Miller Howard
INVESTMENTS

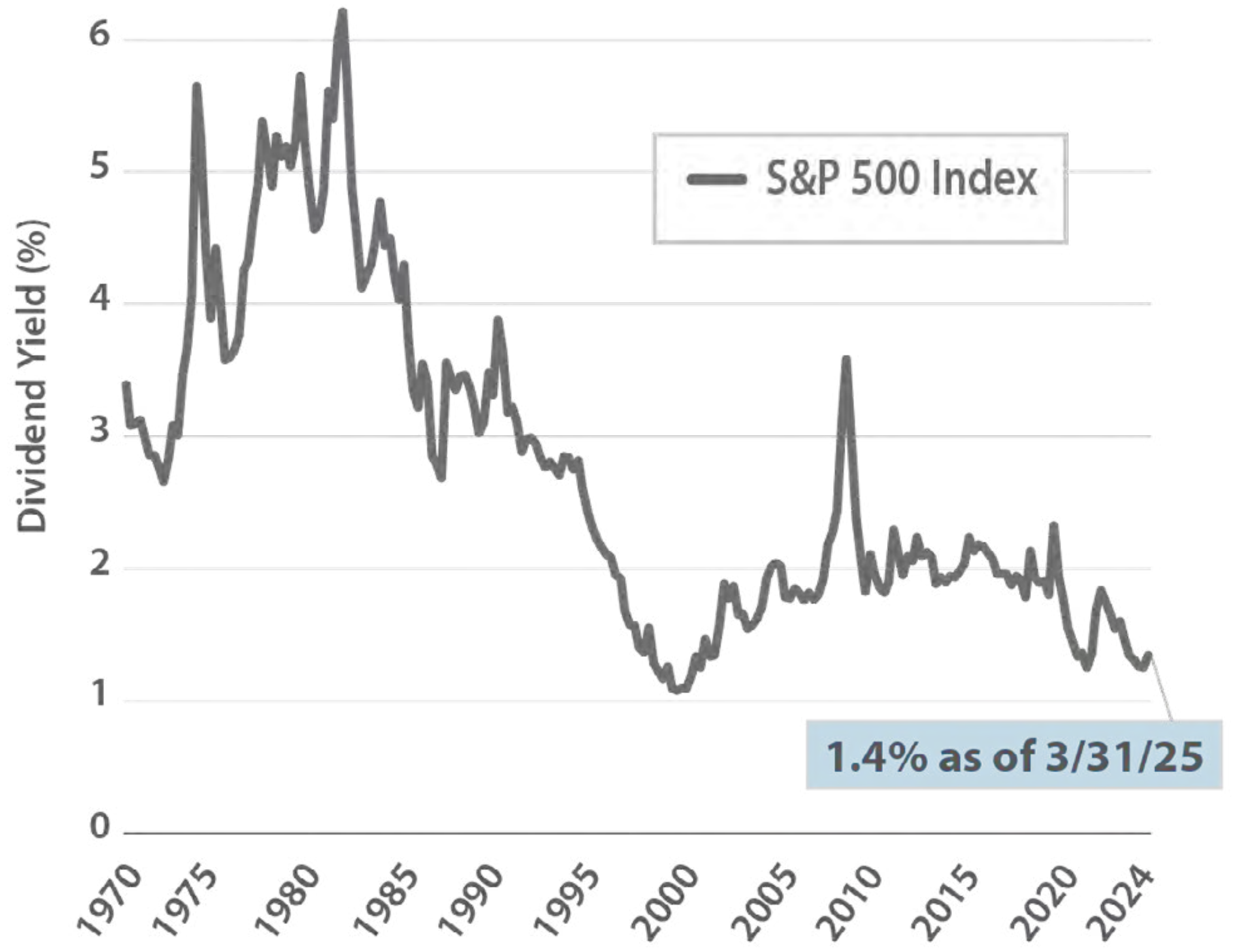
Where Have All the Dividends Gone?

QUARTERLY REPORT 1Q 2025

Where have all the dividends gone for the broad market?

Dividend yields were substantially higher 50 years ago—not surprising given the high inflation of that era. But why have yields dropped by over half in the past 30 years? As dividend investors, we can still find high-yielding equities, but why are stocks with good dividend yields so scarce? And more importantly, should we expect dividend payments to make a comeback?

30 Years of Lower Dividend Yields

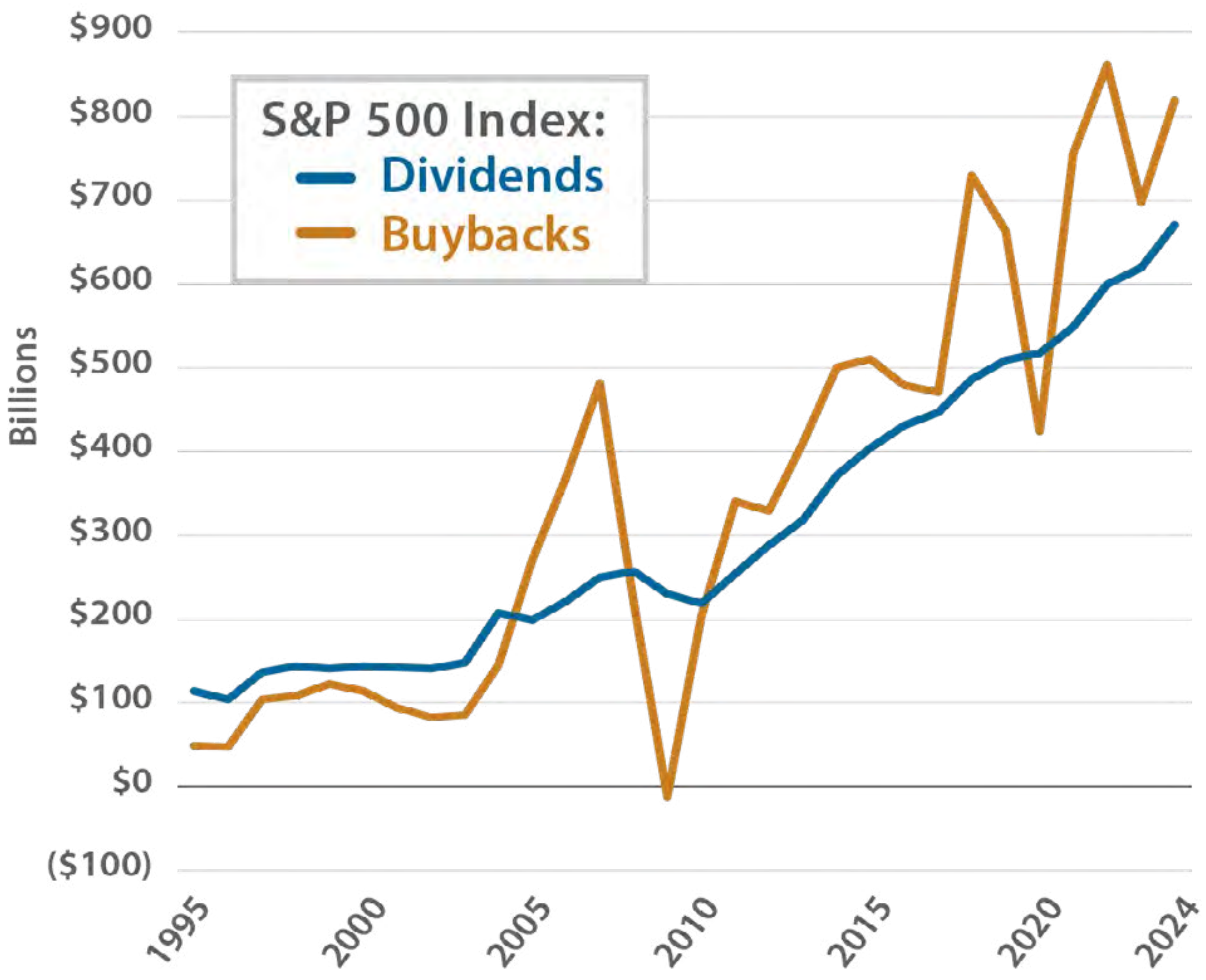


As of March 31, 2025. Source: Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index indicated dividend yield, shown quarterly.

The last three decades have been good for equity investors. Earnings grew for the S&P 500 Index at an average annual rate of 9% and price-to-earnings (P/E) multiples expanded, leading to a total annual return of 10.9%. Dividend growth over the same period, however, has been under 7% annualized, driving the indicated yield of the S&P 500 from over 3% in the early 1990s down to a puny 1.4% at the end of the first quarter of 2025.

