AIM Dividend Monitor

Issue 1 – September 2018

Part of **Link Group**

Introduction

The Alternative Investment Market was launched in 1995 as a growth market dedicated to small and medium-sized companies. It provides access to external finance that may be required in sums too large for founders to raise privately, but its lighter-touch regulatory structure is tailored to fledgling companies' needs.

During the last 23 years, over 3,800 companies joined its ranks, raising £110bn between them, according to the London Stock Exchange. £45bn of this was at the time of flotation, while the rest (£65bn) was capital companies raised later to fund their expansion, underlining the importance of additional financing for growing firms. Around a fifth of those joining AIM were overseas companies seeking a UK listing, but most were domestic businesses. Today there are just under 800 UK companies listed on AIM, with a combined market value of £103bn.

Over the last ten years, IPO activity has been more muted, and remains some way below the frenetic pace of new listings in the early 2000s. Since 2013, AIM has seen an annual £1.5bn in IPOs on average.

Even though IPO activity is slower than its pre-2008 highs, AIM companies are still enthusiastically tapping investors for additional finance to fund their growth, raising close to £5bn each year of late. In 2017, the UK's main market only raised twice as much (£9.5bn), despite being more than 25 times larger than its junior counterpart.

Conventional wisdom has it that small companies go for growth and only consider paying dividends as their businesses mature. This still holds true, but nevertheless, AIM companies are increasingly paying an income to their shareholders.

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Executive summary

AIM dividends come of age

- AIM dividends tripled between 2012 and 2018, almost four times faster than main market dividend growth.
- Average annual growth has been 18.6% compared to 4.9% on the main market.
- After adjusting for new issues and delistings, AIM dividends have grown 15% on average every year since 2012.
- Increasing maturity of many AIM companies, the larger size of new listings, and a speedier path to dividend payment are behind the trend.

How many companies pay dividends?

- One-third of AIM's companies pay dividends, up from one quarter in 2012.
- By contrast, almost four-fifths of main market companies make payments.

Special dividends

- One-off special dividends have made up a slightly larger share of the total on AIM compared to the main market.

Yield

- The yield on AIM is much lower than the main market – 1.2% for the year ahead compared to 3.9%.
- This reflects the earlier stage in AIM company development.
- If we exclude non-payers, the gap is much smaller – on this basis, AIM dividend payers yield 2.1%.

Top Payers

- Top ten AIM payers made up 24% of all dividends in 2017, down from 30% in 2012.
- AIM dividends are much less concentrated and more diversified than the main market, where the top ten account for half the total.

Sectors

- AIM dividends show a different sector split to the main market, with a greater focus on industrials and IT, and less dependence on oil companies.
- AIM companies are more domestically focused, whereas dividends on the main market are dominated by multinationals.

Outlook

- We expect growth of 19.6% to a record £1.16bn in 2018 and growth of at least 14% in 2019.
- AIM companies as a whole are still absorbing much more capital for investment than they are returning to shareholders, but the trend towards higher dividends will continue.

AIM comes of age as dividends triple since 2012

The first half of 2018, payouts **rose 22%** year-on-year to **£511.5m**, almost as much as in the whole of 2013

In 2018 we expect dividends paid by AIM listed companies to **reach £1.16bn**, almost three times larger than the **£417m** they distributed to shareholders in 2012

After adjusting for new issues and delistings, AIM dividends have **grown 15%** on average ever year since 2012

Dividends paid by AIM-listed companies are growing rapidly, far outstripping the pace set by their main market counterparts. This year, we expect them to reach £1.16bn, almost three times larger than the mere £417m they distributed to shareholders in 2012, and breaching the £1bn milestone for the first time. Over the last six years, AIM dividends have surged at an average annual rate of 18.6%, almost four times the 4.9% annual growth rate achieved by dividends from companies on the main market.

For a stock market designed to foster the ambitions of fledgling companies, it's perhaps a surprise that between 2012 and the end of 2018, AIM companies will have paid their investors almost £5.5bn in dividends.

2017 saw headline dividends fall slightly, as very large one-off special dividends in 2016 were not repeated. The promotion of New River REIT to the main market also depressed the regular dividends total. 2017 was in line with trend growth once these factors were taken into account. In 2018, the picture has been far clearer, and again was in line with the trend of rapid growth. In the first half of 2018, payouts rose 22% year-on-year to £511.5m, almost as much as in the whole of 2013.

