AIM DIVIDEND INDEX

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AIM – DOWN BUT NOT OUT

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Bear markets are no fun. London's top 100 may have held its own amid a year or more of convulsions in global equities, but AIM, whose member valuations are so much more sensitive to the rising cost of capital, has had a rough time. By the end of March, the AIM index had fallen by two fifths since its record high in August 2021.

Small wonder that IPOs have dried up. 2022 was the worst ever for new listings. Just twelve companies came to market, valued at a mere £552m and raising just £119m in new capital, the most meagre sums since AIM's first year in 1995[1] . 2023 got off to an equally slow start, with just two deals in the first quarter, both in the mining sector. The picture on the Main Market has not been much better – it is enduring its weakest IPO flow since the GFC.

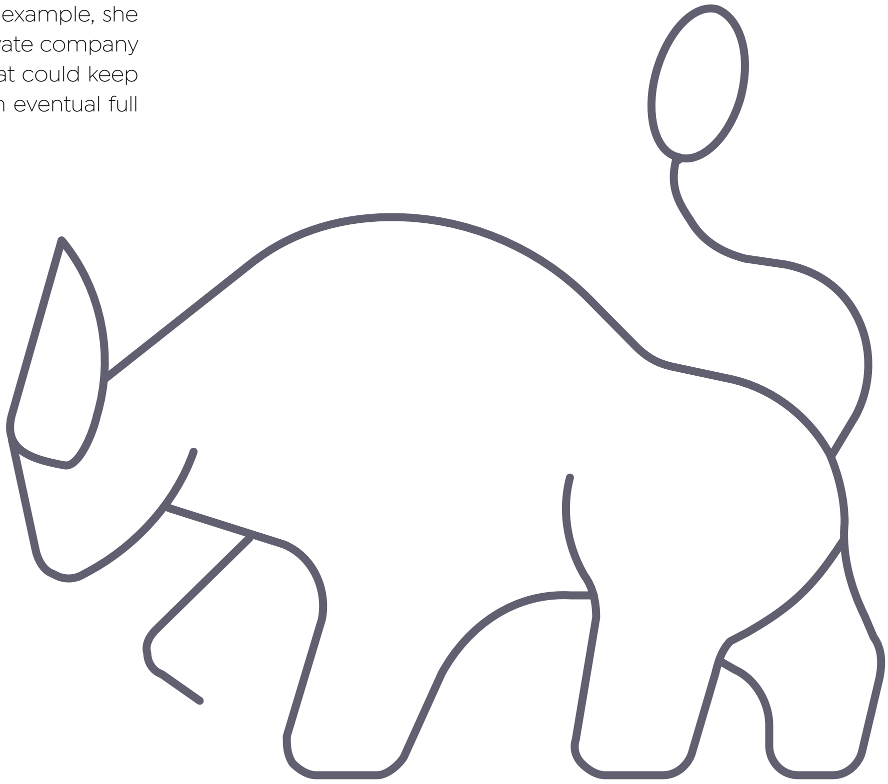
Lower valuations quite naturally deter those looking to sell their business or raise capital but a tough IPO market for London is not just about a bad year for equities. It also reflects some deeper structural concerns. Onerous regulatory and reporting requirements have increasingly deterred privately held companies from seeking a listing here. AIM was of course created to ease some of this burden, but wider reform of London's markets is overdue.

Some change is underway, such as a higher market cap threshold for Main Market IPOs that would push more companies towards AIM, but Julia Hoggett, CEO of the London Stock Exchange, is right to push for more. For example, she wants to see a regulated market for trading private company shares – a sort of half-way house to listing – that could keep more companies within the UK ecosystem with eventual full IPOs in mind.

Government, regulators and the LSE are finally grasping the nettle on reform. If they are bold, they can solve the structural issues holding London back. But they must proceed at speed.

As for the cyclical turmoil, bear markets come and go. This one is already long in the tooth by historical standards. Falling share prices have not stopped dividends growing – and rather strongly as our report shows. But they do herald pressure on profits that will feed through to dividends in due course. Even as dividend growth slows in the second half of this year, it is quite likely the market will pick up, anticipating a recovery in the economy. Over the last fifteen years or so, IPO volumes have risen substantially with each of the five upwards surges in the AIM index and subsided when the market has deflated. The current doldrums will pass when markets judge that the interest-rate cycle has definitively peaked. Indeed, pent-up demand to list is already growing. At Link Group we are seeing a marked uptick in the pipeline of deals for the coming year.