The most obvious factor squeezing dividend payments has been the growing popularity of stock buybacks. In 1994, aggregate dividends for the S&P 500 were over $100 billion, more than twice the aggregate dollars spent on share repurchases. By 2024, S&P 500 companies bought back $820 billion worth of stock while only paying $670 billion in dividends.

Buybacks Now Exceed Dividends



As of December 31, 2024. Sources: LSEG; Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Dividends and buybacks are in aggregate.

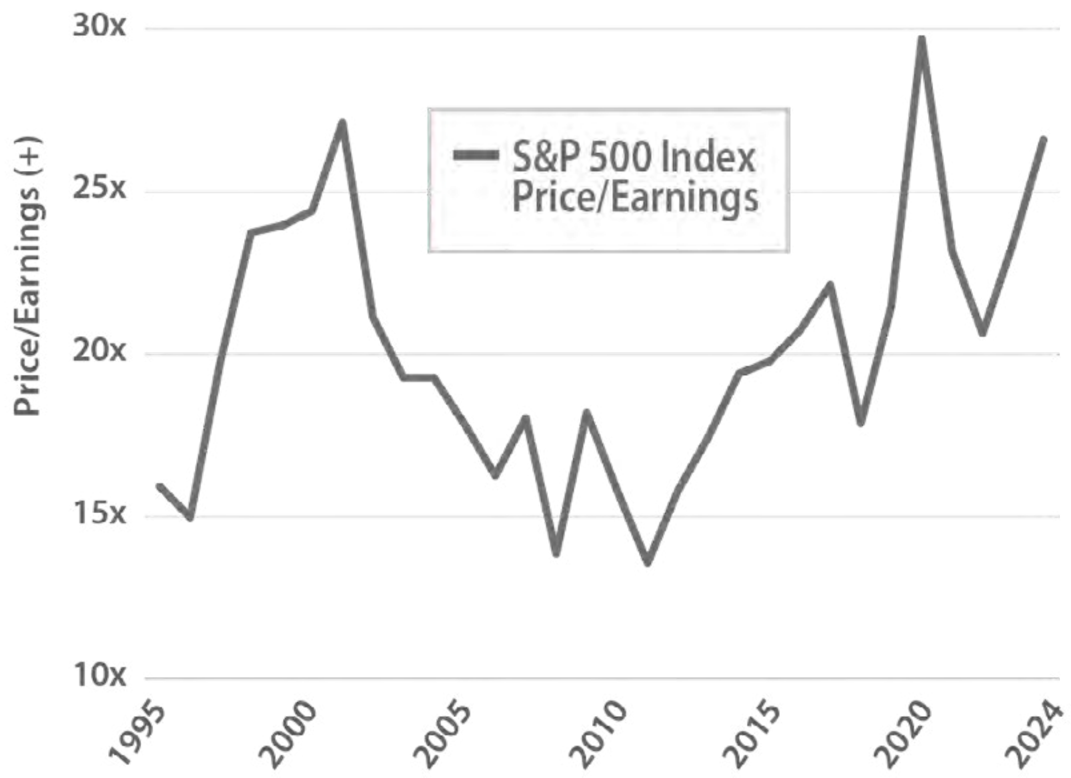
Are Buybacks Smart?

Have buybacks been a good use of capital? No doubt some CFOs have been adept at timing buybacks, but the overall track record has been questionable. In the go-go market of the late 1990s, S&P 500 aggregate buybacks were low—perhaps a missed opportunity. Buybacks subsequently soared, peaking in 2007, just in time for the Great Financial Crisis. Net buyback activity then plunged during the crisis, with the S&P 500 being a net equity issuer in 2009—a year when stocks were on sale. Buybacks have been better timed during the strong markets of the past 15 years, but the track record over the past three decades has been mixed at best.

We are skeptical that anyone can consistently time the overall market. Arguably, a better way to evaluate stock buybacks is to ask whether they are accretive to earnings per share (EPS). Companies can use spare capital in a variety of ways to increase earnings—they can make acquisitions, increase capital spending, or invest in stocks or bonds. To set a low hurdle for buybacks, the increase in EPS due to a lower share count should at least be higher than what could be achieved by investing the additional cash in government bonds.

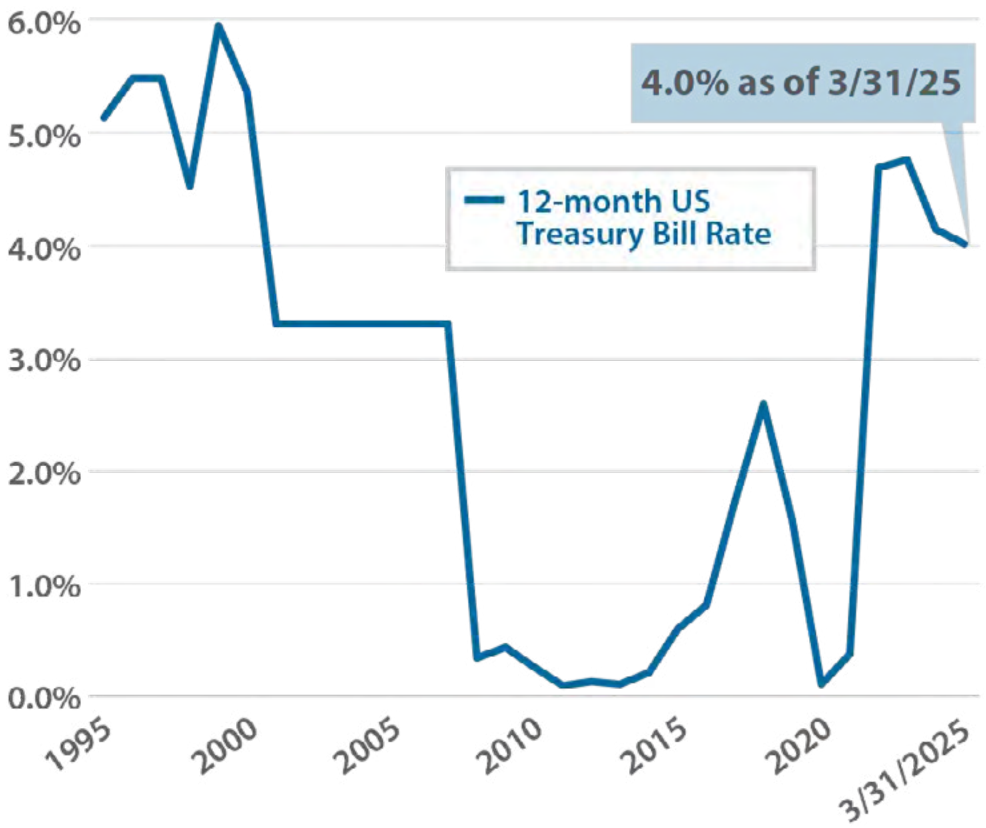
During periods of near-zero interest rates, buybacks are accretive for most firms, with the exception being stocks that have truly nose-bleed P/E ratios. But recent conditions have not been favorable to buybacks—both interest rates and P/E ratios have moved higher.

Valuations Are Particularly Rich



As of December 31, 2024. Sources: LSEG; Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Trailing 12-month price-to-earnings (P/E) ratio is calculated using aggregate market capitalization and positive net income.