Of course, it's much easier for dividends to grow rapidly if they are coming off a low base, but it is an impressive achievement to sustain growth rates consistently at these levels for several consecutive years.

Three factors lie behind the trend. First, and most importantly, many companies on AIM are maturing, so distribution is becoming an important part of their investment story. Fevertree, the premium tonic mixer manufacturer, is a good example. It came to the market in 2014. It has grown rapidly, and is handing out its rising profits to shareholders. In the last twelve months it distributed £12.3m, ten times more than in 2015. It is the second largest company on AIM by market value. James Halsted, the flooring company, has been around much longer, and has the best record of any UK-company for its steady increases in dividends every year.

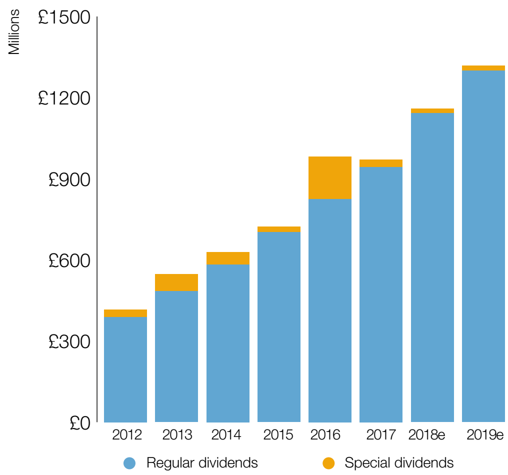
Secondly, the size of new companies joining AIM is larger. In the last five years, IPOs have averaged a little over £20m in size. In the previous five, it was just £12m. All other things being equal, larger companies tend to pay larger dividends.

Finally, new companies joining AIM are paying dividends at an earlier stage than in the past. This may be partly

	2012	2013		2014		2015		2016		2017	
Regular Dividends	£389.4	£484.2	24%	£583.3	20%	£702.4	20%	£825.1	17%	£943.7	14%
Special Dividends	£27.5	£64.2	134%	£46.2	-28%	£21.6	-53%	£155.7	620%	£25.9	-83%
Total Dividends	**£416.9**	**£551.6**	**32%**	**£633.7**	**15%**	**£731.0**	**15%**	**£988.8**	**35%**	**£969.6**	**-2%**

	2018e		2019e		2017 H1		2018 H1	
Regular Dividends	£1,142.2	21%	£1,299.3	14%	£400.0	17%	£500.7	25%
Special Dividends	£17.0	-35%	£18.7	10%	£19.8	-41%	£10.8	-45%
Total Dividends	**£1,159.2**	**20%**	**£1,318.0**	**14%**	**£419.7**	**9%**	**£511.5**	**22%**

AIM Dividends 2012 - 2019



a function of their larger size. Last year almost one third of those that listed in 2016 paid a dividend within a year. In 2013, just one fifth of those that listed in 2012 paid one. 2016/17 is likely a rather exceptional year, but even so, we believe expectations are entrenching that companies will pay dividends more quickly after listing.

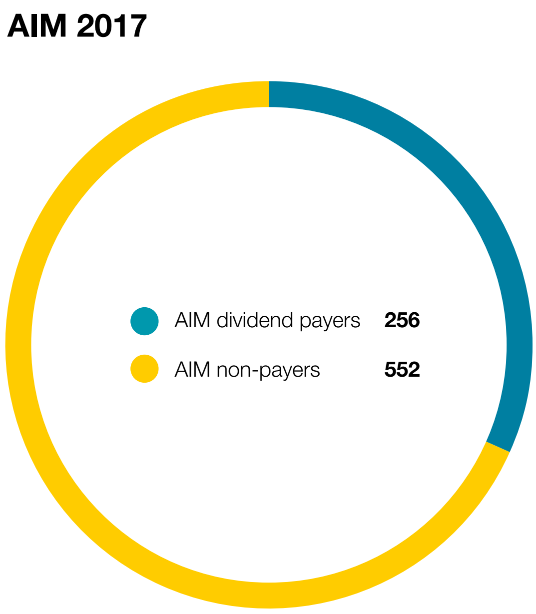
New listings have contributed to the growth in AIM's total dividend payments. Companies listed since 2012 paid £940m in dividends between 2013 and the middle of 2018, equal to a fifth of the total paid by all AIM companies in the same period. Of course, companies also leave the market. AIM sees much greater turnover of listings than its larger main market counterpart because small companies are often taken over, are sometimes taken private, move onto the main market, and occasionally simply fail. For example, Conviviality, the drinks wholesaler, listed in 2013, paid £22m in dividends in 2017, and went bust in 2018. If we adjust for companies joining and companies leaving AIM, then AIM's dividends more than doubled between 2012 and the middle of 2018, an annualised growth rate of 15%.

