LORD ABBETT®

May 7, 2024

Investment Perspectives

Does Initiating Dividends Spell the End of Growth for Tech Companies?

Dividend announcements from Google parent Alphabet, Meta, and other tech firms have raised questions about the ability of "mature" companies to innovate and grow.

Darnell Azeez, CFA, Partner, Portfolio Manager

Subrata Ghose, CFA, Portfolio Manager

Jeffrey Rabinowitz, CFA, Portfolio Manager

When major technology companies decide to begin paying quarterly dividends, some market observers treat the news as a rite of passage akin to getting one's first pair of "Dad jeans," a sign that a dynamic and rapidly growing upstart has morphed into a (gasp) mature business.

Of course, most companies would be happy to reach a stage where they are entrenched players in their chosen industry, with established products and experienced managers in place. But maturity can carry a different connotation in the tech industry. For technology firms, it is often equated with a company reliant on legacy products and/or under threat from disruption, as well as a business lacking better places to reinvest its cash flow.

This year, some big technology names—among them, Alphabet (parent of Google), Meta (parent of Facebook), Salesforce, and Booking Holdings—have initiated dividends. Should these firms now be perceived as slowing just because their shareholders will be receiving dividend checks?

We think worries about whether a company is mature or not are beside the point. The real issue is whether large, established technology firms can still generate new, leading-edge products and services—and achieve strong growth while doing so. We believe they can, while still being able to pay cash to shareholders on a regular basis. One key signal may be in their ability not to only pay a dividend but to increase it consistently each year.

What does a dividend mean?

First, a brief refresher. A dividend is a cash distribution to shareholders that a company typically declares each quarter unless specifically indicated as a one-time "special" dividend. It indicates a degree of confidence from a company regarding the durability of its business and the ability to pay this distribution consistently; history has shown that companies that cut or eliminate the dividend often see a negative impact on their share prices.

In addition, a dividend signals capital discipline, as company management needs to generate sufficient cash flow to support this dividend payment on an ongoing basis. Is it such a bad sign that these big technology companies see their businesses as durable and are exercising prudent capital discipline?

Why are dividends perceived as a sign of a slowdown?

Earlier-stage businesses often need capital to invest and innovate. Distributing cash to shareholders at an early stage would suggest that management sees a lack of high-return opportunities in which to reinvest its capital. But there does come a time when free cash flow reaches a level above even those reinvestment needs. Many technology companies have used this cash flow above reinvestment needs for share buybacks. And while buybacks can remain a prudent and opportunistic method to return excess cash to shareholders, consistent (and growing) dividends are another efficient method that indicates durability, capital discipline, and growth.

Do technology dividend initiations signal the end of innovation and growth?

Not necessarily. Google is one of the leading innovators in Generative AI and is applying this technology across its key businesses including Search, YouTube, Google Cloud Platform, and mobile devices. Growth is expected to continue at an attractive pace for Google. Meta is leveraging AI for its recommendation engines that are driving accelerated time spent in its family of apps (i.e., Facebook, Instagram, and WhatsApp) and better targeted advertising. Meta's investments in large language models are another potential incremental driver of market expansion.

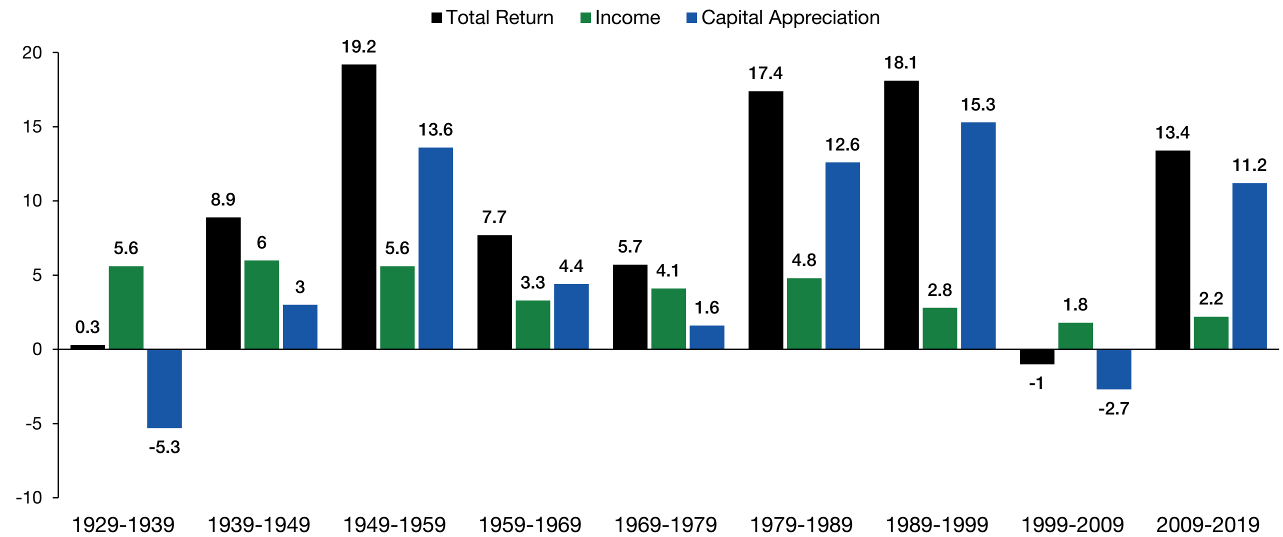
NVIDIA initiated its dividend in November 2012. From fiscal 2013 through fiscal 2024, NVIDIA compounded revenues at 27% versus 12.8% in the year of its dividend initiation and has seen its shares rise over 27,000% since its first dividend declaration. While it is unlikely this feat will be replicated by the recent crop of technology dividend initiators, the revenue growth rates of Google, Meta, Salesforce, and Booking Holdings are within the range of NVIDIA's revenue growth when it initiated its dividend over 11 years ago.