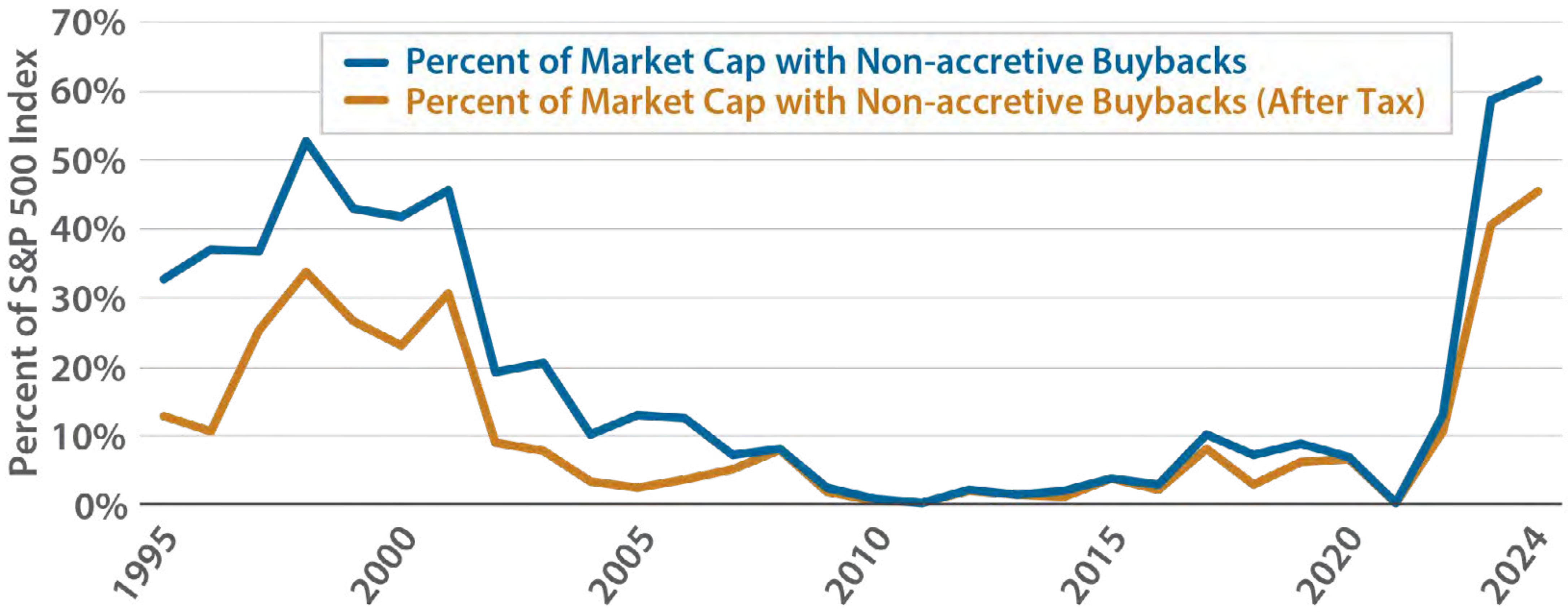
Interest Rates Have Risen



As of March 31, 2025. Source: Bloomberg. Data are annual except for most recent quarter-end.

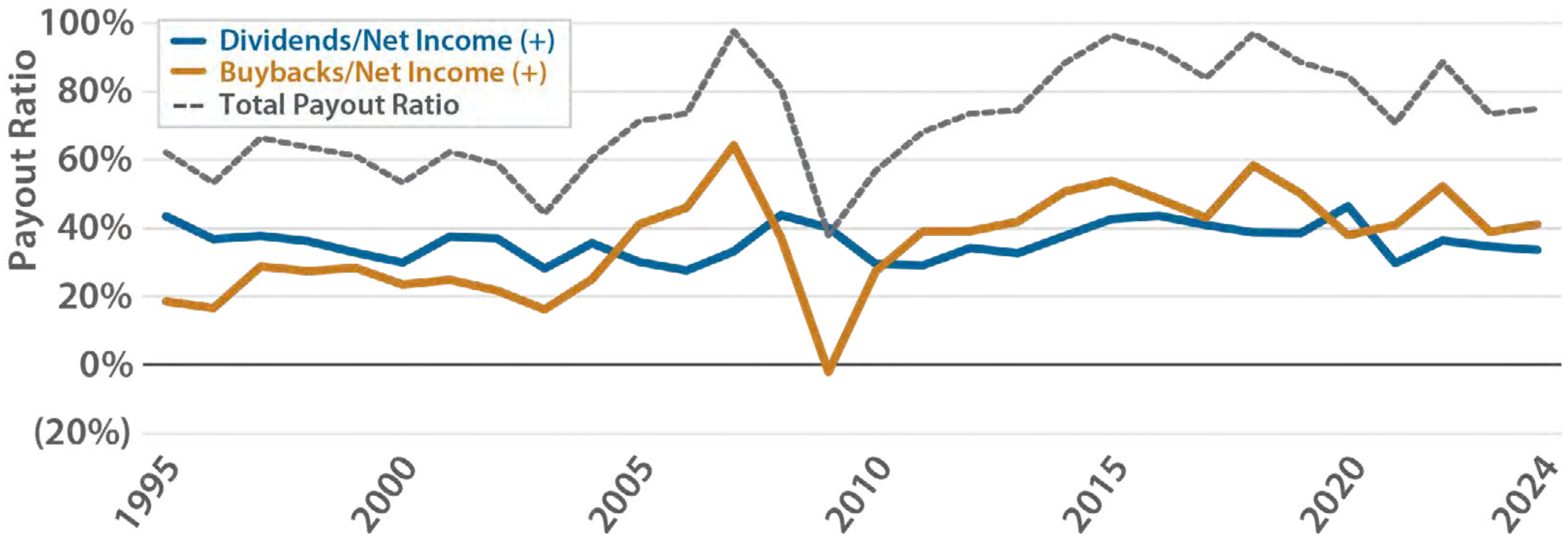
Using the statutory corporate tax rate, we estimate that almost 50% of the S&P 500 (on a cap-weighted basis) made dilutive share repurchases last year. In other words, companies would have expanded EPS more by investing in 12-month Treasury bills, making it hard to defend stock buybacks.

Many Buybacks Have Not Been Accretive Recently



As of December 31, 2024.
Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. A non-accretive buyback is defined as having an earnings yield less than the 12-month US Treasury yield. The after-tax calculation is based on the non-accretive buyback group, post-application of the statutory corporate tax rate. The percent of market cap is calculated as the aggregate of members for each group, divided by the aggregate market cap of the universe.

Buybacks Drove the S&P 500 Index's Higher Total Payout Ratio



As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Dividends, buybacks and positive net income are in aggregate. Total payout ratio is the sum of dividends/positive net income and buybacks/positive net income (+ represents positive net income).

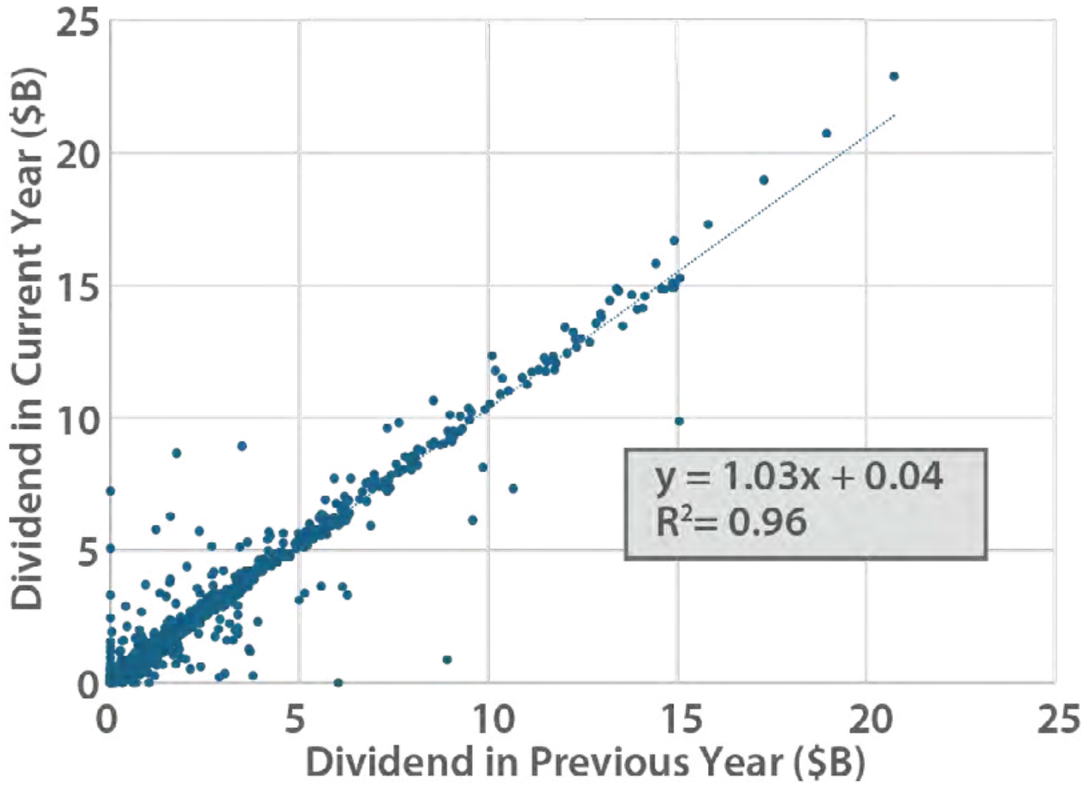
Companies Are Returning Plenty

Sometimes investors complain that companies are not as generous as they used to be. Not true! Looking at the aggregate data for the S&P 500, the fraction of income paid out as dividends is roughly the same as 30 years ago. In contrast, the percentage of net income returned to shareholders in the form of buybacks has trended up over the last three decades, albeit with wide fluctuations. The total shareholder payout, including both dividends and buybacks, has averaged over 80% of income in the past 10 years, well above the roughly 60% of 30 years ago.