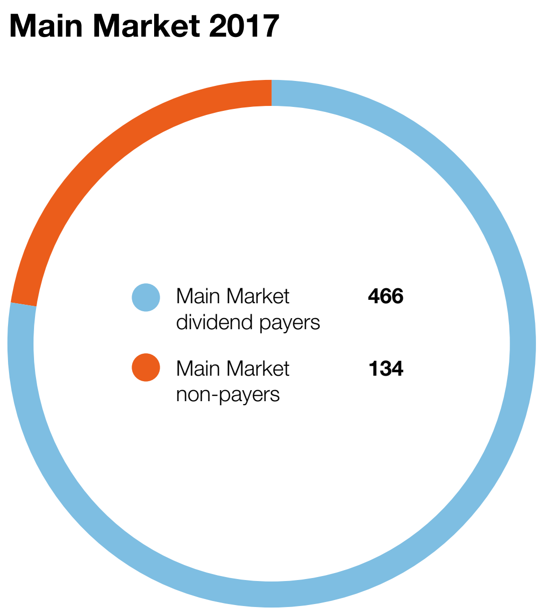
On the main market the effect of new joiners on the overall growth rate is negligible; they are outgunned by the dominance of enormous multinationals, many of which distribute billions of pounds every year.

Three factors lie behind the trend. Increasing maturity of many AIM companies, the larger size of new listings, and a speedier path to dividend payment.

“Dividends paid by UK companies listed on the Alternative Investment Market are set to burst through the £1bn mark in 2018 for the first time.”

How many AIM companies pay dividends?





We expect 257 AIM companies to pay a dividend this year, just under one-third of all those listed on the exchange. The number paying has stayed steady over the last three years despite an ongoing decline in the number of companies listed on AIM. The proportion of dividend payers has therefore risen from just over a quarter in 2012 to the current level. By contrast, on the main market, almost four-fifths of companies will distribute cash to shareholders this year. The difference shows how earlier-stage enterprises are still much less prone to paying dividends, despite the current trend showing rapidly growing payouts.

The relatively large turnover of AIM's listings is clear in the number of dividend payers. 439 different companies have paid at least one dividend since 2012. We estimate that just over 100 of these are no longer listed on AIM.

Only one-third of AIM companies pays a dividend, compared to four fifths on the main market.

Special Dividends

On AIM special dividends have comprised **almost 7%** of total payouts between 2012 and mid-2018, a little ahead of their main market counterparts

The total value of specials paid between 2012 and 2017 was **£341m**

Special dividends were much lower in 2017 and look set for a modest out-turn for 2018

Special dividends are typically paid by companies when something unusual has created a big one-off gain. This might be a large asset disposal that leaves a surplus of cash on the balance sheet, or it can happen when one company merges with another, shedding unnecessary capital as part of that process. AIM companies may also be designating specials if they are not yet ready to make regular dividends.

Sometimes, companies just declare special dividends if they feel they are experiencing a period of super-normal profitability. This last reason is hardest to justify, as it usually means companies are operating in cyclical industries, with profits that rise and fall over time. Despite the ups and downs in their financial results, they want to avoid showing any volatility in their regular dividend. By topping up with specials, they can point to consistent regular dividend growth, even in the bad times. This behaviour highlights how progressive dividend policies (which promise to hold or raise the regular dividend every year) can be a trap for some cyclical companies. Adopting a dividend policy that ties payouts explicitly to profits would make more sense, an approach that is common in many other parts of the world, and which has recently begun to gain traction in the large listed mining sector here in the UK.

On the main market, special dividends have been rather large in the last few years, contributing 6% to the total pot. Even on AIM they have comprised almost 7% between 2012 and mid-2018, a little ahead of their main market counterparts. The total value of specials paid between 2012 and 2017 was £341m.

