S&P Global
Market Intelligence

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Dividend initiation fever: Who is next?

Nonpayers report: Part 2

Juan Pablo Albornoz, Research Analyst, Dividend Forecasting

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The Take

– The US market's dividend initiation momentum has reached its highest level in the last decade after Meta Platforms Inc.'s and Google parent Alphabet Inc.'s first-ever dividend announcements.

– With a proprietary quantamental scoring system combined with analyst qualitative analysis, S&P Global Market Intelligence provides initiation likeliness metrics for the TMT constituents of the S&P 500 Index that do not pay regular dividends on their common stock.

– Dividend initiation scenario analysis for the most likely S&P 500 TMT constituents to initiate or reinstate dividends within the next 12-24 months.

– Unlikely TMT initiations or reinstatements.

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S&P Global Market Intelligence Dividend Forecasting serves top-tier financial institutions with their investment decision-making and risk management through provision of timely data, insights and commentary on dividend forecasts. Powered by a global team of 40 dividend analysts closely maintaining precise forecasts on the size and timing of payments based on bottom-up fundamental research as well as a proprietary advanced analytics model, our dataset incorporates the latest company news and market developments. We pride ourselves in an unmatched coverage that spans over 28,000+ stocks across the globe and our analysts are always available to engage in discussion and address users' queries.

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S&P 500 nonpayers

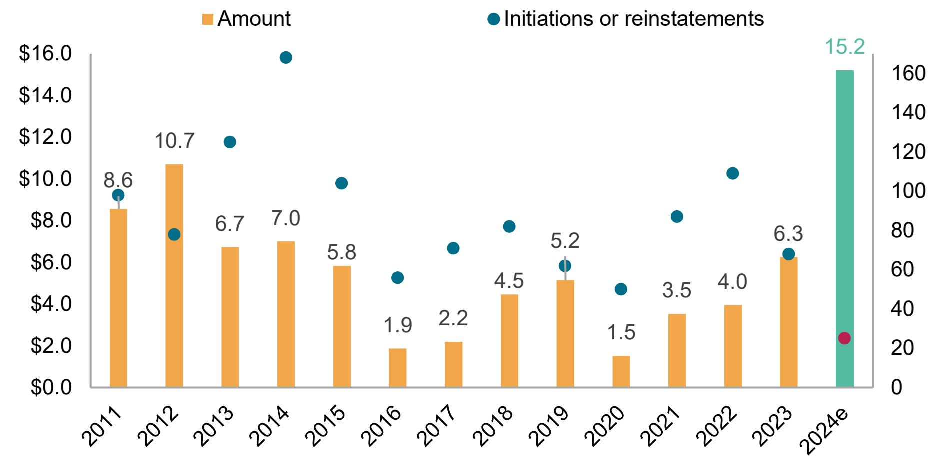
Dividend initiation fever

The dividend initiation momentum in the US market has reached its highest level since at least Apple Inc.'s reinstatement in 2012. Since 2023, and particularly in the beginning of 2024, many large-cap companies initiated or reinstated dividends. Some of these companies are Meta Platforms Inc., The Walt Disney Co., T-Mobile US Inc., Salesforce Inc. and most recently Alphabet Inc. An estimated US$15.2 billion of new dividends is expected for 2024 (US$17.7 considering Google on an annualized basis as only three payments are expected in 2024). Regarding Google's initiation, we addressed the likelihood of it in a previous report — "*Google dividends: To initiate or not?*" — published before Alphabet's announcement.

Among the major banks analyzed, 105 banks are currently paying flat dividends since at least 2023 due to rising interest rates, ongoing deposit fight and losses in bond portfolios.

US market dividend initiations or reinstatements (US$B)

Dividend initiation fever



As of May 21, 2024.
e = estimated.
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.

Dividend initiation likeliness ranking: TMT sector

In the first release of this *report* series, we ranked by dividend initiation likeliness the 96 companies within the S&P 500 Index that do not pay regular dividends on their common stock[1]. As a result, we observed that more than half of the top 20 most likely companies to initiate dividends operate within the TMT[2] sector.

This second edition of the Nonpayers Report Series examines the TMT companies in the S&P 500 Index that we consider more likely to initiate or reinstate dividends according to our quantamental scoring system combined with covering analyst qualitative sentiment scores. Below are the results of our scoring system as of June 28, 2024.[3]

1. For a complete definition and explanation of our quantamental and qualitative scoring systems, see the first report.
2. TMT: Technology, media and entertainment and telecommunications. S&P Global Market Intelligence uses GICS for sector definition. GICS sectors included in our definition of "TMT" are "media and entertainment," "semiconductors and semiconductor equipment," "software and services," "technology hardware and equipment" and "telecom services."
3. Since our first report released on May 28, 2024, two companies registered large changes in their quantamental scores: **Palo Alto Networks Inc. (PANW) (+) and Synopsys Inc. (-)**. Back then, PANW did not have positive net buybacks in the last-12-months (LTM), as its cash inflow from stock issuance exceeded the outflow associated with stock repurchases. Consequently, PANW returned the lowest possible score for the buyback history pillar. PANW has recently reinstated buybacks, erasing the pause observed in fiscal year 2023. It should be noted that the company has a strategic approach to repurchases, against other companies that regularly buy back their common stock. Regarding its free cash flow (FCF) margin growth, in the second fiscal quarter of 2024 the company carried an LTM FCF margin of 29.5%, below the second-fiscal-quarter 2023 LTM margin, affecting its FCF margin growth pillar score. On the contrary, as of its last reported quarter, Synopsys now carries a negative levered FCF in the LTM. This is the first time in at least two decades that the company burns cash. Apart from these two constituents, **Adobe Inc., Autodesk Inc. and Take-Two Interactive Software Inc.** experienced minor downgrades in their quantamental scores.