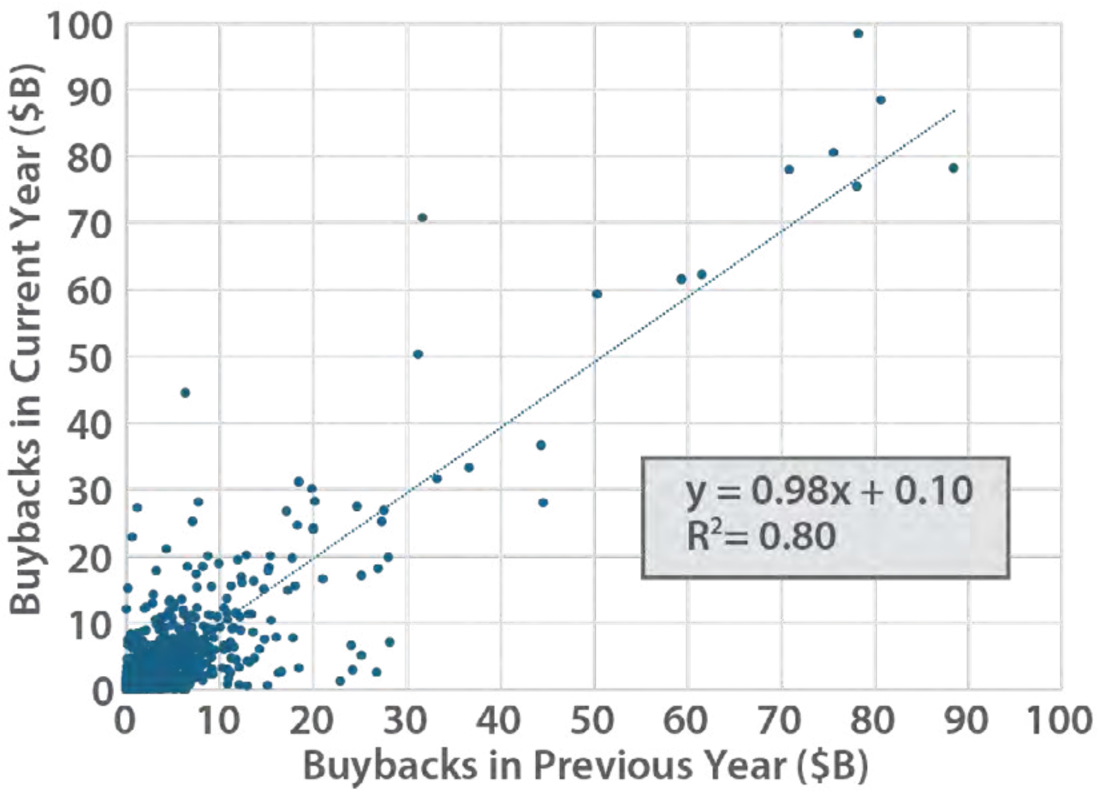
At Miller/Howard Investments, we view both dividends and buybacks as valuable returns of capital to shareholders. But, from an investor's standpoint, **regular dividends are preferable to buybacks, in our view, because they are more likely to continue.** One way to test our thesis is to examine how well dividends and buybacks in one year predict dividends and buybacks, respectively, in the subsequent year.

We see two strong conclusions in favor of dividends: Dollars spent by a firm on dividends are highly predictive of dividend spending in the subsequent year, with 96% of the variation explained. Buybacks are less predictive of future buybacks. Dividend spending ***rises*** 3% per year on average. In contrast, buyback spending ***erodes*** by 2% per year on average.

Past and Future Dividends Are Highly Correlated....



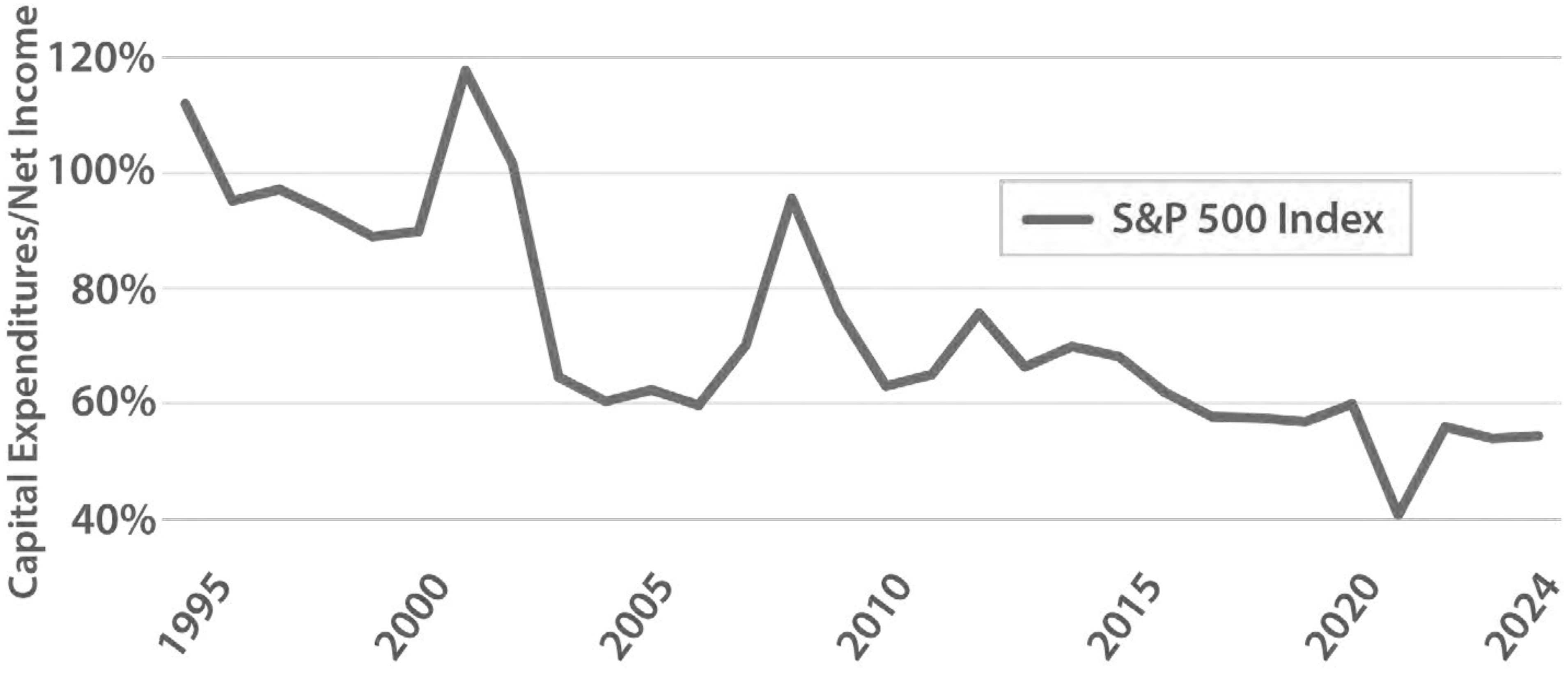
...But Past and Future Buybacks Are Less Linked



As of December 31, 2024. Source: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/2015. The buyback universe excludes members with net positive stock issuance.

Considering both dividends and buybacks, what explains the increasing payout of income to shareholders? Decades ago, a growing economy required that companies divert a significant fraction of earnings towards capital expenditure and working capital. In addition, intense competition kept a lid on corporate profit margins. In the past quarter century, we have seen a remarkable increase in the ability of S&P 500 companies to convert revenue into free cash flow. The forces behind this upswing include the adoption of capital-light business models and the emergence of dominant internet-based businesses.