Specials were particularly large in 2016, totalling £156m, and meant the total dividends paid by AIM companies was larger in 2016 than in 2017. Arbuthnot Banking Group distributed £48m to its shareholders in the wake of strong trading conditions. It was the largest overall dividend payer that year. The bank continues to do well today and is just outside the top 50 list of payers over the last twelve months.

Special dividends were much lower in 2017 and look set for a modest out-turn for 2018 too. We expect around £17m this year. The largest paid so far in 2018 was £5.5m from Kape Technologies (formerly Crossrider). Unusually for a dividend payer, the company is loss making, but it is highly cash generative, and so is sharing some of this cash with its investors. By designating the dividend a ‘special’, the company is signalling to shareholders that dividends are likely to be sporadic for the time being.

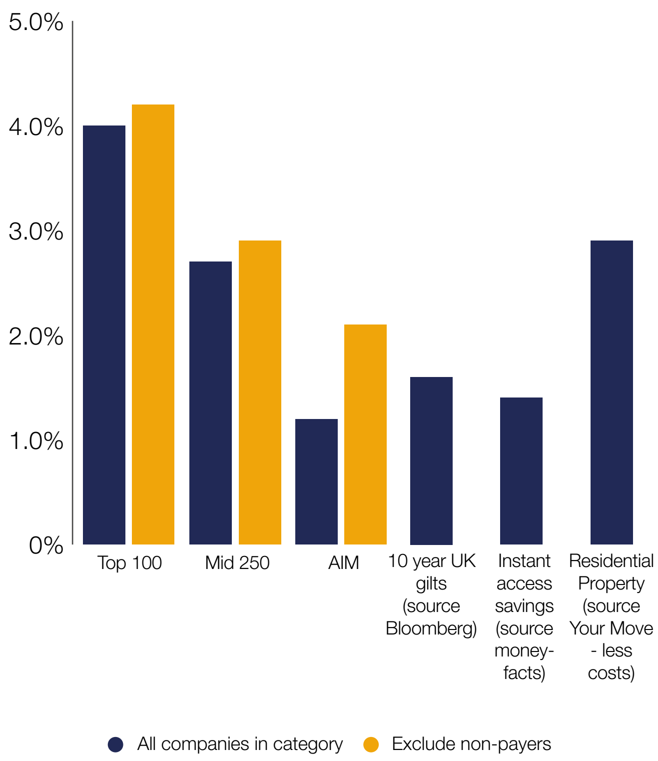
Yield

The yield compares the amount of income paid by an asset to its price. As a whole, the yield on the AIM market is around two-thirds lower than the main market. It is natural for younger companies to choose to retain more capital to fund their growth rather than paying dividends. They therefore tend to have lower yields than large cash-generative multinationals in mature industries. Over the next 12 months, we expect AIM to yield a collective 1.2%, compared to 2.7% for the mid-cap sector on the main market and 4.0% for the UK's hundred largest companies. The main market overall (which includes companies outside the top 350) will yield 3.9%.

By comparison to other asset classes, that puts AIM behind cash, government 10-year bonds, and property.

But a much lower proportion of AIM companies actually pays a dividend, so including the non-payers brings the average down considerably and distorts the comparisons. Excluding non-payers shows a different picture. Dividend payers on AIM will collectively yield almost 2.1% over the next twelve months. This is much closer to the main market mid-cap payers' 2.9% and the top 100's 4.2%. On this measure, it also leaves the yield on dividend-paying AIM companies ahead of other asset classes like bonds and cash, and it comes with growth.

UK Yields - next 12 months



Top Payers

2017 £m		2016 £m	
Highland Gold Mining	£33.8	Arbuthnot Banking Group Plc.	£52.9
Redde plc	£32.2	Juridica Investments	£44.1
James Halstead plc	£27.0	James Halstead plc	£41.2
Secure Income REIT Plc	£25.0	Redde plc	£28.3
Polar Capital Hldgs Plc	£22.9	NewRiver Retail Limited	£26.2
Conviviality Plc	£21.8	Highland Gold Mining	£24.4
Abcam	£20.8	Polar Capital Hldgs Plc	£22.7
Central Asia Metals Plc	£18.4	Abcam	£18.1
Emis Group Plc	£15.6	Empyrean Energy	£17.5
M.P. Evans Group Plc	£15.4	Pan African Resources Plc	£17.1
Top 10 Total	**£232.8**	**Top 10 Total**	**£292.5**
Total AIM Dividends	**£969.6**	**Total AIM Dividends**	**£991.7**
Top 10 as % of all dividends paid	**24%**	**Top 10 as % of all dividends paid**	**29%**