S&P 500 TMT nonpayers: *Quantamental* and qualitative scores

Company	Ticker	Analyst sentiment	Overall score	Dividend history	Buyback history	Buyback payout	Sales growth	Leverage management	FCF stability	FCF margin growth
Cadence Design Systems Inc.	CDNS	🟡	0.81	○	●	●	●	●	●	◕
Ansys Inc.	ANSS	🔴	0.76	○	●	◕	●	●	●	◕
VeriSign Inc.	VRSN	🟡	0.76	○	●	●	●	●	●	◔
F5 Inc.	FFIV	🟡	0.76	○	●	●	●	●	●	◔
Adobe Inc.	ADBE	🟢	0.71	○	●	●	●	●	●	○
Fortinet Inc.	FTNT	🟡	0.71	○	◕	●	●	●	●	◔
Akamai Technologies Inc.	AKAM	🟢	0.71	○	●	●	●	●	●	○
Autodesk Inc.	ADSK	🟡	0.67	○	●	●	◕	◕	●	◔
Netflix Inc. USA	NFLX	🟢	0.62	○	◔	◔	●	◕	●	●
ServiceNow Inc.	NOW	🟢	0.62	○	◕	◔	●	◕	●	◕
Arista Networks Inc.	ANET	🟢	0.62	○	◕	◕	◔	●	●	◕
Qorvo Inc.	QRVO	🟡	0.62	○	●	●	○	●	●	◔
Palo Alto Networks Inc.	PANW	🟡	0.62	○	◕	◕	●	◔	●	◕
Synopsys Inc.	SNPS	🔴	0.57	○	●	●	●	●	○	○
Charter Communications Inc.	CHTR	🔴	0.57	○	◕	●	●	○	●	◔
Gartner Inc.	IT	🔴	0.57	○	●	●	◔	◔	●	◔
Match Group Inc.	MTCH	🟢	0.52	◔	◔	●	◕	○	●	◔
Advanced Micro Devices Inc.	AMD	🟡	0.48	○	◔	●	○	◕	◕	◕
Take-Two Interactive Software Inc.	TTWO	🔴	0.43	○	◕	◔	◕	○	●	◔
PTC Inc.	PTC	🔴	0.43	○	●	◔	◕	○	●	○
EPAM Systems Inc.	EPAM	🟡	0.43	○	◔	◔	○	●	●	◔
Tyler Technologies Inc.	TYL	🔴	0.38	○	○	○	●	◔	●	◔
ON Semiconductor Corp.	ON	🟡	0.29	○	◕	◔	○	●	○	○
Warner Bros. Discovery Inc.	WBD	🔴	0.29	○	○	○	◔	○	●	◕
Dayforce Inc.	DAY	🟡	0.29	○	○	○	◕	○	●	◔
Western Digital Corp.	WDC	🔴	0.10	◕	○	○	○	○	○	○

Data compiled June 28, 2024.
Analyst sentiment score: capital allocation and management commentaries' qualitative analysis groups dividends into unlikely (red), neutral (yellow) or likely (green) initiations. Quantitative scores depicted by pie charts, where a full pie chart represents a "Very High" score, downgrading into "High," "Medium" or "Low" scores.
Source: S&P Global Market Intelligence.

TMT companies

Which constituents of the S&P 500 Index that operate in the TMT sector are the most likely candidates to initiate dividends in the short term? If these initiate, **what level of payouts and dividend yield should we expect during the announcement?**

According to our proprietary data and S&P Capital IQ Consensus Estimates, TMT dividend payers within the index show a median forward yield of 1.38%, a median forward earnings payout of 29.3% and a median forward FCF payout of 33.8%. Nonetheless, it should be considered that:

– Yields and payouts differ across subindustries within the TMT sector.[4]

– Recently, large-cap TMT companies have initiated dividends with yields and payouts below the level of their dividend-paying peers.

4. For a detailed list of subsector and company data of the current state of key trailing and forward dividend ratios, see the **Appendix** section of this report.

Regarding the second bullet point, in the previously mentioned report — "*Google dividends: To initiate or not?* " — we analyzed the dividend initiation metrics of the TMT companies that initiated or reinstated dividends during the last decade. Two key findings from the report are worth highlighting. First, we observed a **declining trend of initiation payouts** since 2016. Second, **companies with larger market capitalization** that initiated or reinstated dividends recently **adopted low payouts and low yields.** For instance, Salesforce, Meta, Disney, Micron Technology Inc. and Electronic Arts Inc. initiated dividends with **implied forward yields of 0.5%-0.6%**. More recently, Google parent Alphabet initiated dividends with an implied forward yield of 0.5%. Similarly, the implied forward **earnings and FCF payouts** of all these companies were **below 20% and 15%, respectively.**

Most likely initiations: Commentary and scenario analysis

Adobe Inc.

