9%

Data compiled March 19, 2024.
Source: S&P Global Market Intelligence.

Top 20 TMT initiations or reinstatements highlights

Company	ISIN	Sector	AD	DPS (US$)	Forward EPS payout	Forward FCF payout	Implied forward yield
Salesforce Inc.	US79466L3024	Software	Feb. 28, 2024	0.4	17.3%	14.8%	0.5%
Meta Platforms Inc.	US30303M1027	Media & entertainment	Feb. 1, 2024	0.5	11.6%	12.9%	0.5%
The Walt Disney Co.	US2546871060	Media & entertainment	Nov. 30, 2023	0.3	13.6%	13.6%	0.6%
T-Mobile US Inc.	US8725901040	Telecom	Sept. 25, 2023	0.65	30.2%	19.6%	1.9%
Dell Technologies Inc.	US24703L2025	Hardware	Feb. 4, 2022	0.33	19.2%	13.2%	2.2%
Micron Technology Inc.	US5951121038	Semiconductors	Aug. 2, 2021	0.1	3.7%	5.4%	0.5%
Electronic Arts Inc.	US2855121099	Media & entertainment	Nov. 5, 2020	0.17	14.5%	11.1%	0.5%
NXP Semiconductors NV	NL0009538784	Semiconductors	Sept. 10, 2018	0.25	13.5%	15.1%	1.1%
Hewlett Packard Enterprise Co.	US42824C1099	Hardware	Nov. 12, 2015	0.055	11.8%	17.3%	1.6%
Monolithic Power Systems Inc.	US6098391054	Semiconductors	June 9, 2014	0.15	39.7%	34.1%	1.5%
Lam Research Corp.	US5128071082	Semiconductors	April 29, 2014	0.18	15.7%	20.8%	1.3%
CDW Corp.	US12514G1085	Hardware	Nov. 1, 2013	0.0425	8.9%	10.4%	0.8%
NetApp Inc.	US64110D1046	Hardware	May 21, 2013	0.15	24.4%	19.7%	1.6%
Nvidia Corp.	US67066G1040	Semiconductors	Nov. 8, 2012	0.0188	27.6%	24.5%	2.4%
Western Digital Corp.	US9581021055	Hardware	Sept. 13, 2012	0.25	10.8%	10.6%	2.4%
Apple Inc.	US0378331005	Hardware	July 24, 2012	0.0946	21.5%	20.8%	1.8%
Marvell Technology Inc.	US5738741041	Semiconductors	May 17, 2012	0.06	20.1%	19.2%	1.8%
Intuit Inc.	US4612021034	Software	Aug. 18, 2011	0.15	21.1%	17.5%	1.4%
Motorola Solutions Inc.	US6200763075	Hardware	July 28, 2011	0.22	38.2%	28.4%	2.0%
Cisco Systems Inc.	US17275R1023	Hardware	March 18, 2011	0.06	14.7%	14.4%	1.4%
TMT initiations/reinstatements since 2010 — avg.*					**24.3%**	**20.0%**	**1.6%**

Data compiled March 19, 2024.
* Trimmed average. Excludes top and bottom 2.5% of the sample.
DPS post-split basis values (if applicable). Top 20 initiations filtered by today's market cap.
CIQ NTM EPS and FCF estimates as of the trading day before the announcement date.
Source: S&P Global Market Intelligence.

Google: To initiate or not, that is the question

FAANG dividends: Finally happening

In July 2021, we released a report called "FAANG Dividends: Finally Happening?". Back then, we thought META was already due for an initiation. Other names included Alphabet. Is the Google dividend finally happening?

As depicted in a previous section, Google engages in large buybacks. Alphabet has deployed more than US$171 billion into share repurchases in the last three years, exceeding a 100% buyback FCF payout since 2021. While management emphasizes that Google's top capital allocation priority remains reinvesting in the business, buybacks represented 80% of capex and R&D expenditures combined in the past five fiscal years. Consequently, **from a capital allocation perspective, the company already is heavily oriented toward shareholder returns,** in contrast to Apple's situation before its reinstatement.

Market momentum supports an initiation thesis for Google. With three quarters ahead, first-quarter 2024 new dividends already exceeded the average annual level registered in the last decade. In terms of the number of companies initiating dividends, the first quarter of 2024 was in line with average levels: we registered 21 initiations in the first quarter, while on average 86 companies initiated or reinstated dividends every year from 2014 to 2023 (a quarterly mean of 21 quarterly initiations). More importantly, Alphabet's closest peer initiated dividends and a relevant number of large-cap companies initiated dividends recently, particularly in the TMT sector.

Nonetheless, **Google lacks some common initiation trigger events** that large tech companies like Apple and Microsoft have experienced in the past.

Both Apple and Microsoft faced stagnant or plummeting price performances before their initiations. This is not Google's situation. The stock has returned over 40% in the last year and is close to its all-time high levels.