The ten largest AIM payers accounted for 24% of all AIM dividends in 2017, down from 30% in 2012. The dominance of a few large payers has been declining over time, occasional large specials notwithstanding. In 2012, it was 30%. This indicates how more companies outside the top ten are maturing, and so have cash to spare for their shareholders.

AIM dividends are significantly less concentrated than the main market. The top ten payers in 2017 made up over half the total dividends by main-market companies. There is also much less change among the top payers on the main market. Eight of the top ten in 2017 were already in the top ten in 2012. On AIM, only five companies from 2012's top ten were still there last year. Every year has seen several companies come and go. This simple measure shows how the performance of AIM companies diverges much more than their main market counterparts. Takeovers, declining trading, promotion to the main market, or simply slower growth than more dynamic upcoming firms help explain the turnover in AIM's top-ten list.

AIM's largest company by market value is ASOS, and yet it has still not paid its first dividend. In fact, out of the top 20 companies listed on AIM by market capitalisation, only 14 have paid a dividend in the last five years.

2015 £m		2014 £m	
Juridica Investments	£27.7	Polar Capital Hldgs Plc	£21.8
Redde plc	£26.3	James Halstead plc	£20.7
NewRiver Retail Limited	£23.7	Victoria Plc.	£20.7
James Halstead plc	£22.8	Highland Gold Mining	£16.3
Polar Capital Hldgs Plc	£22.3	Abcam	£15.5
Abcam	£16.6	Northacre plc	£15.0
Central Asia Metals Plc	£13.4	Pan African Resources Plc	£14.9
Highland Gold Mining	£13.0	Juridica Investments	£14.6
Emis Group Plc	£12.5	NewRiver Retail Limited	£12.6
Numis Corporation plc	£12.4	Daisy Group	£12.3
Top 10 Total	**£190.7**	**Top 10 Total**	**£164.4**
Total AIM Dividends	**£731.0**	**Total AIM Dividends**	**£633.7**
Top 10 as % of all dividends paid	**26%**	**Top 10 as % of all dividends paid**	**26%**

2013 £m		2012 £m	
James Halstead plc	£32.6	Highland Gold Mining	£31.2
Impellam Group Plc	£19.8	James Halstead plc	£16.5
Highland Gold Mining	£17.9	iEnergizer Ltd	£12.2
Archipelago Resources	£16.0	Abcam	£12.0
Pan African Resources Plc	£14.7	Sherborne Investors (Guernsey) A Limited	£12.0
Abcam	£14.1	Majestic Wine	£10.1
Juridica Investments	£13.6	Numis Corporation plc	£9.2
Central Asia Metals Plc	£12.5	Prosperity Minerals Hldgs	£8.2
Polar Capital Hldgs Plc	£10.8	Emis Group Plc	£7.8
Northacre plc	£10.7	Polar Capital Hldgs Plc	£7.1
Top 10 Total	**£162.5**	**Top 10 Total**	**£126.3**
Total AIM Dividends	**£551.6**	**Total AIM Dividends**	**£416.9**
Top 10 as % of all dividends paid	**29%**	**Top 10 as % of all dividends paid**	**30%**

Sectors

Industrials make up a far larger share of AIM payouts, equivalent to **£1 in every £4** in 2017, compared to **just £1 in every £14** on the main market

Oil dividends account for **just 1%** of AIM payouts, compared to fifth on the main market

Main market dividends are heavily dominated by multinationals, whereas AIM is more domestically focussed

The mix of sectors paying dividends on AIM shows some very important differences to the main market. Though financials are the largest dividend payers on both stock markets, industrials make up a far larger share of AIM payouts, equivalent to £1 in every £4 in 2017, compared to just £1 in every £14 on the main market. These companies are the backbone of the UK's domestic manufacturing and industrial services economy. IT also features much more prominently. By contrast, oil dividends account for just 1% of AIM payouts, compared to fifth on the main market, while utilities on AIM are too small to make any impact at all. Main market dividends are more heavily dominated by multinationals, whereas AIM is much more domestically focused. This also means that AIM dividends are less affected by swings in the value of the pound.