Bring on the bull.



[1] *Source: London Stock Exchange*

EXECUTIVE SUMMARY

Record 2022 for AIM

- AIM dividends surged to a new record in 2022, up 13.7% to £1.34bn
- Special dividends fell from their exceptional 2021 high, holding back the headline growth rate
- Underlying dividends (which exclude lower one-off specials) rose 26.8% to a record £1.21bn – strong growth reflected the catch up from the pandemic and strong profitability
- 30% of AIM's companies paid a dividend in 2022, almost back to normal after pandemic cancellations
- Growth was especially strong in the second half of the year

Growth slowed in Q1 2023

- Underlying dividend growth slowed to 13.8% in Q1, reaching a first-quarter record of £225m, £7m ahead of our forecast
- Headline payouts were boosted by very large one-offs and rose 51.5% to £307m, a record for the first quarter

Sectors & Companies

- Every sector saw higher dividends in 2022, but oil, industrials, mining and financials contributed most to growth
- In Q1 2023, oil, industrials and financials again drove growth, but miners and companies exposed to squeezed consumers began to make cuts

New listing effect

- New listings from 2021 contributed one seventh of 2022's growth (two percentages points), the best since the pandemic but well below the historic average
- Record low IPOs in 2022 mean the dividend contribution of new listings remains low in 2023

Yield

- Forward yield on AIM is 1.4% at whole-of-market level
- Excluding non-dividend-payers, AIM is set to yield 2.4% (excluding specials)

Outlook

- We expect underlying growth to slow through 2023 as the economy cools and earnings pressure flows through to dividends
- Underlying growth set to equal 2.9% for the full year, with record £1.24bn total paid
- Large one-offs in Q1 mean headline growth set to reach 3.8% for 2023
- 2023 dividends set for record headline £1.39bn

OVERVIEW

AIM dividends surged to a new record in 2022. The headline total jumped 13.7% to a total £1.34bn comfortably surpassing its pre-Covid peak. This puts AIM's dividend recovery streets ahead of the main market, where distributions remain well below their 2019 level. AIM's 2022 headline growth rate underplayed the true picture because one-off special dividends fell in 2022 from their record in 2021. These lower one-offs held back the 2022 headline growth rate, but the underlying total, which strips them out, jumped by a quarter (+26.8%) to £1.21bn, one eighth higher than the 2019 record.

The recovery is broadly based too. 30% of UK companies on AIM paid a dividend in 2022, up from 26% in 2021 and a record low 22% in 2020 when scores of companies cancelled payouts as the economy went into the Covid deep freeze. There is room for more. Between 2013 and 2019, 32% of AIM's UK companies were dividend payers.

Every sector saw higher dividends in 2022

2022 came in ahead of our expectations mainly thanks to the ongoing strengths in the four sectors – oil, industrials, mining and financials. Nevertheless, every sector raised payouts on an underlying basis. This reflected the ongoing ripples from the post-pandemic catch-up, as well as decent profitability.

Q1 2023 payout growth slowed but was still strong

The first quarter of 2023 saw a significant slowdown after the strong run in the second half of 2022. Payouts rose 13.8% £225m on an underlying basis, £7m ahead of our forecast and a record for the first quarter. Oil companies, industrials and financials again made the strongest contribution to growth, while the travel sector was boosted by Jet2, which restored its dividend after a 2-year Covid-19 gap. The addition of Victorian Plumbing's first dividend since its 2021 IPO made a large positive impact Q1 too, accounting for one seventh of the year-on-year underlying increase.

The headline total was even stronger jumping by 51.5% to £307m, thanks to very large special dividends, more than half of which came from Circle Property, which is in the process of winding down and disposing of its assets. The headline total was a record for the first quarter.