When asked about dividends in a special call from July 2021, Andrew Chan, program manager of investor relations, argued that Adobe's (XNAS: ADBE) priority was returning cash to shareholders via buybacks. M&A came second. Nonetheless, he did not disregard the possibility of initiating dividends in the future:

> **"(...) in terms of the dividend, I think we've had dividends in the past. And I think that, that's something that we want to do potentially. I mean, never say never, but it's something that we want to be able to implement and to grow and to not just have it and then potentially take it back like we did in the past, right? So it's something we need to have that's meaningful and that we can continue to grow."**

When we released our first *report* series in late May, **Adobe was one of the top 10 ranked companies by quantamental score of the entire S&P 500 universe. The company exhibited the highest possible score in all pillars except for two of them:**

(i) Dividend history: Adobe used to pay dividends until 2005. The company has not made any regular cash distributions on its common stock since then.

(ii) FCF margin growth: The margin dipped in the last two years. Despite it remaining elevated (31.8% in the LTM), it sits below the 36.7% level it reached in fiscal year 2021.

While Adobe's management regularly emphasizes its intention to maintain a balanced capital allocation approach between growing the business (organically and inorganically) and driving shareholder returns, **the company has a strong buyback policy record. In the last five full fiscal years, Adobe returned 85% of its levered FCF to shareholders via net share repurchases.** Lately, the company announced a US$25 billion buyback program, with US$22.7 billion remaining as per its latest earnings call.

Market momentum is positive for Adobe. The company is an interesting AI play, after its introduction of AI Assistant within Document Cloud. While AI-related costs are expected to impact negatively on Adobe's margins in the short term, the same might trigger valuation and monetization opportunities for the company. Adobe has a strong and consistent FCF generation record, which is leveraged by its remarkable brand recognition: Adobe is the leading visual content app producer. Moreover, some of Adobe's closest peers historically paid dividends (Intel Corp.) or recently initiated them (Salesforce).[5]

In summary, strong financials and a record of consistent and substantial shareholder returns, combined with an elevated dividend momentum in the US market, support

5. Salesforce initiated dividends in February 2024 with an implied forward yield of 0.53% and forward payouts of 16.4% normalized earnings and 13.1% FCF.

Adobe's likely initiation thesis for the next 12-24 months. We include the bear-, base- and bull-case dividend initiation scenarios for Adobe[6] below.

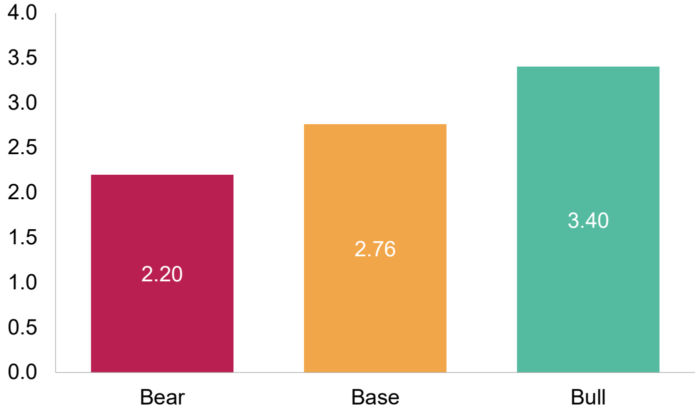
Adobe Inc.'s initiation scenario analysis

Metric	Bear	Base	Bull
Dividend per share (annual)	2.20	2.76	3.40
Dividend per share (quarterly)	0.55	0.69	0.85
Forward yield (%)	0.44%	0.56%	0.69%
FCF payout (%)	12.4%	15.6%	19.2%
Normalized EPS payout (%)	12.1%	15.2%	18.7%
Annual dividends (US$M)	975	1,224	1,508

Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Dividend initiation scenario analysis: Adobe Inc.

Annual dividend per share (US$)



Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

ServiceNow Inc.

ServiceNow (NYSE: NOW), a global software as a service (SaaS) provider and key player in enterprise IT workflow systems, **has one of the highest TMT scorings** in our proprietary dividend initiation likeliness ***quantamental*** scoring system.

NOW exhibits a **robust topline performance and solid FCF generation and margin growth over time.** Its strong fundamentals are supported by an outstanding subscription revenue renewal rate (98%) combined with a large net cash position (it has negative net debt of US$6.5 billion in the LTM). Moreover, the company managed to improve its profitability margins in the last few years. Topline performance is also impressive: not only has NOW returned double-digit revenue growth in its most recent quarter and a formidable 27.5% 5-year revenue compound annual growth rate (CAGR), but its management signals high confidence for the upcoming years with guidance of at least 20% annual subscription revenue growth through 2026.

Beyond its powerful fundamentals, a key trigger for ServiceNow's dividend initiation likeliness is Salesforce's recent initiation. As with Adobe, Salesforce is one of ServiceNow's closest peers. While there have been neither questions from covering analysts in recent earnings calls or investor days nor comments about dividends from ServiceNow's management, we believe the company would probably reflect upon its capital allocation approach sometime soon. We have seen Google parent Alphabet follow suit after Meta's dividend initiation. We consider Salesforce and ServiceNow as a similar situation.

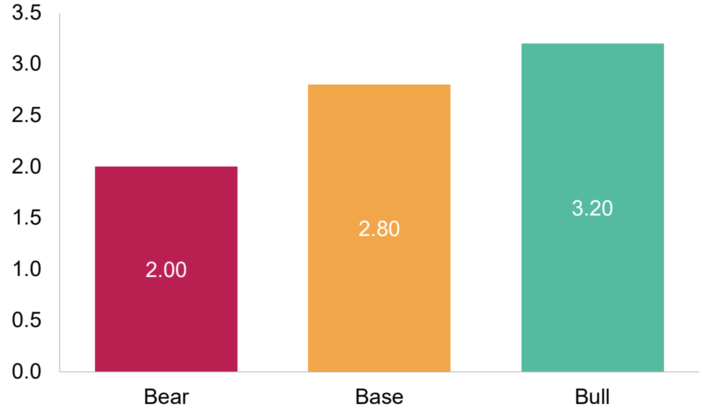
6. Adobe's 1-month average stock price was used for the forward yield calculation. The same applies for the following companies.