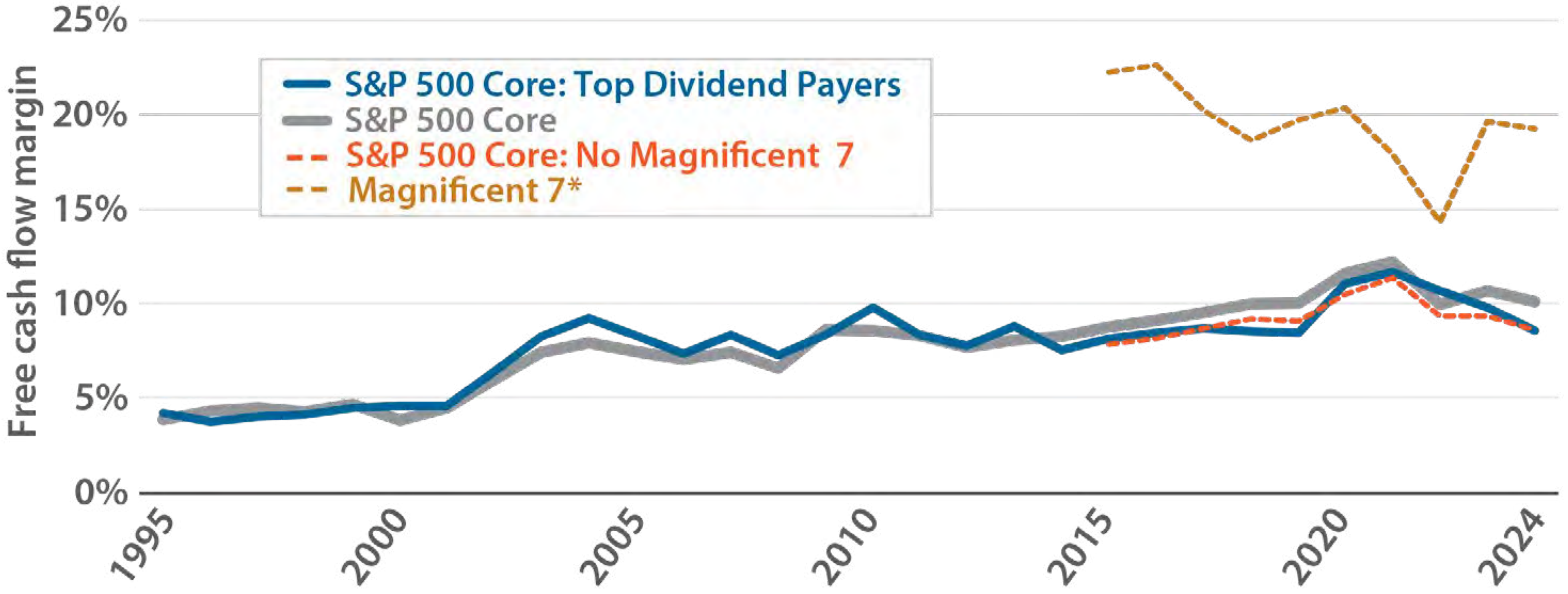
Capital Intensity Has Fallen



As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Capital expenditure and positive net income are aggregate.

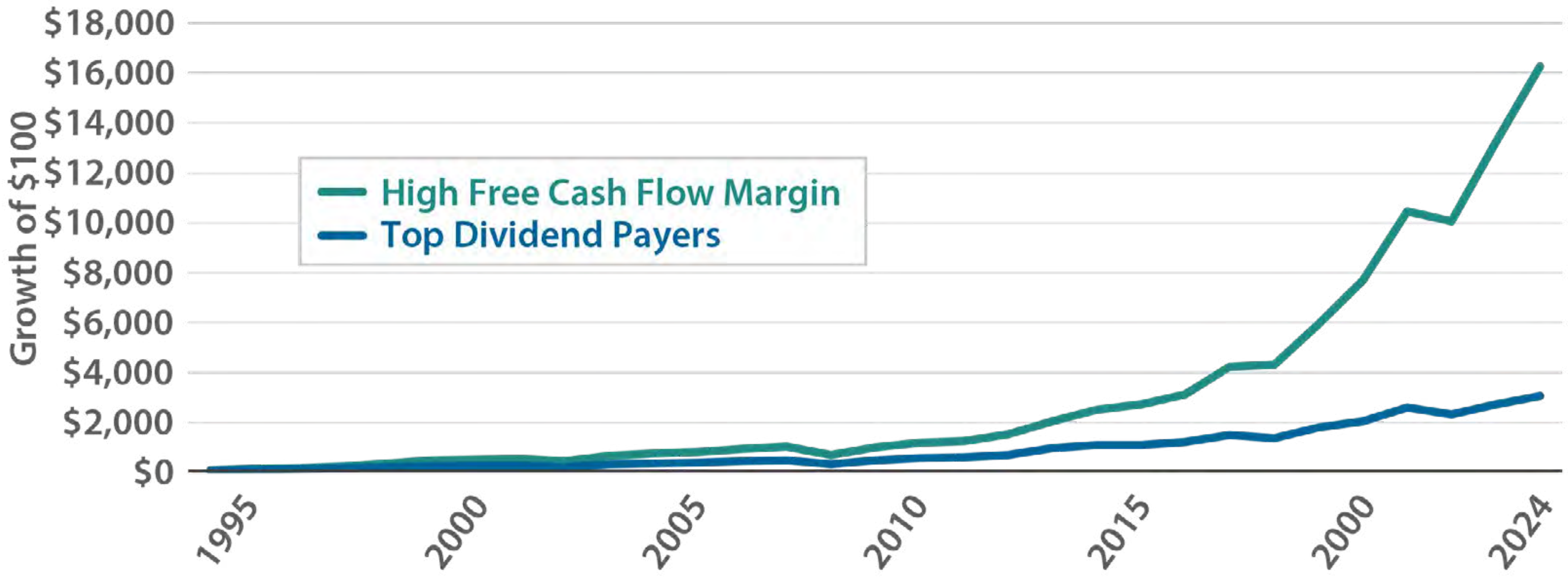
Companies in the top half of S&P 500 dividend yields have also seen an expansion in free cash flow margins, but they have trailed the overall S&P 500 over the past 10 years. The divergence has been driven entirely by the wide free cash flow margins of the biggest technology companies.

Expanding Free Cash Flow Margins



As of December 31, 2024. Sources: LSEG; Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. The S&P 500 Core excludes the financials, real estate, & utilities sectors, where free cash flow is not a meaningful metric. *Members of the Magnificent 7 are Alphabet (GOOGL), Apple (AAPL), Amazon (AMZN), Microsoft (MSFT), Meta Platforms (META), Nvidia (NVDA), and Tesla (TSLA). TSLA joined the S&P 500 and Magnificent 7 calculation beginning with the calendar year 2021. Free cash flow and revenue are aggregate. Dividend payers were calculated by total year dividends divided by market capitalization. Top dividend-payers are the top half of dividend payers within the S&P 500 Core universe; non-payers were excluded. Miller/Howard does not hold six of the members of the Magnificent 7; TSLA is held in a portfolio that is not currently available to outside investors.

Market Has Favored High Free Cash Flow Margins



As of December 31, 2024. Sources: LSEG; Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Free cash flow margin quintiles were created using the S&P 500 Core, which is the S&P 500 universe members excluding the financials, real estate, & utilities sectors. Dividend payers were calculated by total year dividends divided by market capitalization. Top dividend-payers are the top half of dividend payers within the S&P 500 Core universe; non-payers were excluded.