30%

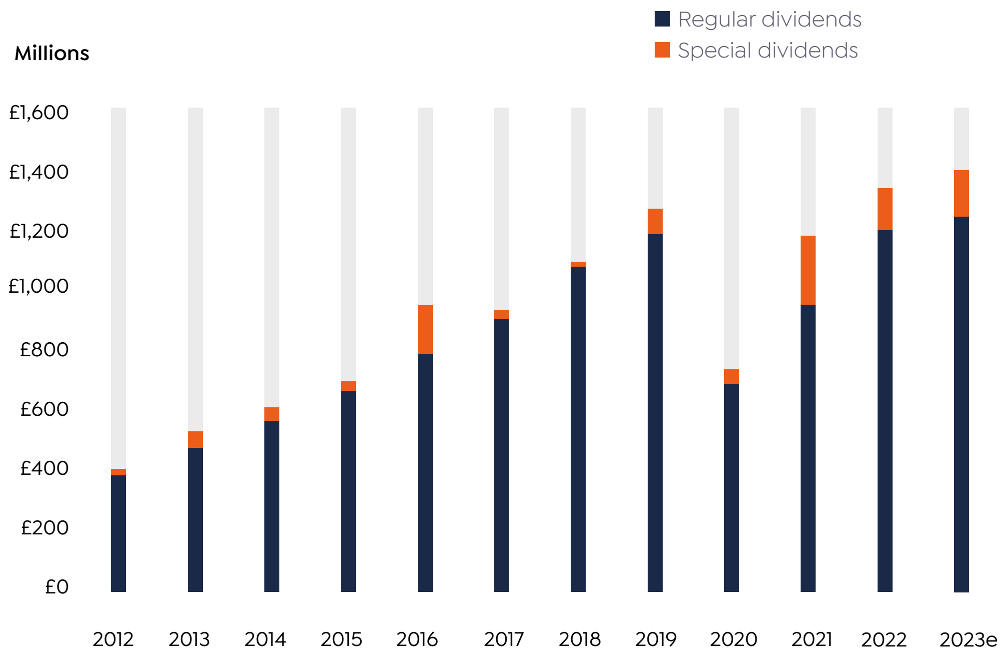
of UK companies on AIM paid a dividend in 2022, up from 26% in 2021