ServiceNow Inc.'s initiation scenario analysis

Metric	Bear	Base	Bull
Dividend per share (annual)	2.00	2.80	3.20
Dividend per share (quarterly)	0.50	0.70	0.80
Forward yield (%)	0.28%	0.39%	0.44%
FCF payout (%)	12.1%	17.0%	19.4%
Normalized EPS payout (%)	14.8%	20.8%	23.8%
Annual dividends (US$M)	411	575	657

Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Dividend initiation scenario analysis: ServiceNow Inc.
Annual dividend per share (US$)



Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Netflix Inc.

While its management has not commented recently on dividends, Netflix (XNAS: NFLX) leads the global subscription video on demand (SVOD) environment as the only meaningfully profitable streaming service, with sustained subscriber growth. The company has an above-average score in our *quantamental* scoring system. Netflix exhibits a substantial FCF margin (over 50% since fiscal year 2020), a consistent high double-digit return on equity and a manageable and decreasing leverage (its net leverage decreased from 3.6x in fiscal year 2019 to 1.07x in the LTM).

More importantly, the company keeps aggressively orienting its capital allocation framework toward shareholder returns, as depicted by its intention to return excess cash to shareholders through repurchases. In the last fiscal year, Netflix spent over US$6 billion in buybacks, resulting in an FCF payout of 31.2%. Buybacks pace has accelerated since mid-2023: in the last three quarters, Netflix returned 47% of its levered FCF to its shareholders, with an average cash use of US$2.3 billion per quarter. In addition, the company's closest peers already offer dividends to their shareholders (Disney, Paramount Global and Fox Corp.).

In summary, **Netflix's leading market position, robust operational and financial performance, and growing focus on shareholder returns, combined with the dividend initiation momentum in the US market, pave the way for a likely initiation.**

If Netflix was to initiate dividends, we believe it would adopt higher payouts than what we expect for Adobe and ServiceNow. Not only have media and entertainment companies initiated with higher earnings payouts than the other subsectors (see Google's report), but also Netflix's closest peers currently offer higher payouts and yields than the recently observed initiation levels (see the Appendix section of this report for a complete breakdown). Even Disney's stock is expected to return a forward yield of over 1%, according to our forecasts, despite reinstating dividends less than a year ago with an initiation yield of 0.5%.

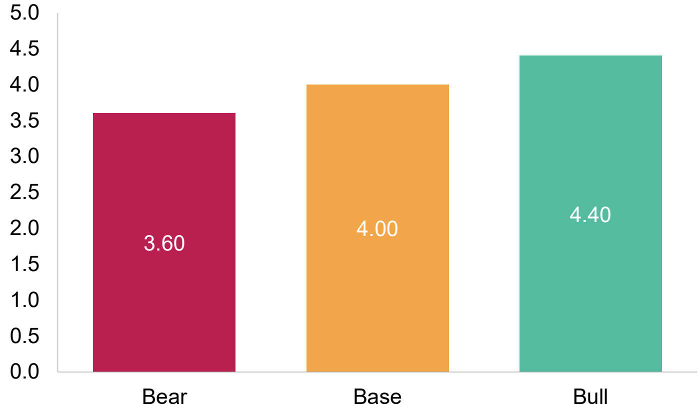
Netflix Inc.'s initiation scenario analysis

Metric	Bear	Base	Bull
Dividend per share (annual)	3.60	4.00	4.40
Dividend per share (quarterly)	0.90	1.00	1.10
Forward yield (%)	0.54%	0.60%	0.66%
FCF payout (%)	23.8%	26.4%	29.1%
Normalized EPS payout (%)	19.5%	21.7%	23.9%
Annual dividends (US$M)	1,551	1,724	1,896

Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Dividend initiation scenario analysis: Netflix Inc.

Annual dividend per share (US$)



Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Akamai Technologies Inc.

Akamai Technologies (XNAS: AKAM) has a market-leading position with consistent topline growth and high recurring revenue. It is one of the highest-ranked companies in our quantamental scoring system. While reinvesting to support organic growth and M&A are top priorities in AKAM's capital allocation framework, in 2021 its CFO suggested that management was considering the dividend initiation possibility in the future. A **solid operative and financial performance, combined with the dividend initiation momentum** observed in the US market, could trigger Akamai's management to reevaluate its shareholder return policy.

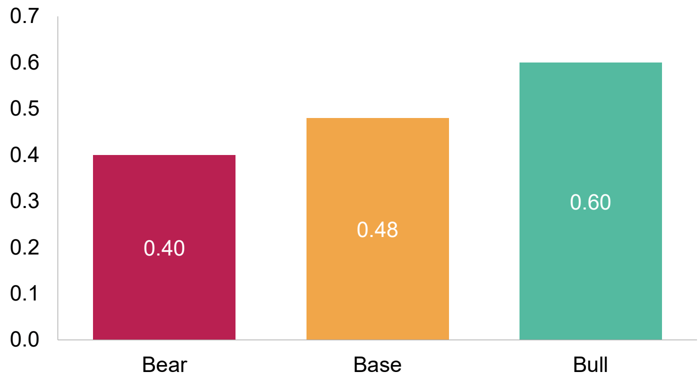
Akamai Technologies Inc.'s initiation scenario analysis

Metric	Bear	Base	Bull
Dividend per share (annual)	0.40	0.48	0.60
Dividend per share (quarterly)	0.10	0.12	0.15
Forward yield (%)	0.45%	0.54%	0.67%
FCF payout (%)	7.0%	8.4%	10.5%
Normalized EPS payout (%)	6.3%	7.6%	9.5%
Annual dividends (US$M)	61	73	91

Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Dividend initiation scenario analysis: Akamai Technologies Inc.