2017 AIM Dividends by sector

Resources & Commodities	**7%**
Consumer Goods & Housebuilding	**11%**
Retail & Consumer Services	**15%**
Banks & Financials	**26%**
Healthcare & Pharmaceuticals	**6%**
Industrials	**24%**
Oil, Gas & Energy	**1%**
Information Technology	**8%**
Telecoms	**2%**
Domestic Utilities	**0%**

2017 Main Market Dividends by sector

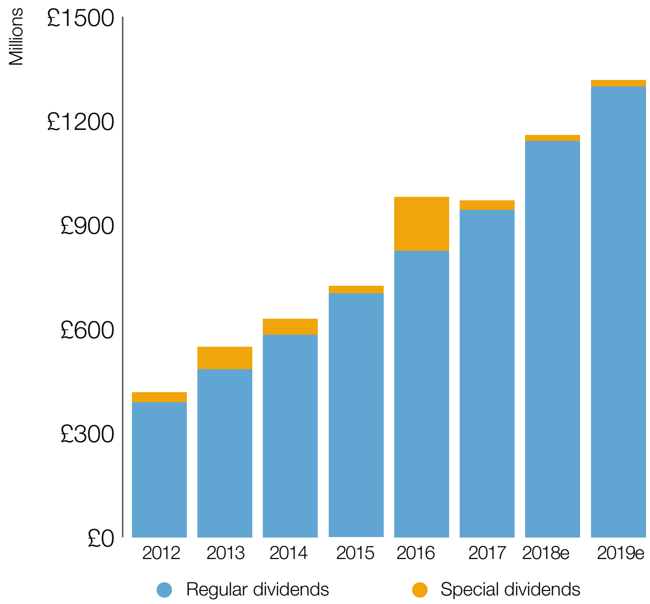
Resources & Commodities	**7%**
Consumer Goods & Housebuilding	**13%**
Retail & Consumer Services	**9%**
Banks & Financials	**22%**
Healthcare & Pharmaceuticals	**8%**
Industrials	**7%**
Oil, Gas & Energy	**20%**
Information Technology	**1%**
Telecoms	**6%**
Domestic Utilities	**7%**

Outlook for AIM

Since 2012, **£9.6bn** of IPOs have floated on AIM according to the London Stock Exchange

After a record 2018, **up 19.6%** to a **record £1.16bn**,we think AIM companies will post double-digit growth again in 2019, taking the total paid **over £1.3bn, up at least 14%**

AIM Dividends 2012 - 2019



We rightly associate AIM with young companies, hungry for capital to grow. Since 2012, £9.6bn of IPOs have floated on AIM according to the London Stock Exchange. Meanwhile, firms have tapped investors for an additional £23.6bn in issues of new shares to help them finance their investment needs. Not all of this is by UK companies on AIM, but even so, it shows that AIM is fulfilling its function of providing access to equity finance.

The value of capital being returned to investors via dividends is still far smaller than the amount being raised for investment, but the speed at which it is growing shows that more and more companies are reaching that important milestone where they generate more cash than they absorb. Of course, many of the most successful graduate to the main market, so the dividend-paying phase is less likely to occur while they are AIM-listed, but there's no doubt that AIM is beginning to come of age. Investors now have an increasingly broad choice between the earliest stage investments favoured by VCTs, and more mature, stable businesses with growing income streams. AIM's dividends are also more diversified across a range of companies and sectors than they are on the main market, and dividend cover ratios (the relationship between profits and dividends) have been healthier over the last three years or so.

We expect growth to continue. After a record 2018, up 19.6% to a record £1.16bn,we think AIM companies will post double-digit growth again in 2019, taking the total paid over £1.3bn, up at least 14%.

Methodology

Link Asset Services analysed the dividends paid each quarter by UK companies listed on AIM. Dividends are counted in the quarter they are actually paid. The analysis excludes listed investment funds whose dividends rely on income from equities, bonds and other financial instruments. The research takes no account of taxation of dividends, which varies according to investor circumstances. Raw data was provided by Exchange Data International.

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