Alphabet does not face the same level of investor pressure that Microsoft and Apple experienced before their initiations. Recent earnings calls do not depict an increasing worry from shareholders regarding excessive cash levels, despite Alphabet's cash and short-term investments exceeding US$110 billion (last-12-months [LTM]). While institutions own more than 65% of Alphabet's outstanding shares, **co-founders Sergey Brin (third-largest holder) and Lawrence Page (fifth-largest holder) together control 51.5% of the voting power** through their super-voting class B shares, according to S&P Global Ratings. While there is no explicit mention recently from either of them regarding the possibility of initiating dividends, our research shows no related findings in at least the last five years. Moreover, when Google modified its dividend policy wording in its annual reports a few years ago, management emphasized its no-initiation position in response to questions posed by covering analysts back then.

While controlling power is a key feature for a no-initiation thesis, it should be considered that over 24% of Alphabet's shares are owned by the public, according to S&P CIQ data. Moreover, 92.5% of Alphabet's ownership has a "very low" or "low" turnover. In other words, almost all individuals, insiders, institutions and the public hold Google stock for the long term. Without a doubt, initiating dividends would add motives for long-term investors and portfolio managers to hold on to Google's stock.

In stark contrast to Microsoft's and Apple's situations before their initiations, Google has successfully delivered profitable innovations to its shareholders. The company is the global leader in advertising and is rapidly evolving toward an AI-driven business. Despite recent developments in generative AI and large language models (LLMs) by other competitors such as Microsoft/OpenAI raising questions about Google's leadership stance, Alphabet's investments in AI have several years of track record. From a financial standpoint, Alphabet delivered over 30% of return on capital in the last three years and continues to improve its performance: topline growth accelerates, and margins expand due to cost-efficiency initiatives.

In summary, **while the market pulse is high and the fact that Google already engages in large buybacks could support an initiation thesis, a lack of management intention of doing so maintains our forecast of no dividend initiation in the near term.**

META's initiation presents a scenario closely comparable with that of Google's. Although META's stock faced challenges a couple of years ago, management adeptly orchestrated a turnaround well before the initiation announcement. Previously, there had been no indications from management regarding its intention to initiate cash distributions. While shareholder pressure exceeded that of Google's situation prior to the market embracing META's AI shift, there were no imminent signs of initiation. Nevertheless, in our assessment, Meta's management significantly reaffirmed its confidence in the company's comeback and the payoff from AI investments and their continuation, as evidenced by the introduction of dividends alongside substantial share buybacks for its shareholders. However, what if this mirrors Google's scenario despite the aforementioned factors?

Scenario analysis

Alphabet will hold its Q1 Earnings Call on April 25. We believe analysts' sentiment and focus on capital allocation combined with management's commentaries on dividend possibilities (if any) will be key to adjusting our confidence level for a no-initiation scenario, which is low as it stands now. Regardless of Alphabet's management's decision, **what would an initiation from Google look like? What are the pros and cons that the company would face if it adopts a regular dividend policy?**

On the downside, as previously noted, dividends require a long-term commitment from management to plan and consistently return cash to shareholders. A company as prominent as Alphabet would also be expected to increase its dividend annually. Furthermore, dividends could have a negative signaling effect: in the traditional company life cycle, dividends are generally adopted when management cannot find better ROI alternatives than simply returning cash to shareholders. Google's management regularly emphasizes its focus on maintaining the company's role as a top-growth leader in innovation. Additionally, dividends are less discretionary than buybacks. Finally, even if Google has a large net cash position, dividends can deprive cash during downturns that could be deployed into more urgent uses.

On the upside, dividends attract a broader set of investors and portfolio managers who typically have long-term objectives. Regularly distributing cash to shareholders can help navigate adverse market situations or times when the stock price underperforms the market or its peers. Dividends can also have a positive signaling effect: a company with a long track record of regularly and timely distributing cash to its shareholders is usually perceived by the market as an enterprise with a reliable cash generation process, which likely enhances management's trustworthiness as well.

If Google was to initiate, what would be reasonable initiation metrics for it? Given our previous analysis, we observe the following:

- **Declining initiation forward yields over time.** For the TMT sector, the range has been 1.1%-1.3% in recent years. Nonetheless, companies with higher market capitalization such as META, CRM, Disney, Micron Technology Inc. and Electronic Arts Inc. have initiated dividends with forward yields of 0.5% on average. **We believe a forward yield in the range of 0.4%-0.6% seems plausible for Google's initiation.**

- **FCF payouts show a volatile, although declining, trend over time.** While the median FCF payout for TMT initiations in the past decade was 20%, the media and entertainment sector exhibits lower ratios (17.3% median). In addition, no large cap initiation since 2020 has exceeded a forward FCF payout of 15%. The latter excludes T-Mobile, which is not a peer of Google. Telecom in general poses larger payouts and yields than the other TMT sectors. **If Google was to initiate, we think the company would set a forward FCF payout below 15%.**