Payouts rose

13.8%

£7m ahead of our forecast and a record for the first quarter

AIM dividends 2012-2023



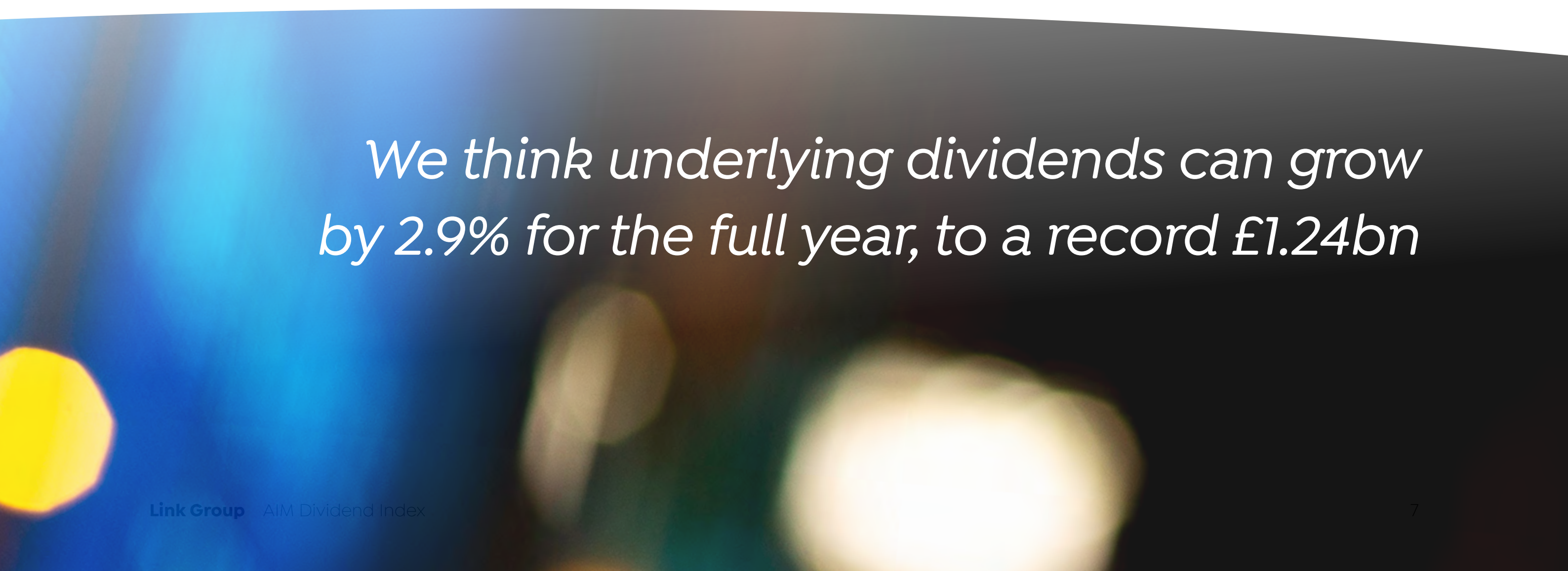
AIM 2022

Dividends paid

£m	Regular Dividends	Special Dividends	Total Dividends
2014	£565.5	£40.8	**£610.5**
	21%	*-34%*	**14%**
2015	£668.1	£21.6	**£610.5**
	18%	*-47%*	**14%**
2016	£785.5	£157.3	**£950.9**
	18%	*628%*	**36%**
2017	£907.4	£25.9	**£933.3**
	16%	*-84%*	**-2%**
2018	£1,078.7	£17.7	**£1,096.4**
	19%	*-32%*	**17%**
2019	£1,184.8	£86.1	**£1,270.9**
	10%	*388%*	**16%**
2020	£681.6	£52.5	**£734.1**
	-42%	*-39%*	**-42%**
2021	£951.5	£226.3	**£1,177.8**
	40%	*331%*	**60%**
2022	£1,206.2	£132.8	**£1,338.9**
	27%	*-41%*	**14%**
2023	£1,241.6	£147.6	**£1,389.2**

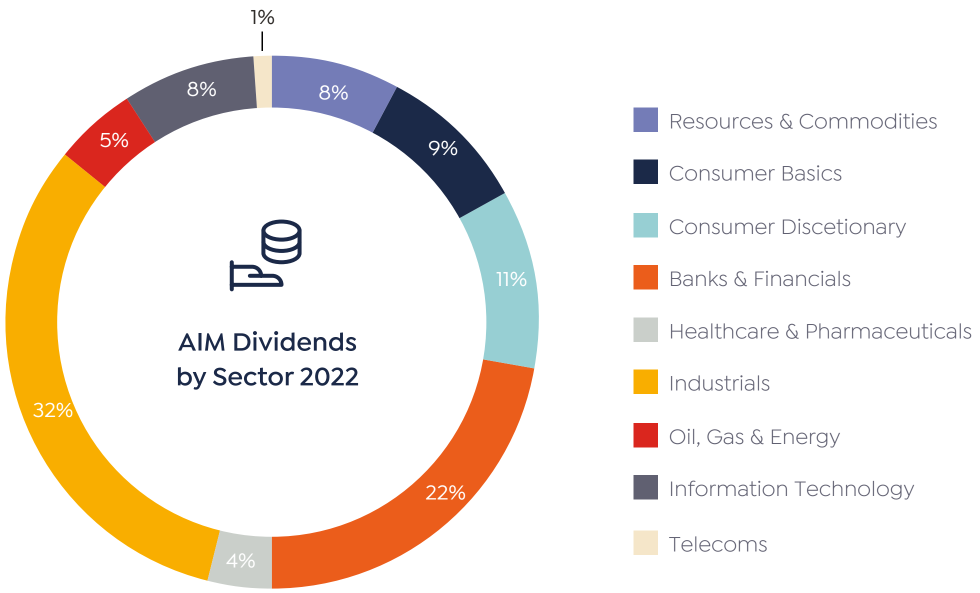
Outlook

A cooling economy means we do expect dividend growth to slow down. Dividends are a lagging indicator and profits are already under pressure from the effect of higher interest rates, inflation and the constraints on household spending power. Nevertheless, the strong start to 2023 means there is momentum into the second quarter. We expect a marked slowdown later in the year, the figures start from a higher base. We think underlying dividends can grow by 2.9% for the full year, to a record £1.24bn, but the boom in first-quarter one-off specials means the headline total can rise by 3.8% to an all-time high of £1.39bn.



We think underlying dividends can grow by 2.9% for the full year, to a record £1.24bn

SECTORS & COMPANIES



Every sector saw higher dividends in 2022

2022 was truly a vintage year for dividends, despite the gloomy market conditions. The excellent outcome beat our forecast mainly thanks to strength in four sectors – oil, industrials, mining and financials. But there was strength across the board as every sector raised payouts on an underlying basis.