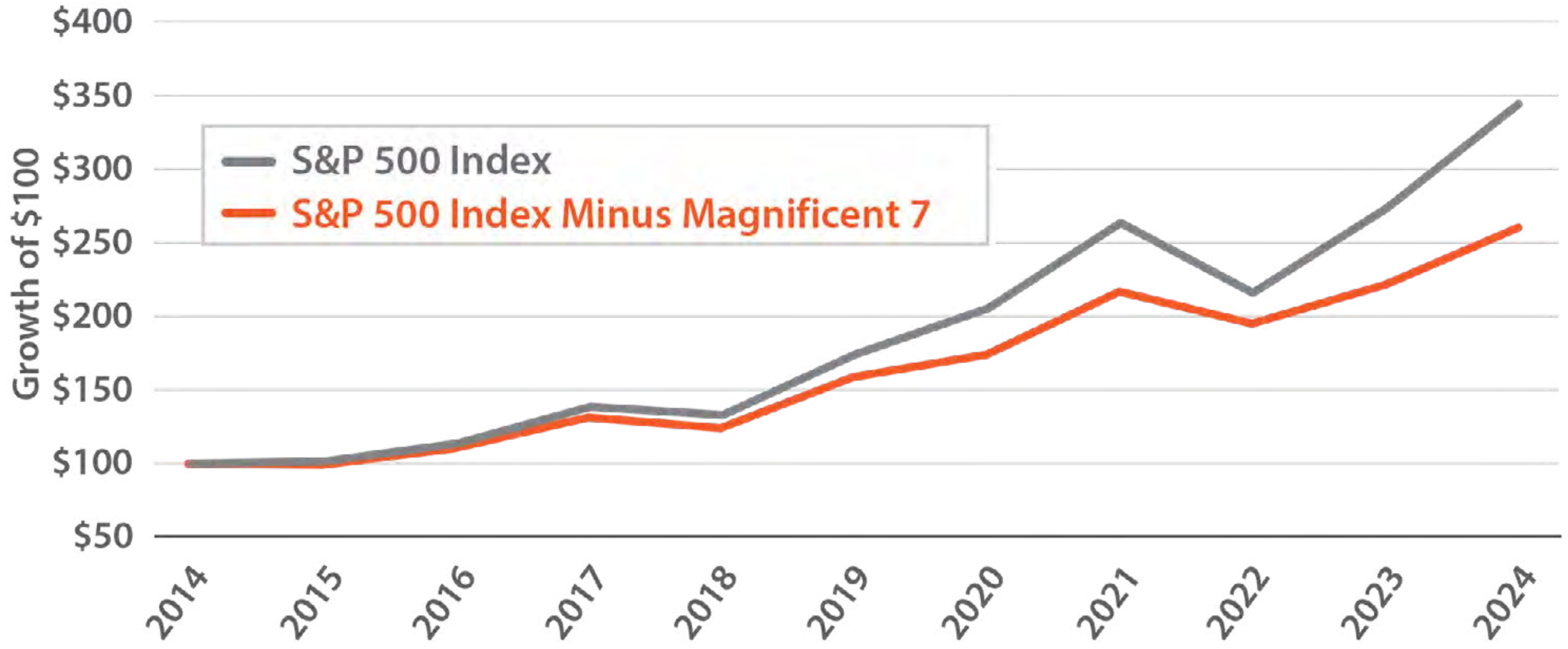
High free cash flow margins have been well rewarded by the stock market—the top quintile (the highest 20%) has outperformed massively over the past 30 years. It's questionable whether this can go on "forever" because free cash flow margins have no relationship to valuation. The trend runs counter to the maxim, "Everything has a price."

Our view at Miller/Howard is that the market's focus on free cash flow has been correct, but over the longer term, the analysis of free cash flow must be combined with a sensitivity to valuation.

Our mission is to build portfolios that produce high and rising income, so we have to start out with investments that have a high current dividend yield. Like growth investors, we appreciate business models with higher conversion rates of revenue into free cash flow. We want the healthy production of free cash flow—the essential ingredient for paying dividends. Some may think that only "growthy" stocks have this characteristic, but that's not true.

Pharmaceuticals and mature technology companies are two categories that tend to convert revenue to free cash flow at high rates.

Magnificent 7 Have Driven 10 Years of S&P 500 Index Returns



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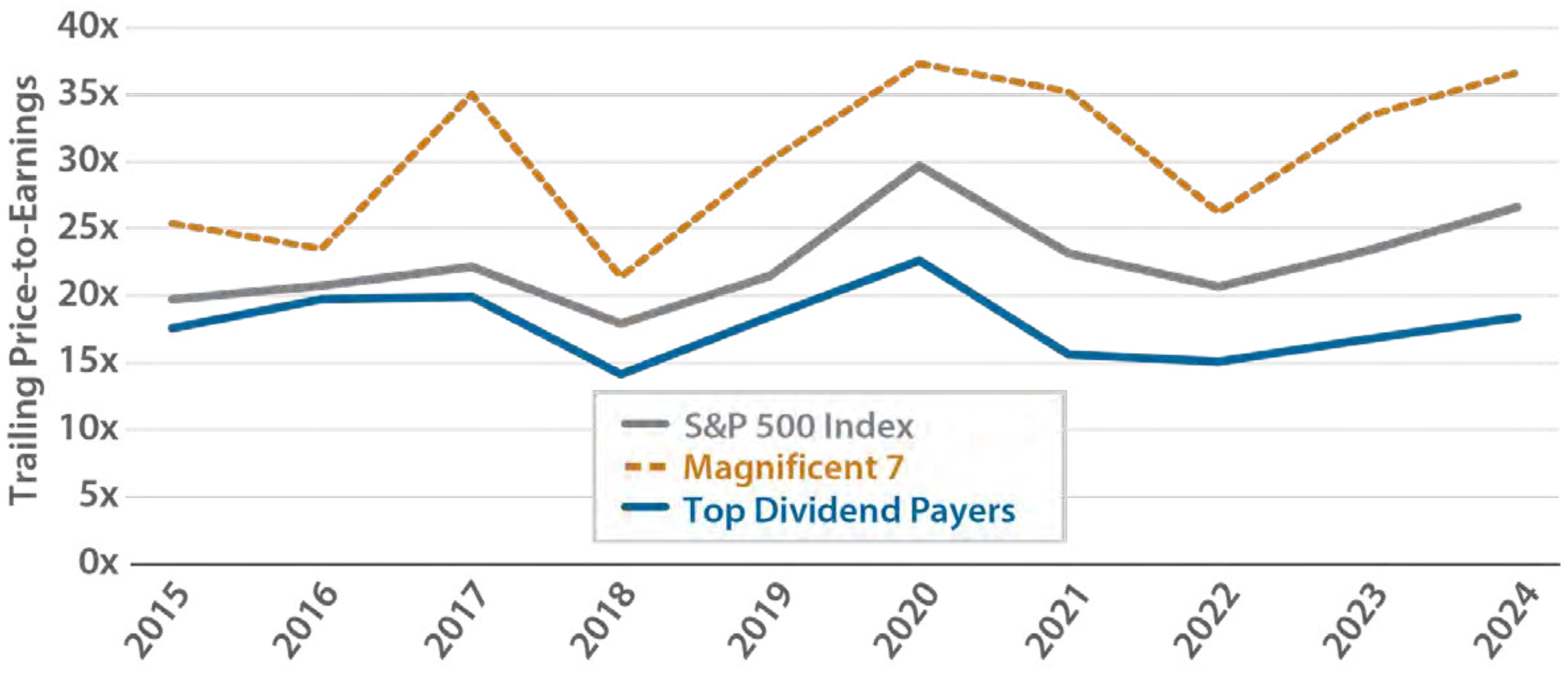
But in recent years, the Magnificent 7, with their high free cash flow margins, have dominated the returns of the S&P 500. Fully one-third of the S&P 500's total return over the past 10 years came from the Magnificent 7.

Threats to Mega Cap Growth's Dominance

There are three interrelated factors that could bring the Magnificent 7's winning streak to an end.

1. **High valuations.** These stocks are expensive, with an average trailing price-to-earnings ratio of almost 37x. For this P/E to make sense, earnings growth will have to continue to gallop for more than the next decade. For dividend investors, a simple calculation illustrates how high a 37x P/E is: Even if the Magnificent 7 had the dividend payout ratio equal to the top half of S&P 500 dividend-yielders (which they don't!), the Magnificent 7 dividend yield would still average less than 1%.