Annual dividend per share (US$)



Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Arista Networks Inc.

In the AI hardware space, Arista Networks (NYSE: ANET) arises as an initiation candidate. To begin with, some of its closest peers already pay dividends (Cisco Systems Inc., Hewlett Packard Enterprise Co. [HPE]-Juniper Networks Inc., Nvidia Corp. and Broadcom Inc.-VMware LLC). Arista has a large insider ownership, which could benefit from dividend paychecks. Back in 2021, its management suggested that "a dividend at some point in our lives will make sense" (2021 Investor Day — CFO commentary). Like Akamai's rationale, the tech-heavy dividend initiation momentum in the US market might trigger Arista's board to reassess its capital allocation priorities. Moreover, the company already engages heavily in buybacks and has a solid leverage management track record and stable FCF generation over time. Negatively, the lack of a stable revenue generation is one of Arista's key weaknesses.

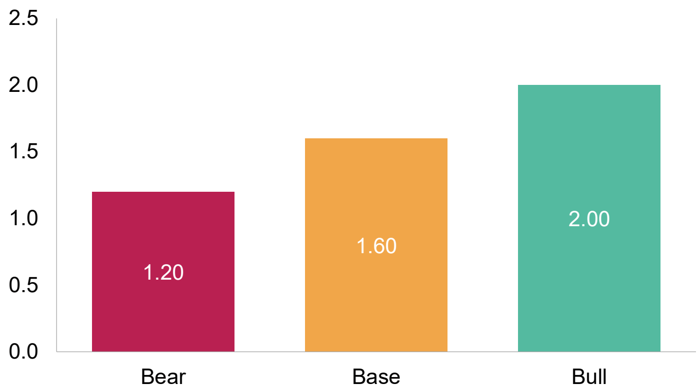
Arista Networks Inc.'s initiation scenario analysis

Metric	Bear	Base	Bull
Dividend per share (annual)	1.20	1.60	2.00
Dividend per share (quarterly)	0.30	0.40	0.50
Forward yield (%)	0.37%	0.49%	0.62%
FCF payout (%)	15.1%	20.1%	25.2%
Normalized EPS payout (%)	15.2%	20.3%	25.3%
Annual dividends (US$M)	376	501	627

Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Dividend initiation scenario analysis: Arista Networks Inc.

Annual dividend per share (US$)



Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Match Group Inc.

Match Group (XNAS: MTCH) does not exhibit an above-average ranking in our scoring system. Nonetheless, its management has recently commented about a dividend initiation possibility and even stated that it is not anticipating acquisitions in the near term, leaving more room for shareholder returns within its capital allocation uses. Emphasis was made on the dividend momentum after tech giants Meta and Alphabet initiated dividends. We have observed in the past that companies explicitly considering dividends are more likely to initiate afterward. Therefore, the qualitative sentiment score is the key trigger of our dividend initiation consideration for Match Group.

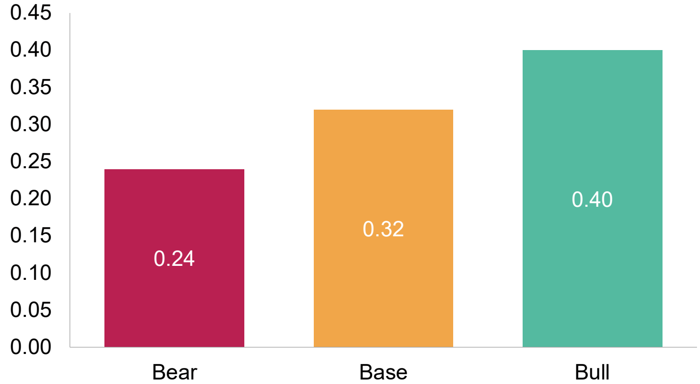
From a financial standpoint, Match Group's leverage is a cause for concern. Despite the downward trend observed in the last few years, the company carries a net leverage of 2.89x in the LTM. Nonetheless, the company has a positive FCF since fiscal year 2019 and exhibits a high double-digit FCF margin. MTCH's revenue and EBITDA are increasing faster than anticipated, according to S&P Global Ratings, which has a positive outlook since May 2023 for this "BB"-rated company, supported in its expectation that steady revenue per payer (RPP) across Match Group's Tinder and non-Tinder brands will drive topline and bottom-line growth. Combined with sound liquidity and interest coverage ratios, we believe MTCH could organically support a dividend. The company already engages actively in shareholder returns: it has returned 85.9% of its levered FCF via repurchases in fiscal year 2023, above its 50% FCF buyback payout target.

Match Group Inc.'s initiation scenario analysis

Metric	Bear	Base	Bull
Dividend per share (annual)	0.24	0.32	0.40
Dividend per share (quarterly)	0.06	0.08	0.10
Forward yield (%)	0.77%	1.03%	1.29%
FCF payout (%)	6.0%	8.0%	10.0%
Normalized EPS payout (%)	7.5%	10.0%	12.5%
Annual dividends (US$M)	64	85	106

Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Dividend initiation scenario analysis: Match Group Inc.



Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

TMT likely initiations: S&P 500 DIPs impact

The **S&P 500 Quarterly and Annual Dividend Points Index** tracks the accumulation of regular cash dividends on a quarterly and annual basis and resets to zero after the expiration of the quarterly or leading December contracts.

We provide estimates for **dividend index points (DIPs)** based on proprietary data that incorporate our analysts' forecasts for upcoming dividends. For a recent related publication, see the "*S&P 500 DIPs: Q2 2024 update*" report.

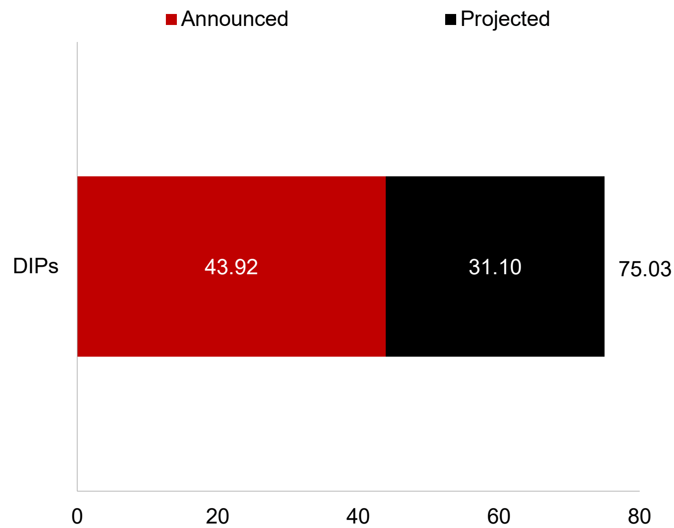
As of July 2, 2024, we forecast 75.03 and 79.17 DIPs for the S&P 500 2024 and 2025 annual expiries, respectively. Regarding the current year annual contract, we estimate that 58.5% of the forecast DIPs are already announced and that 31.1 DIPs will be announced in what remains of 2024.

Forecasts are dynamic and market events change our estimates. 2024's projection was particularly affected by key dividend initiations, such as Meta and Google parent Alphabet.

What would be the hypothetical impact of the most likely TMT initiations on a S&P 500 DIPs annual expiry?

S&P 500 DIPs

2024 annual expiry



Data compiled July 2, 2024.
Source: S&P Global Market Intelligence.

S&P 500 TMT likely initiations: Annual S&P 500 DIPs impact

Company	Bear case	Base case	Bull case
Adobe Inc.	0.117	0.147	0.181
ServiceNow Inc.	0.049	0.068	0.078
Netflix Inc.	0.185	0.205	0.226
Akamai Technologies Inc.	0.007	0.009	0.011
Arista Networks Inc.	0.036	0.048	0.060
Match Group Inc.	0.008	0.010	0.013

Data compiled July 1, 2024.
Source: S&P Global Market Intelligence.

Remaining TMT S&P 500 constituents

Companies with neutral qualitative sentiment scores

In the previous sections, we addressed the most likely TMT initiations. While there are some other high-ranked TMT companies that could initiate dividends, such as **Cadence Design Systems Inc.** (XNAS: CDNS) — the highest *quantamental*-ranked TMT company — **Autodesk** (XNAS: ADSK), **VeriSign Inc.** (XNAS: VRSN), **F5 Inc.** (XXXX: FFIV) and **Qorvo Inc.** (XNAS: QRVO), we have neutral qualitative sentiment scores for them as their managements have not made comments recently on the dividend possibility or none of their closest peers have initiated cash distributions in the last few months.

Advanced Micro Devices Inc. (XNAS: AMD), **EPAM Systems Inc.** (NYSE: EPAM), **Palo Alto Networks** (XNAS: PANW), **ON Semiconductor Corp.** (XNAS: ON) and **Dayforce Inc.** (NYSE: DAY) have neutral qualitative sentiment scores as well, although they register lower quantamental rankings. Therefore, we believe these five companies are less likely candidates than the abovementioned five constituents.

Unlikely short-term initiations or reinstatements

There are nine other remaining S&P 500 constituents within the TMT sector to be analyzed. All of these have negative qualitative sentiment scores. We consider them as **unlikely candidates** to initiate dividends in the short term. **Restrictions from paying dividends, weak fundamentals and ongoing M&A activity trigger these sentiment scores.**

According to their latest filings, **Charter Communications Inc.** (XNAS: CHTR), **PTC Inc.** (XNAS: PTC) and **Tyler Technologies Inc.** (NYSE: TYL) are restricted from paying dividends. **Gartner Inc.** (NYSE: IT) is partially restricted from doing so as well.

Some other index constituents in the TMT sector cannot afford dividends due to their weak fundamentals.

Despite **Western Digital Corp.** (XNAS: WDC) paying quarterly dividends from 2013 to 2020, this hard disk drive (HDD) and flash-based memory manufacturer is highly leveraged and carries a negative net income and FCF margin in the LTM. WDC's gross margin was three times larger in fiscal year 2018 than now. As of June 2024, this "BB"-rated company has a negative outlook from S&P Global Ratings despite an early recovery in sales that WDC began to experience in the last few quarters.