Some of this strength reflected ongoing normalisation following the pandemic. The mining sector was a good case in point, where Gemfields returned to profit and paid its first dividend since its 2020 IPO, after making severe losses during the Covid-19 period. But it was also a feature of feature of robust corporate profits – oil is an obvious example here thanks to the energy boom. The strength in energy dividends obviously reflects the boom in prices of energy sources. Serica Energy and i3 Energy were main contributors. The energy sector is a much smaller share of AIM's capitalisation and dividends.

Dividends are often paid with a significant time lag on AIM, as they are declared on profits already safely in the bag, so the post-Covid catch-up has had a longer run-on AIM than it has on the main market. Again, the mining sector was a beneficiary as the Central Asia Metals paid a much increased dividend on strong historic profits even as current trading was heading downhill with global commodity prices. The company's next dividend has been cut.

There were pockets of weakness. For example, the final quarter saw a big cut from James Halstead, the commercial flooring producer, whose margins have come under severe pressure from input cost inflation.

Q1 2023 – strong growth but some cracks appeared

Q1's strong growth, ahead of our expectations, was mainly thanks to oil companies again, the boost to retail from Victorian Plumbing, solid increases from financials such as Impax Asset Management and good growth from industrials. But we are seeing some cuts emerging from companies sensitive to the squeezed consumer. For example, battery, lighting and vaping distributor Supreme and property developed Watkins Jones both announced profit warnings and cut their dividends as a result. IG Design's January 2022 profit warning meant dividends have been put on hold and this impacted the annual comparison in Q1 2023 too. Mining dividends are never large in Q1, but they fell by a fifth.

The effect of new listings

Two percentage points of 2022's growth, equivalent to one seventh of the increase, were delivered by companies that listed on AIM in 2021. This was the best contribution from new listings since before the pandemic, but compares unfavourably with the 2013-2018 period when annual dividend growth rates would on average get a seven percentage point boost from companies listed the year before. Peel Hunt and LendInvest were two examples of 2021 listings that paid their first dividends in 2022. Between them they accounted for half the growth in payouts from financials in 2022.

We obviously tend to see a much more modest effect from companies paying dividends in the same year they list – on average worth one percentage point of growth over the last decade. Yet with the IPO market effectively closed in 2022, new listers last year added just 0.1 percentage points to 2022's growth rate, one tenth of the historic average.

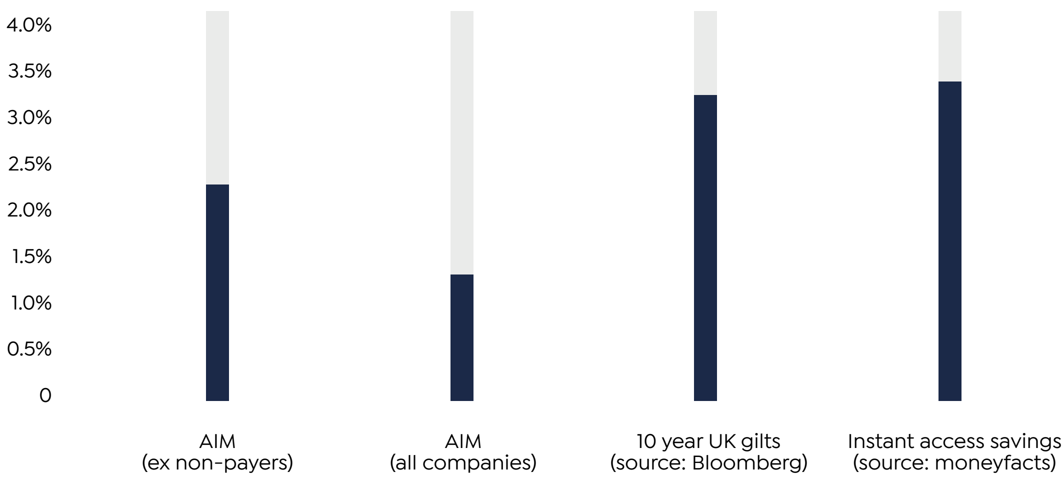
Clearly with almost no new listings in 2022, new companies will provide almost zero boost to 2023's growth rate.