Magnificent 7 Are Expensive



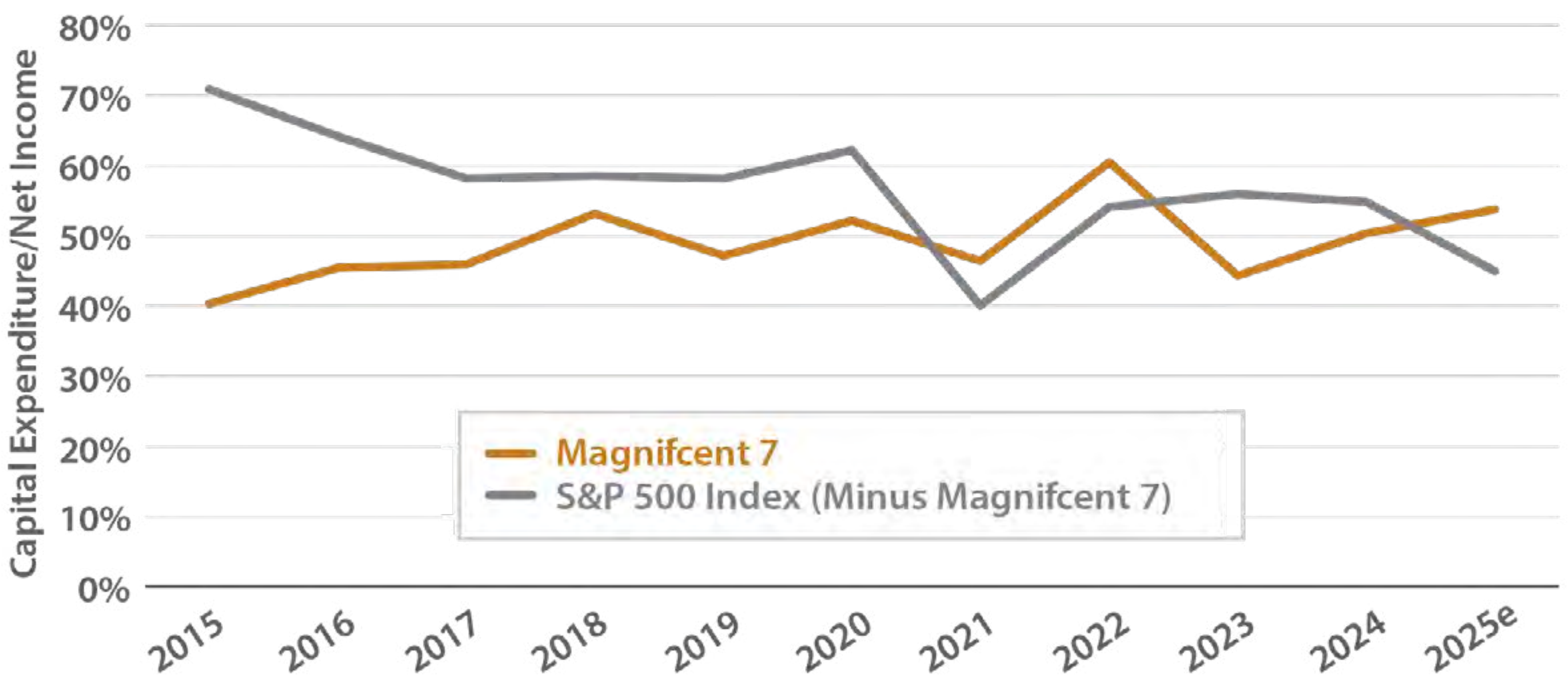
As of December 31, 2024. Source: LSEG. Dividend payers were calculated by total year dividends divided by market capitalization. Top dividend-payers are the top half of dividend payers within the S&P 500 Core universe; non-payers were excluded. Magnificent 7 stocks are Alphabet (GOOGL), Apple (AAPL), Amazon (AMZN), Microsoft (MSFT), Meta Platforms (META), Nvidia (NVDA), & Tesla (TSLA). Miller/Howard does not hold six of the members of the Magnificent 7; TSLA is held in a portfolio that is not currently available to outside investors. TSLA joined the S&P 500 universe and Magnificent 7 calculation beginning with the calendar year 2021.

Threats to Mega Cap Growth's Dominance

There are three interrelated factors that could bring the Magnificent 7's winning streak to an end.

2. **Growing capital intensity.** Building artificial intelligence (AI) capabilities is propelling up capital spending faster than income growth. The numbers wiggle each year, but the trend is clear. The Magnificent 7 have transformed from clearly capital-light business models to something that resembles the rest of the S&P 500.

Magnificent 7 Becoming More Capital Intensive



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Threats to Mega Cap Growth's Dominance

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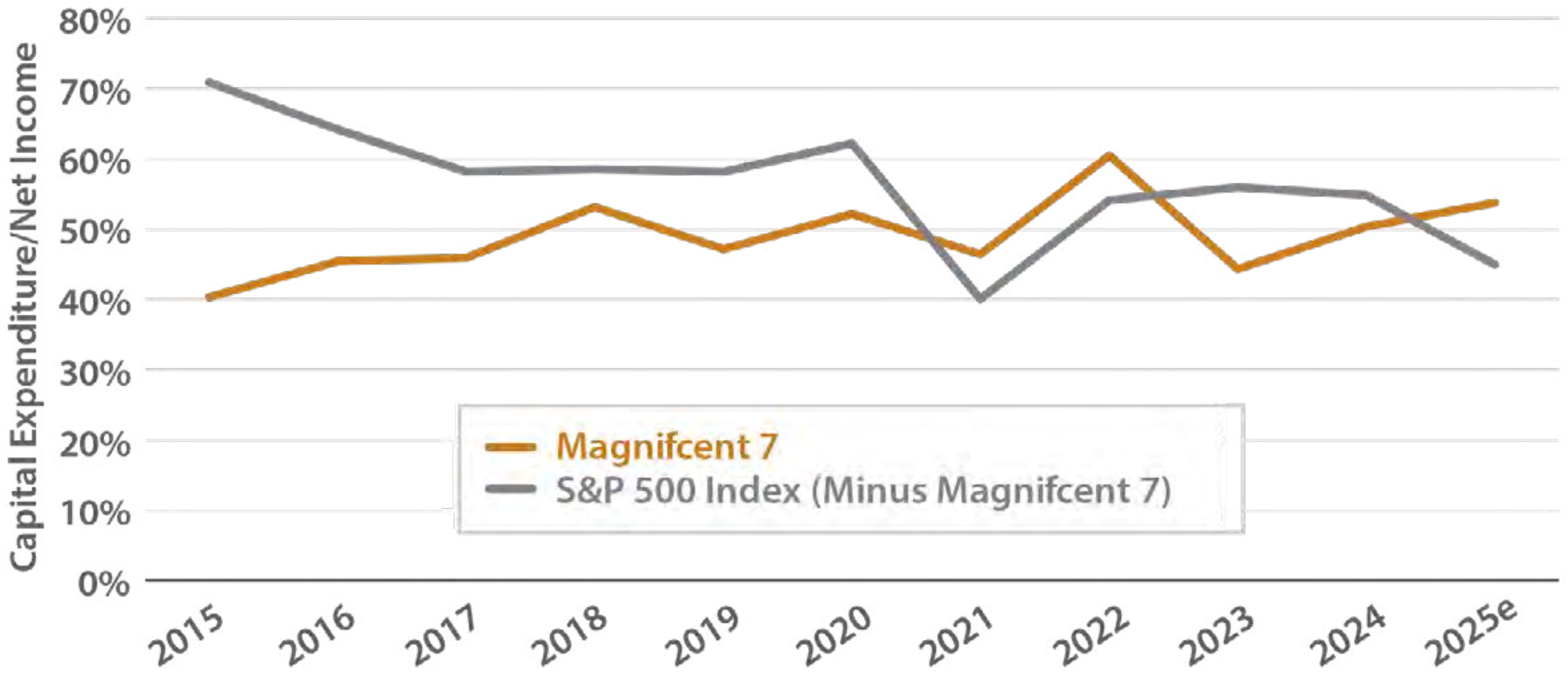
3. **Riskier outlook.** In the first quarter, the market was beset by multiple unknowns, most prominently an escalating battle over tariffs with our leading trading partners. Investors reacted to the uncertainty by shifting to traditional defensive stocks such as utilities, healthcare, and telecommunications. Recall, this was not the case during the scariest months of the pandemic when large tech stocks outperformed. In our view, high valuations and questions about the long-term payoff to massive AI investments have combined to remove the low-risk halo from the Magnificent 7.