Similarly, media and entertainment company **Warner Bros. Discovery Inc.** (XNAS: WBD) shows weak fundamentals. WBD has a net leverage of 4.92x in the LTM and negative net income margin. Topline and bottom-line margins have deteriorated in recent years. The company faces a structural decline in its linear-TV business. A key risk to our negative view is Warner's reliable FCF generation. We believe WBD will prioritize strengthening its balance sheet over shareholder returns, especially dividends.

Video game company **Take-Two Interactive Software** (XNAS: TTWO), which is well known for the "Grand Theft Auto" (GTA) game, is highly leveraged (net debt-to-EBITDA of 4.65x in the LTM; 6.11x considering capital expenditure needs). The company is focused on delivering the GTA 6 game release (which is already delayed versus previous market expectations) and improving its balance sheet position. We have a negative qualitative sentiment score for TTWO, and we do not expect it to adopt dividend payments in the short term.

Finally, **Synopsys** (XNAS: SNPS) and **Ansys Inc.** (XNAS: ANSS) are potential dividend candidates for the midterm. These companies exhibit high quantamental scorings, as both of them have a long-dated buyback history and managed to consistently return elevated payouts to their shareholders via repurchases, their sales growth track record is stable, and their fundamentals are supported by solid leverage management and stable FCF generation. In summary, they could organically finance regular dividend payments to their shareholder base.

Nonetheless, due to M&A activity, we do not expect them to initiate dividends in the short term. Synopsys has announced its acquisition agreement with Ansys, as it plans to acquire 100% of Ansys' outstanding shares and to fund the US$19 billion transaction through a combination of cash and debt. We believe an initiation is unlikely now. The focus is placed on delivering an effective integration and materializing the acquisition synergies, as well as deleveraging and being earnings per share (EPS)-accretive as soon as possible. Our qualitative sentiment score will probably be upgraded to neutral once the integration is finished (if the merger value creation is achieved). Synopsys targets to close the acquisition in the first half of 2025 (subject regulatory and Ansys shareholders' approvals).

Appendix: Payouts and yields, TMT

S&P 500 TMT sectors: Key sectorial ratios for dividend-paying companies

Sector	LTM EPS payout	NTM EPS payout (e)	LTM FCF payout	NTM FCF payout (e)	Trailing yield	Forward yield
Average						
Media and entertainment	32.2%	22.7%	24.4%	24.3%	1.48%	1.33%
Semiconductors and semiconductor equipment	73.4%	37.2%	33.6%	43.8%	1.21%	1.13%
Software and services	54.8%	28.8%	29.8%	31.7%	1.48%	1.42%
Technology hardware and equipment	51.3%	33.7%	40.6%	40.0%	1.61%	1.86%
Telecom services	60.1%	46.0%	47.6%	41.0%	4.64%	4.72%
Median						
Media and entertainment	30.5%	19.9%	16.4%	17.7%	1.13%	0.87%
Semiconductors and semiconductor equipment	64.2%	33.7%	31.9%	34.0%	1.28%	0.85%
Software and services	50.1%	22.7%	28.7%	29.6%	0.90%	0.73%
Technology hardware and equipment	45.3%	32.1%	30.9%	34.8%	1.57%	1.86%
Telecom services	67.3%	49.8%	34.3%	47.3%	5.92%	5.92%

Data compiled July 1, 2024.
NTM = next 12 months.
S&P dividend forecasts and consensus estimates. Earnings: Normalized EPS. FCF: Unlevered.
Source: S&P Global Market Intelligence.