What role can dividends play in investment returns?

Dividends have driven over 40% of total return for the S&P 500® Index since 1929, according to Ned Davis Research (see Figure 1). Given the growth outlooks for many of these recent technology dividend initiators and the initial modest payout ratios, it is likely the annual dividend distributions will grow for many years to come for these firms.

Figure 1. How Dividends Have Contributed to Total Return Through the Decades

Contributions to total return of S&P 500® Index by decade for capital appreciation and dividend income



Source: Ned Davis Research. Historical data for each indicated decade. A company's dividend payments may vary over time, and there is no guarantee that a company will pay a dividend at all. **Past performance is not a reliable indicator or guarantee of future results**. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment.

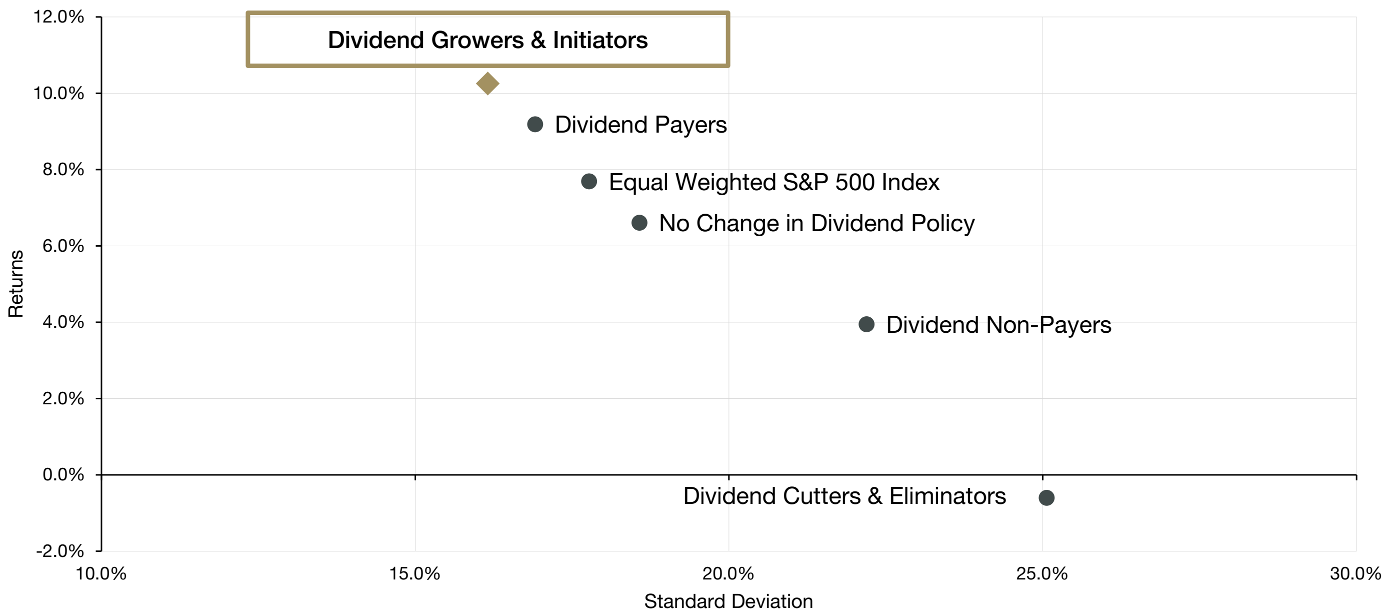
Why is the potential for dividend growth so important?