Top Payers - £m

	2022		Q1 2023
Fevertree Drinks Plc	£68.8	Circle Property Plc	£46.2
iEnergizer Ltd	£47.3	RWS Holdings plc	£37.0
Serica Energy PLC	£46.3	Impax Asset Management Group Plc	£30.4
Polar Capital Hldgs Plc	£46.3	Impellam Group Plc	£25.0
RWS Holdings plc	£41.9	Polar Capital Hldgs Plc	£14.1
Central Asia Metals Plc	£39.3	Watkin Jones Plc	£11.5
Smart Metering Systems Plc	£37.6	Smart Metering Systems Plc	£10.1
Breedon Group Plc	£30.4	Premier Miton Group Plc	£9.9
Impax Asset Management Group Plc	£28.8	Victorian Plumbing Group Plc	£9.1
Gemfields Group Limited	£28.5	Renew Holdings Plc	£8.9
Total Top 10	**£415.1**	**Total Top 10**	**£202.2**
Top 10 as % of dividends paid	**31%**	**Top 10 as % of dividends paid**	**66%**

YIELD

UK Yield - Next 12 months



Over the next twelve months we expect the AIM market as a whole[2] to yield 1.4%; adding our estimate for special dividends would take this to 1.5%. If we just look at those companies that actually pay a dividend, then we expect these to yield 2.4% (ex-specials).

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[2] *Companies domiciled in UK, Channel Islands, Isle of Man, Ireland, excluding funds*

OUTLOOK

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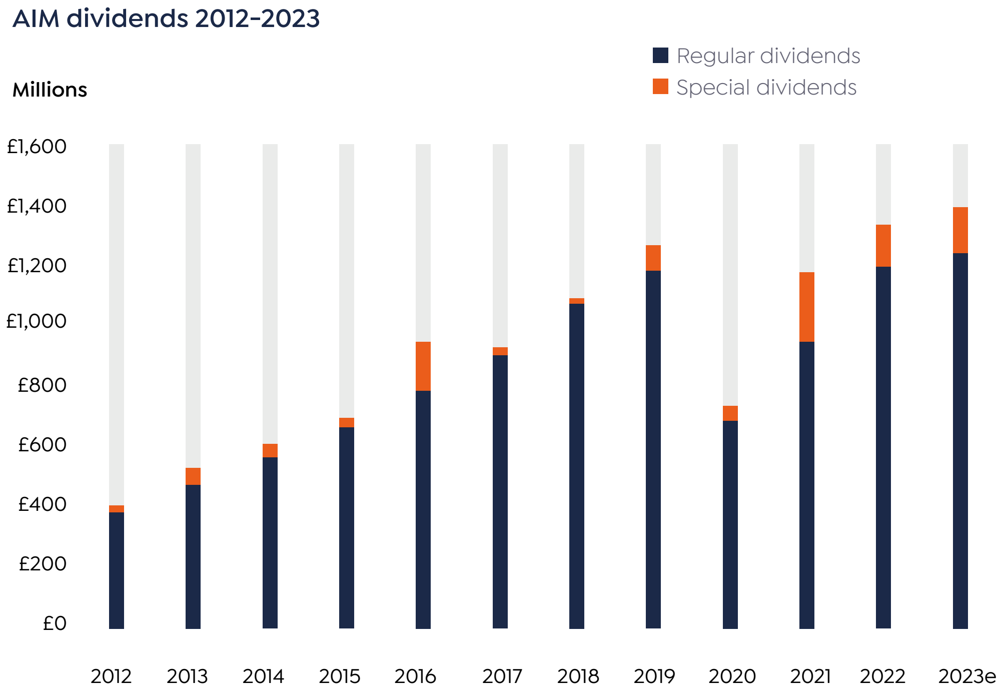

AIM dividends finished 2022 significantly more strongly than we expected and have made an encouraging start to 2023 too. The post-Covid catch-up effect has extended for a prolonged period and is still boosting the figures, but decent profitability among many AIM companies has made a very positive impact too.

Record AIM dividends contrast sharply with the dramatic decline in share prices – the AIM index fell by a third between the beginning of 2022 and the middle of April 2023. Lower valuations are first-and-foremost a feature of the higher cost of capital that compress the present value of future cash flows from growing companies. But they also reflect an expectation that profits will fall too as the economy succumbs to the cooling effect of higher interest rates. Those lower profits will feed through to dividends. We are seeing that already as miners and consumer-sensitive stocks – the canaries in the proverbial coalmine – have announced some cuts. At the market level we expect this to gather pace, at the very least arresting growth and potentially prompting outright falls at some point in the next year or so.