S&P 500 TMT dividend-paying companies

Company	Sector	DPS LTM	DPS NTM (e)	LTM EPS payout	NTM EPS payout (e)	LTM FCF payout	NTM FCF payout (e)	Trailing yield	Forward yield
Alphabet Inc.	Media and entertainment	Initiation	$0.83	Initiation	10.8%	Initiation	11.9%	Initiation	0.45%
Amphenol Corp.	Hardware	$0.44	$0.47	32.6%	26.9%	27.7%	26.1%	0.64%	0.01%
Analog Devices Inc.	Semiconductors	$3.56	$3.88	115.9%	57.7%	57.6%	55.3%	1.57%	1.71%
Apple Inc.	Hardware	$0.97	$1.02	20.4%	14.9%	17.1%	13.6%	0.45%	0.48%
Applied Materials Inc.	Semiconductors	$1.44	$1.72	24.2%	19.8%	25.2%	20.5%	0.62%	0.74%
AT&T Inc.	Telecom services	$1.11	$1.11	67.3%	49.8%	34.3%	47.3%	5.92%	5.92%
Broadcom Inc.	Semiconductors	$20.35	$23.25	114.3%	42.5%	43.1%	39.8%	1.28%	1.47%
CDW Corp.	Hardware	$2.45	$2.63	34.8%	24.9%	21.4%	26.1%	1.09%	1.17%
Cisco Systems Inc.	Hardware	$1.58	$1.62	66.4%	47.0%	42.9%	44.0%	3.33%	3.41%
Comcast Corp.	Media and entertainment	$1.20	$1.28	37.1%	30.1%	18.4%	37.6%	3.13%	3.34%
Corning Inc.	Hardware	$1.12	$1.18	122.1%	59.3%	178.6%	135.0%	0.03%	3.06%
Electronic Arts Inc.	Media and entertainment	$0.76	$0.76	19.1%	10.2%	11.4%	10.6%	0.55%	0.55%
Fox Corp.	Media and entertainment	$0.52	$0.54	19.6%	14.2%	26.8%	14.6%	1.53%	1.58%
Gen Digital Inc.	Software and services	$0.50	$0.50	57.3%	22.7%	22.4%	29.6%	2.03%	2.03%
Hewlett Packard Enterprise Co.	Hardware	$0.51	$0.55	44.9%	27.6%	26.2%	41.0%	2.42%	2.61%
HP Inc.	Hardware	$1.10	$1.20	47.1%	33.2%	33.9%	31.9%	3.18%	3.46%
Intel Corp.	Semiconductors	$0.50	$0.50	233.6%	39.5%	-	-	1.63%	1.63%
International Bus Machines Corp.	Software and services	$6.65	$6.69	107.4%	67.9%	50.6%	52.2%	3.89%	3.92%
Intuit Inc.	Software and services	$3.60	$4.12	43.7%	21.8%	20.7%	18.6%	0.55%	0.63%
Jabil Inc.	Hardware	$0.32	$0.32	5.2%	3.8%	2.4%	3.0%	0.30%	0.30%
Juniper Networks Inc.	Hardware	$0.88	$0.88	102.4%	41.5%	33.2%	37.3%	2.44%	2.44%
KLA Corp.	Semiconductors	$5.65	$6.20	37.1%	23.3%	28.5%	24.0%	0.69%	0.76%
Lam Research Corp.	Semiconductors	$8.00	$9.00	40.9%	26.7%	27.2%	25.5%	0.76%	0.85%
Meta Platforms Inc.	Media and entertainment	Initiation	$2.08	Initiation	10.1%	Initiation	12.0%	Initiation	0.40%
Microchip Technology Inc.	Semiconductors	$1.75	$1.93	64.2%	73.2%	40.7%	52.1%	1.96%	2.15%
Micron Technology Inc.	Semiconductors	$0.46	$0.48	-	6.4%	-	15.6%	0.35%	0.36%
Microsoft Corp.	Software and services	$3.00	$3.32	33.5%	26.3%	35.0%	35.5%	0.66%	0.73%
Monolithic Power Systems Inc.	Semiconductors	$4.50	$5.50	73.4%	39.4%	51.4%	50.3%	0.56%	0.68%
Motorola Solutions Inc.	Hardware	$3.82	$4.22	43.2%	32.1%	30.9%	34.8%	0.99%	1.09%
NetApp Inc.	Hardware	$2.02	$2.11	51.0%	30.6%	28.5%	30.0%	1.57%	1.64%

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S&P 500 TMT dividend-paying companies (continued)

News Corp.	Media and entertainment	$0.20	$0.20	33.9%	28.0%	12.8%	12.9%	0.72%	0.72%
Nvidia Corp.	Semiconductors	$0.02	$0.04	1.8%	1.4%	1.9%	1.5%	0.02%	0.03%
NXP Semiconductors NV	Semiconductors	$4.06	$4.43	48.6%	30.7%	42.8%	34.0%	1.53%	1.67%
Omnicom Group Inc.	Media and entertainment	$2.80	$2.90	43.5%	36.1%	44.8%	33.8%	3.15%	3.26%
Oracle Corp.	Software and services	$1.60	$1.80	56.4%	28.8%	34.9%	56.1%	1.14%	1.28%
Paramount Global	Media and entertainment	$0.20	$0.20	20.1%	19.3%	0.9%	43.3%	1.95%	1.95%
Qualcomm Inc.	Semiconductors	$3.25	$3.47	64.2%	33.7%	30.6%	34.0%	1.67%	1.78%
Roper Technologies Inc.	Software and services	$2.93	$3.23	30.5%	17.4%	15.1%	15.9%	0.61%	0.68%
Salesforce Inc.	Software and services	Initiation	$1.70	Initiation	16.9%	Initiation	13.9%	Initiation	0.67%
Seagate Technology Holdings PLC	Hardware	$2.80	$2.80	-	60.1%	45.7%	62.7%	2.69%	2.69%
Skyworks Solutions Inc.	Semiconductors	$2.72	$2.96	74.4%	50.3%	33.3%	39.8%	2.58%	0.03%
TE Connectivity Ltd.	Hardware	$2.60	$2.76	45.7%	35.8%	39.1%	35.0%	1.75%	1.86%
Teradyne Inc.	Semiconductors	$0.46	$0.50	21.9%	14.3%	21.4%	18.3%	0.31%	0.34%
Texas Instruments Inc.	Semiconductors	$5.14	$5.38	112.5%	98.9%	-	203.1%	2.65%	2.78%
The Interpublic Group of Companies Inc.	Media and entertainment	$1.28	$1.37	57.4%	47.8%	65.7%	45.6%	0.04%	0.05%
The Walt Disney Co.	Media and entertainment	$0.75	$1.04	27.1%	20.5%	14.3%	20.8%	0.73%	1.02%
T-Mobile US Inc.	Telecom services	$2.60	$2.86	38.0%	29.8%	26.4%	19.7%	1.47%	1.61%
Verizon Communications Inc.	Telecom services	$2.66	$2.71	75.1%	58.5%	82.0%	56.1%	6.52%	6.64%

Data compiled July 1, 2024.
S&P dividend forecasts and consensus estimates. Earnings: Normalized EPS. FCF: Unlevered. Payouts excluded for companies with negative EPS or FCF in the LTM/NTM (e), signaled with "-". Semiconductors: Semiconductors and semiconductor equipment. Hardware: Technology hardware and equipment.
Source: S&P Global Market Intelligence.

CONTACTS

Americas: +1 800 447 2273
Japan: +81 3 6262 1887
Asia-Pacific: +60 4 291 3600
Europe, Middle East, Africa: +44 (0) 134 432 8300

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