Magnificent 7 Becoming More Capital Intensive



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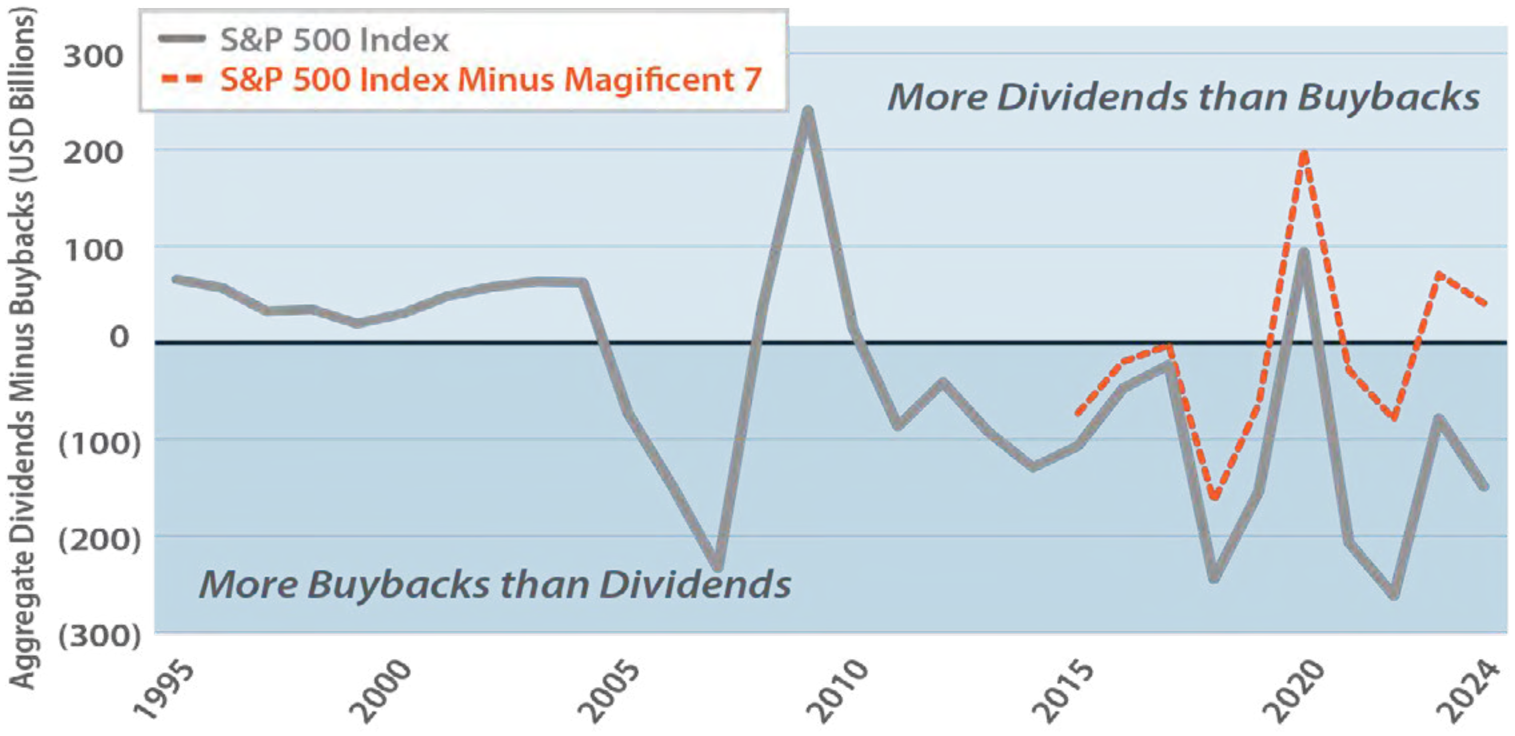
Where have the dividends gone?

The simple answer is that large tech companies have almost completely eschewed dividends in favor of stock buybacks. If we remove the Magnificent 7 from the S&P 500, dividends would have exceeded buybacks in the past two years, reverting to the pattern of 20 to 30 years ago.

Magnificent 7 Skew the Picture

More Dividends Than Buybacks, Ex-Large Tech



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We view the commitment to regular dividends as a signal of management's confidence in the company's long-term earnings power. Despite their evident success, dividend payments from the Magnificent 7 have been underwhelming. Growth investors remain enamored while income investors ask, ***"Why can't you commit to a better dividend?"***

Even if the large-cap tech stocks raised their payout ratios dramatically, high valuations would keep dividend yields on the low side. Over the past 30 years, stocks in the top half of dividend yields have averaged P/E ratios almost 4 turns lower than the S&P 500 simply because this allows room for good dividend yields without pushing payout ratios too high.

Current Characteristics Are Unusual

	1995-2024 (Average)		2024 (Average)	
	S&P 500 Index	Top Dividend Payers	S&P 500 Index	Top Dividend Payers
Price/Earnings (+)	20.1x	16.2x	26.6x	18.4x
Earnings Growth (+)	8.9%	9.0%	11.1%	5.9%
Revenue Growth	5.3%	4.2%	7.0%	5.7%
FCF Margin (Core)	7.7%	7.6%	10.1%	8.6%

As of December 31, 2024.
Source: LSEG; Bloomberg; Miller/Howard Research & Analysis. Dividend payers were calculated by total year dividends divided by market capitalization. Top dividend-payers are the top half of dividend payers within the S&P 500 Core universe; non-payers were excluded. The S&P 500 Core excludes the financials, real estate, & utilities sectors, where free cash flow is not a meaningful metric.

Over the last 30 years, the top half of dividend yielders have had similar earnings growth and free cash flow margins to the overall S&P 500, with slightly lower revenue growth. The current wide differences between top dividend payers and the S&P 500 Index are anomalous—and driven by the largest tech companies.

Current Characteristics Are Unusual

	1995-2024 (Average)		2024 (Average)	
	S&P 500 Index	Top Dividend Payers	S&P 500 Index	Top Dividend Payers
Price/Earnings (+)	20.1x	16.2x	26.6x	18.4x
Earnings Growth (+)	8.9%	9.0%	11.1%	5.9%
Revenue Growth	5.3%	4.2%	7.0%	5.7%
FCF Margin (Core)	7.7%	7.6%	10.1%	8.6%

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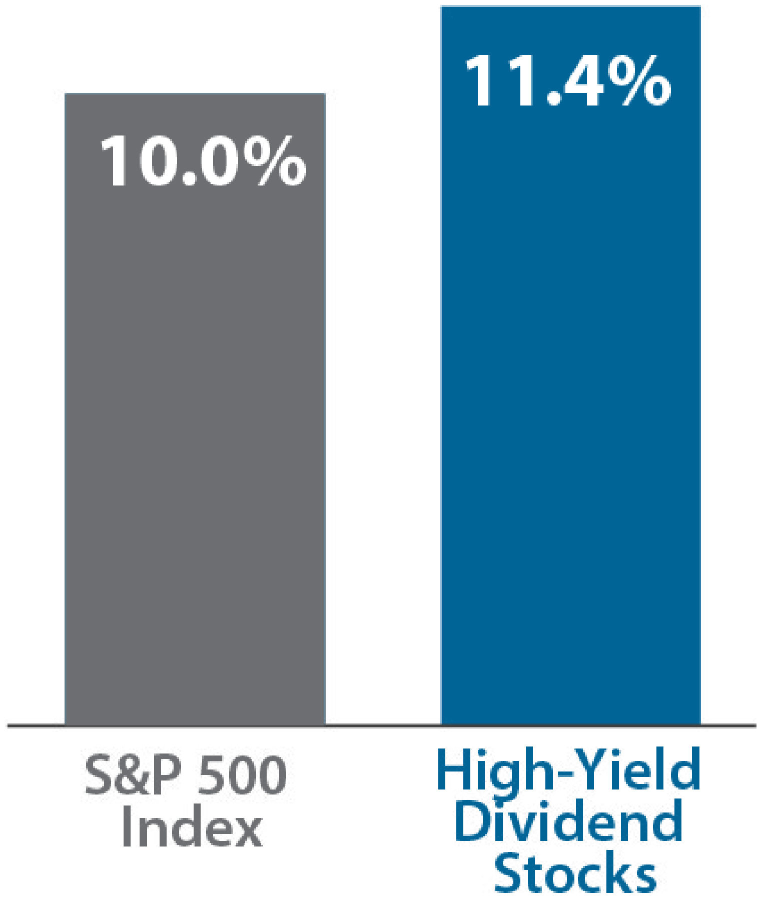
Dividend Stocks Historically Outperform

(1928-2024)



As of December 31, 2024. Sources: Morningstar Direct; Fama/French; Damodaran Historical Returns US (NYU Stern School of Business); Miller/Howard Research & Analysis. Annualized returns for High-Yield Stocks performance is based on an equal-weighted basket of the value-weighted historical returns of deciles 7, 8, & 9 of the Fama/French portfolios formed on dividend yield.

The differences between the broad market and dividend stocks could shrink in a variety of ways, with tech companies P/Es falling, growth rates and free cash flow margins moderating, or, most intriguingly, dividend paying behavior shifting. It may be hard to imagine now, but long-term trends can be telling, and over the very long term, high-paying dividend stocks have outperformed the S&P 500 handily.

Miller/Howard INVESTMENTS

DISCLOSURE

Miller/Howard Investments Inc. is an independent, research-driven investment boutique with over three decades of experience managing portfolios for major institutions, mutual funds, and individuals in dividend-focused investment portfolios. The firm is 100% employee-owned through an Employee Stock Ownership Plan (ESOP).

We continue to evolve and develop portfolios that strive to provide investors with various levels of current income and dividend growth. Our objectives are to generate total returns in line with the broad equity market and provide a high and rising stream of income with the lower volatility that an investor might seek from bonds or other income alternatives. With a primary goal of reliable income and long-term returns, coupled with a belief that investors can play an important role in securing a sustainable future, our shareholder advocacy efforts include environmental, social, and governance (ESG) research and/or screening, direct engagement with companies, filing shareholder resolutions, proxy voting, coalition building, and public policy involvement.

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DEFINITIONS

High-Yield Stocks reflects a basket of the total returns for deciles 7, 8, & 9 as provided by Fama/French (value-weighted).

S&P 500 Index® widely regarded as the best single gauge of large-cap US equities and serves as the foundation for a wide range of investment products. The Index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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