Warren Buffett wrote in his 2022 letter to Berkshire Hathaway shareholders about the company's initial investment in Coca-Cola. Berkshire invested $1.3 billion in shares of the soft-drink giant between 1987–1994, and by 1994, was collecting $75 million in annual dividends. By 2022, after consistent annual growth of Coke's payout, Berkshire received over $700 million in dividends that year alone from its initial investment. Put another way, Berkshire is now receiving over a 50% dividend yield on its initial cost. (Yield-on-cost is a measure of dividend yield calculated by dividing a stock's current dividend by the price initially paid for that stock.)

Apply Berkshire's experience to the broader market and you get a sense of the power of rising dividends. In the years 1973–2022, stocks of companies that consistently grew their dividends over time achieved higher returns than the equal-weighted S&P 500, with lower volatility, as shown in Figure 2.

Figure 2. Dividend Growers Have Historically Outperformed, with Lower Volatility

Average annual returns and volatility (as measured by standard deviation) by dividend policy within the S&P 500® Index, January 31, 1973–December 31, 2022



Source: Ned Davis Research. Data as of December 31, 2022 (most recent data available). Dividend Cutters, Payers, and Non-Payers are subcomponents of the S&P 500 Index. Dividend Growers are subcomponents of the S&P 500 or S&P 400 Index. The categories are created using actual annual dividends to identify dividend-paying stocks and are rebalanced annually. The dividend policy for each stock is determined on a rolling 12-month basis. Dividends are not guaranteed and may be increased, decreased, or suspended altogether at the discretion of the issuing company.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the S&P 500® Index. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight, or 0.2% of the index total at each quarterly rebalance.

Standard deviation is a statistic that measures the dispersion of a data set relative to its mean. The higher the standard deviation, the further the observed data are from the mean.

Past performance is not a reliable indicator or guarantee of future results. The historical data shown are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

Welcome to the Dividend Universe

With their dividend announcements, the four tech luminaries mentioned above have joined a long list of companies across every industry. The attractiveness of Equity Income (dividend-paying stocks) to provide both current income and capital appreciation has driven a large asset class for investors in these businesses. So welcome, Google, Meta, and the rest. You're joining a collection of high-quality companies that has long offered attractive returns and lower volatility to investors. And as for the naysayers who claim that "dividend payers are too mature to innovate and grow," NVIDIA shareholders would like to have a word with you.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

References to fund yields are for informational purposes only and are not meant to represent any specific Lord Abbett bond fund or portfolio.

Asset allocation or diversification does not guarantee a profit or protect against loss in declining markets.

No investing strategy can overcome all market volatility or guarantee future results.

The value of investments and any income from them is not guaranteed and may fall as well as rise, and an investor may not get back the amount originally invested. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon, and risk tolerance.

Market forecasts and projections are based on current market conditions and are subject to change without notice.

Projections should not be considered a guarantee.

Dividends are not guaranteed and may be increased, decreased, or suspended altogether at the discretion of the issuing company.

Dividend policy: A stock is classified as a dividend payer if it paid a cash dividend any time during the previous 12 months; a dividend grower if it initiated or raised its cash dividend at any time during the previous 12 months; and a non-dividend payer if it did not pay a cash dividend at any time during the previous 12 months.

Equity Investing Risks

The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. Smaller companies tend to be more volatile and less liquid than larger companies. Small cap companies may also have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies.

Fixed-Income Investing Risks

The value of investments in fixed-income securities will change as interest rates fluctuate and in response to market movements. Generally, when interest rates rise, the prices of debt securities fall, and when interest rates fall, prices generally rise. High yield securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Bonds may also be subject to other types of risk, such as call, credit, liquidity, and general market risks. Longer-term debt securities are usually more sensitive to interest-rate changes; the longer the maturity of a security, the greater the effect a change in interest rates is likely to have on its price.

The credit quality of fixed-income securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness. Ratings range from 'AAA' (highest) to 'D' (lowest). Bonds rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade bonds (junk bonds) involve higher risks than investment-grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

Glossary & Index Definitions

Standard deviation is a statistic that measures the dispersion of a data set relative to its mean. The higher the standard deviation, the further the observed data are from the mean.

The **S&P 500® Index** is widely regarded as the standard for measuring large cap U.S. stock market performance and includes a representative sample of leading companies in leading industries.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment

This material may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

The views and opinions expressed are as of the date of publication, and do not necessarily represent the views of the firm as a whole. Any such views are subject to change at any time based upon market or other conditions, and Lord Abbett disclaims any responsibility to update such views. Lord Abbett cannot be responsible for any direct or incidental loss incurred by applying any of the information offered.

This material is provided for general and educational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument, or any Lord Abbett product or strategy. References to specific asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations or investment advice.

Please consult your investment professional for additional information concerning your specific situation.