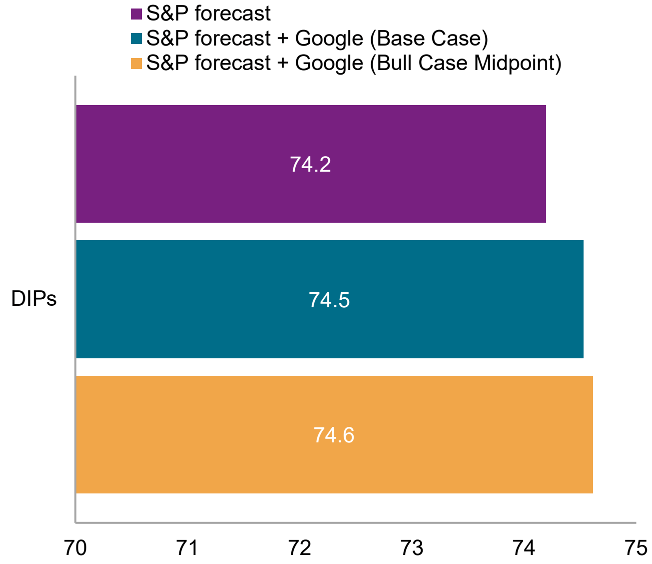
As of April 11, Google's stock had a price of US$159.4 per share, an FCF estimate of US$78.5 billion and a normalized EPS estimate of US$6.8. Given the shares outstanding, **we determine a conservative Base Case scenario of a US$0.64 annual DPS, resulting in a forward yield of 0.4% and a forward FCF payout of 10.1%.** We estimate that this would imply annual dividend payments of US$7.9 billion for Alphabet. Consequently, other things equal, DIPs would amount to 0.488 for an annual S&P 500 expiry. Considering that only three quarterly expiries remain, if Google initiates in its Q1 Earnings Call, it would have an impact of 0.336 DIPs for the S&P 500 2024 annual expiry under our Base Case scenario.

Google initiation scenario analysis

Metric	Base Case	Bull Case range
DPS (annual)	0.64	0.80-0.88
DIPs (annual)	0.448	0.56-0.616
DIPs 2024 annual expiry	0.336	0.42-0.462
Forward yield (%)	0.4%	0.5%-0.55%
FCF payout (%)	10.1%	12.6%-13.9%
Normalized EPS payout (%)	9.4%	11.7%-12.7%
Annual dividends (US$B)	7.9	9.9-10.9

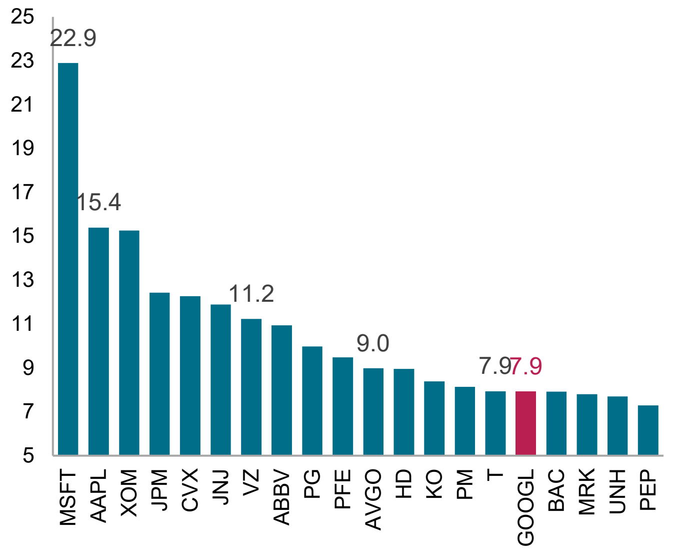
Data compiled April 11, 2024.
Source: S&P Global Market Intelligence.

2024 annual expiry



As of April 11, 2024.
Source: S&P Global Market Intelligence.

Top 20 US dividends if Google was to initiate



As of April 11, 2024.
Amounts in US$B.
Source: S&P Global Market Intelligence.

If Google initiated dividends, other things equal, the company would pose itself as one of the 20 largest dividends in the US market under our Base Case scenario estimates. If the initiation scenario was closer to our Bull Case Midpoint forecast, Alphabet would reach the top 10 US market dividends. Similarly, it would constitute a weight of 6% in TMT dividends and would become the largest dividend of a media and entertainment company.

Ending remarks

Our forecast maintains a stance of no dividend initiation for Alphabet. While the market momentum is high and the company already engages heavily in share repurchases like most of the Magnificent 7 companies, Google lacks common initiation denominators that its peers had in the past. Nonetheless, the examination of TMT dividend initiations and reinstatements since 2011 provided us with addressable ranges for elaborating initiation scenario analysis. Our data shows that initiation forward yields decline over time. Similarly, forward FCF and EPS payouts exhibit a downward trend, although dispersion is higher. More importantly, large-market-capitalization companies have initiated or reinstated dividends with yields and payouts below the median levels observed either for the TMT market as a whole or for their respective sectors. Finally, while the report focuses on Alphabet, it should serve as a base for the entire tech universe of non-dividend-paying companies facing similar situations.

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