The strong first quarter, and momentum into the second, nevertheless mean we have upgraded our forecast for the year, even though the second half is likely to be markedly weaker than the first. We think underlying dividends can grow by 2.9% for the full year, to a record £1.24bn, but the boom in first-quarter one-off specials means the headline total can rise by 3.8% to an all-time high of £1.39bn.

APPENDIX

£ MILLION

Industry	Sector	2015	2016	2017	2018	2019	2020	2021	2022	Q1 2022	Q1 2023
Resources & Commodities	Mining	£35.6	£66.3	£66.3	£72.6	£92.5	£73.2	£61.1	£101.7	£2.2	£0.2
Resources & Commodities	Industrial Chemicals	£5.0	£4.2	£3.6	£3.7	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
Consumer Basics	Basic Consumer Goods	£0.0	£1.0	£8.4	£3.8	£9.8	£16.9	£24.1	£13.1	£3.8	£0.9
Consumer Basics	Food Retail	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
Consumer Basics	Food, Drink & Tobacco Producers	£30.1	£42.1	£49.2	£49.4	£55.4	£43.4	£51.3	£112.0	£2.7	£0.0
Consumer Discretionary	Airlines, Leisure & Travel	£21.7	£31.9	£34.7	£36.8	£38.0	£10.0	£16.4	£23.4	£0.0	£6.4
Consumer Discretionary	General Retail	£37.1	£60.4	£69.6	£55.0	£38.5	£7.0	£6.9	£10.3	£2.4	£17.1
Consumer Discretionary	Housebuilding, Consumer Goods & Services	£21.7	£32.9	£46.1	£60.4	£65.1	£24.9	£47.0	£59.6	£20.2	£16.0
Consumer Discretionary	Media	£24.0	£33.5	£36.4	£59.6	£55.0	£23.8	£39.7	£47.4	£0.0	£0.2
Banks & Financials	Motor Manufacturing & Parts	£0.0	£0.0	£0.0	£0.2	£0.3	£0.0	£0.0	£0.0	£0.0	£0.0
Banks & Financials	Banks	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£5.5	£5.9	£0.0	£0.0
Banks & Financials	General Financials	£158.4	£235.5	£175.3	£211.7	£225.0	£140.2	£227.9	£258.4	£71.0	£78.1
Banks & Financials	General & Life Insurance	£6.8	£7.2	£7.8	£9.1	£7.8	£4.2	£5.3	£5.4	£0.0	£0.0
Banks & Financials	Property	£24.2	£45.3	£38.7	£9.1	£50.8	£46.4	£15.6	£25.5	£7.4	£52.7
Healthcare & Pharmaceuticals	Healthcare & Pharmaceuticals	£42.1	£50.1	£61.8	£70.6	£83.8	£57.4	£68.6	£59.4	£3.9	£4.2
Industrials	Building Materials & Construction	£34.4	£57.1	£47.8	£52.2	£57.2	£41.9	£67.9	£90.2	£13.9	£14.2
Industrials	Industrial Goods & Support	£152.9	£170.9	£181.7	£231.2	£275.1	£154.1	£384.5	£334.6	£58.8	£90.5
Oil, Gas & Energy	Oil, Gas & Energy	£4.8	£17.5	£8.3	£27.9	£123.8	£56.3	£23.5	£69.4	£1.2	£9.1
Information Technology	Information Technology	£74.8	£78.2	£80.0	£88.1	£91.9	£62.3	£92.8	£101.1	£15.5	£16.8
Telecoms	Telecoms	£25.3	£28.0	£21.7	£23.5	£25.1	£11.8	£41.9	£18.6	£0.0	£0.7
Domestic Utilities	Domestic Utilities	£2.8	£0.5	£4.3	£1.0	£0.8	£0.3	£1.5	£2.8	£0.0	£0.0
TOTAL		**£696.7**	**£950.9**	**£933.3**	**£1,096.4**	**£1,270.9**	**£734.1**	**£1,177.8**	**£1,338.9**	**£202.9**	**£307.4**

Statistical Methodology

Link Group analyses all the dividends paid out on the ordinary shares of companies listed on AIM. The research excludes investment companies such as listed investment trusts, whose dividends rely on income from equities and bonds. The AIM Dividend Index takes no account of taxation on dividends, which varies according to investor circumstances. The raw dividend data was provided by Exchange Data International, and additional information is sourced directly from companies mentioned in the report.

LINK Group