Important Information for U.S. Investors

Lord Abbett mutual funds are distributed by Lord Abbett Distributor LLC.

FOR MORE INFORMATION ON ANY LORD ABBETT FUNDS, CONTACT YOUR INVESTMENT PROFESSIONAL OR LORD ABBETT DISTRIBUTOR LLC AT 888-522-2388, OR VISIT US AT LORDABBETT.COM FOR A PROSPECTUS, WHICH CONTAINS IMPORTANT INFORMATION ABOUT A FUND'S INVESTMENT GOALS, SALES CHARGES, EXPENSES AND RISKS THAT AN INVESTOR SHOULD CONSIDER AND READ CAREFULLY BEFORE INVESTING.

The information provided is not directed at any investor or category of investors and is provided solely as general information about Lord Abbett's products and services and to otherwise provide general investment education. None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity. If you are an individual retirement investor, contact your financial advisor or other fiduciary about whether any given investment idea, strategy, product or service may be appropriate for your circumstances.

Important Information for non-U.S. Investors

Note to Switzerland Investors: In Switzerland, the Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the Paying Agent is Bank Vontobel Ltd., Gotthardstrasse 43, CH-8022 Zurich. The prospectus, the key information documents or the key investor information documents, the instrument of incorporation, as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units offered in Switzerland, the place of performance is at the registered office of the representative. The place of jurisdiction shall be at the registered office of the representative or at the registered office or domicile of the investor.

Note to European Investors: This communication is issued in the United Kingdom and distributed throughout the European Union by Lord Abbett (Ireland) Limited, UK Branch and throughout the United Kingdom by Lord Abbett (UK) Ltd. Both Lord Abbett (Ireland) Limited, UK Branch and Lord Abbett (UK) Ltd are authorized and regulated by the Financial Conduct Authority.

A decision may be taken at any time to terminate the arrangements made for the marketing of the Fund in any EEA Member State in which it is currently marketed. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Fund free of any charges or deductions for at least 30 working days from the date of such notification.

Lord Abbett (Middle East) Limited is authorised and regulated by the Dubai Financial Services Authority ("DFSA"). The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in any jurisdiction or to any other person or incorporated in any way into another document or other material without our prior written consent. This document is directed at Professional Clients and not Retail Clients. Any other persons in receipt of this document must not rely upon or otherwise act upon it. This document is provided for informational purposes only. Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction. Nothing contained in this document constitutes an investment, an offer to invest, legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions.

Note to Singapore Investors: Lord Abbett Global Funds I plc (the "Company") and the offer of shares of each sub-fund of the Company do not relate to a collective investment scheme which is authorized under Section 286 of the Securities and Futures Act, Ch. 289 of Singapore ("SFA") or recognized under Section 287 of the SFA, and shares in each sub-fund of the Company are not allowed to be offered to the retail public. Pursuant to Section 305 of the SFA, read in conjunction with Regulation 32 of and the Sixth Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 (the "Regulations"), the Lord Abbett Global Multi-Sector Bond Fund, the Lord Abbett High Yield Fund, the Lord Abbett Short Duration Income Fund, the Lord Abbett Ultra Short Bond Fund, the Lord Abbett Climate Focused Bond Fund, the Lord Abbett Emerging Markets Corporate Debt Fund and the Lord Abbett Multi Sector Income Fund have been entered into the list of restricted schemes maintained by the Monetary Authority of Singapore for the purposes of the offer of shares in such sub-funds made or intended to be made to relevant persons (as defined in section 305(5) of the SFA), or, the offer of shares in such sub-funds made or intended to be made in accordance with the conditions of section 305(2) of the SFA. These materials do not constitute an offer or solicitation by anyone in Singapore or any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

Note to Hong Kong Investors: The contents of this material have not been reviewed nor endorsed by any regulatory authority in Hong Kong. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this material, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent professional advice. The Fund is not authorised by the Securities and Futures Commission ("SFC") in Hong Kong pursuant to Section 104 of the Securities and Futures Ordinance (Cap 571, Laws of Hong Kong) ("SFO"). This material has not been approved by the SFC in Hong Kong, nor has a copy of it been registered with the Registrar of Companies in Hong Kong and, must not, therefore, be issued, or possessed for the purpose of issue, to persons in Hong Kong other than (1) professional investors within the meaning of the SFO (including professional investors as defined by the Securities and Futures (Professional Investors) Rules); or (2) in circumstances which do not constitute an offer to the public for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap 32, Laws of Hong Kong) or the SFO. This material is distributed on a confidential basis and may not be reproduced in any form or transmitted to any person other than the person to whom it is addressed.

Lord, Abbett & Co. LLC | 90 Hudson Street | Jersey City, NJ 07302-3973 | T 1.888.522.2388 | lordabbett.com

IP-DIV_TECH
05-24