

STRICTLY CONFIDENTIAL AND NOT FOR DISTRIBUTION

# TRIVARIATE RESEARCH

## THE WINNING FORMULA FOR DIVIDEND GROWTH

ADAM S. PARKER, Ph.D., FOUNDER

adam@trivariateresearch.com  
646-734-7070

CHANG GE, ANALYST

chang@trivariateresearch.com  
614-397-0038

MAXWELL ARNOLD, ANALYST

maxwell@trivariateresearch.com  
347-514-1234

RYAN MCGOVERN, DIR. OF RESEARCH SALES

ryan@trivariateresearch.com  
973-271-8017

COLIN COONEY, HEAD OF SALES

colin@trivariateresearch.com  
617-910-7934

JESSE GOODMAN, ANALYST

jesse@trivariateresearch.com  
917-741-5744

## BACKGROUND AND RESEARCH SUMMARY

---

**Background:** Three weeks ago, we published a note highlighting performance, factor efficacy, and dividend events for the dividend-yielding universe. Given that many of our clients are large-cap portfolio managers, today we investigate a large-cap cohort of dividend-growing stocks to identify important dividend growth features and opportunities.

**Dividend-paying large caps have structurally outperformed over time.** A \$10B+ market cap universe with modest dividend requirements (~400-500 stocks) has beaten the universe excluding these requirements over both 25-year and 5-year horizons, reinforcing dividends as a durable return factor.

**The “optimal” dividend growth range (5-10%) mattered historically — but not recently.**

Mid-level dividend growers significantly outperformed long term, but since 2020 dividend growth has had little explanatory power in distinguishing winners within the universe.

**The range of dividend growth outcomes has compressed post-Covid.**

The dispersion in dividend growth rates has narrowed meaningfully, reducing the signal from growth differentials and making stock selection more dependent on other factors.

**Lower payout ratios consistently outperform, especially in recent years.**

Companies with lower payout ratios have delivered superior returns, while companies with high payout ratios lag over long periods — though high payout + high yield is not inherently a negative, contrary to our initial thinking.

**Dividend increases are most powerful when paired with strong balance sheets and cheap valuations.**

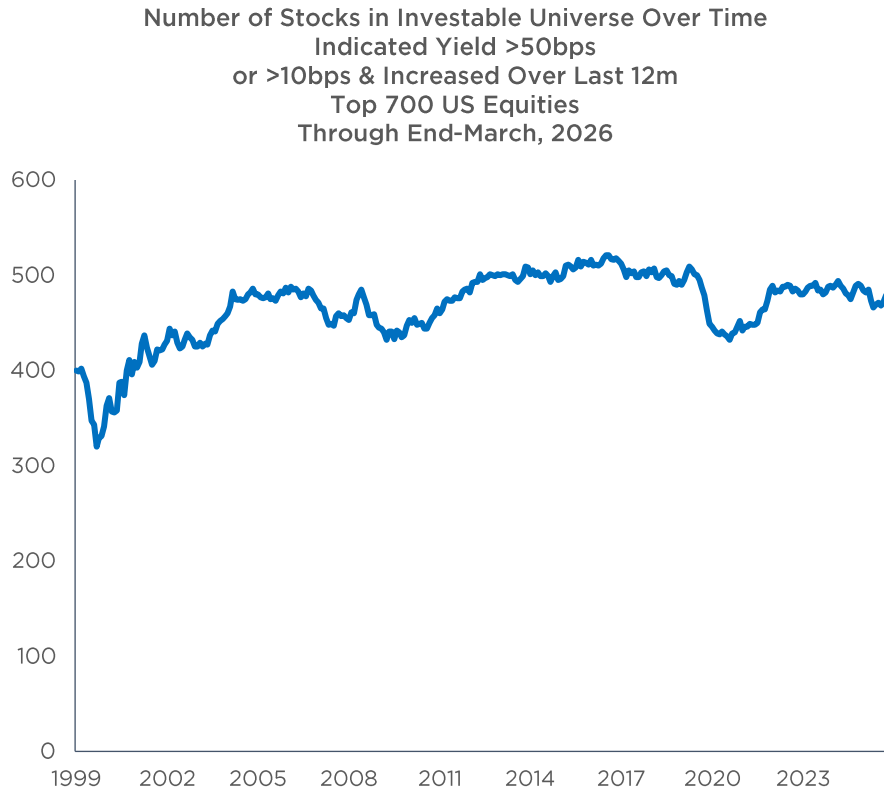
Stocks with high cash levels or low price-to-earnings that raise their dividend materially outperform, indicating that financial flexibility and valuation matter more than the dividend action alone.

**Factor leadership has shifted: Momentum and R&D intensity matter, valuation does not.**

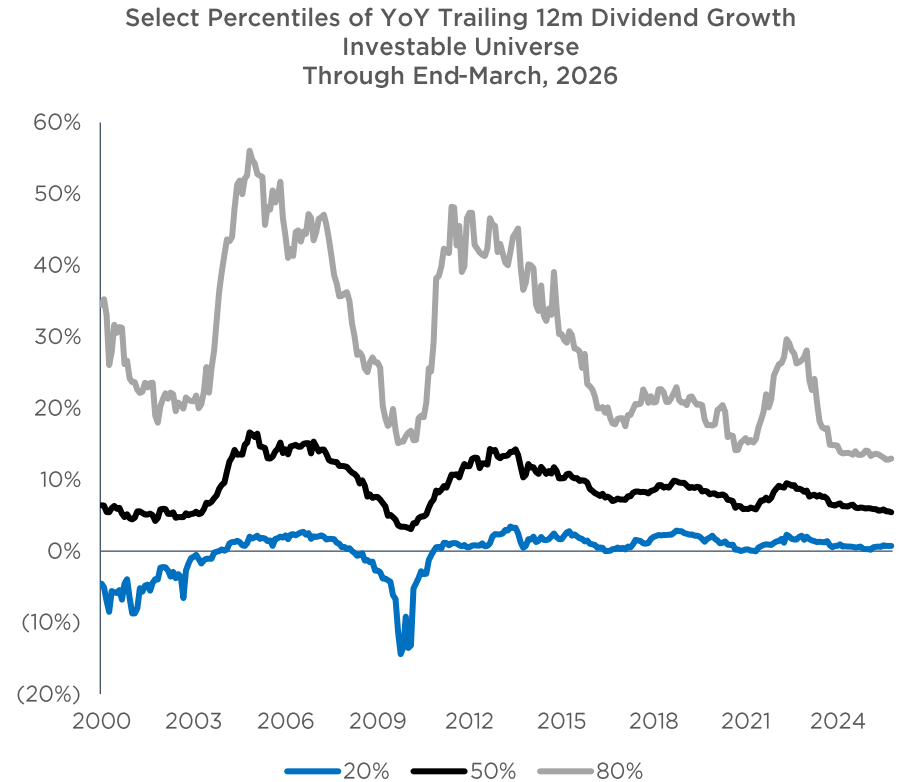
Since 2020, traditional signals like price-to-earnings and profitability have weakened, while momentum and R&D intensity have become the most effective indicators within dividend-paying stocks.

# INVESTABLE UNIVERSE CONTAINS 479 STOCKS

We defined the investable universe as the stocks with a market cap. of \$10 billion or larger today (which is the top 700 stocks by market capitalization back in time), with an indicated dividend yield of greater than 10bps and growing, or greater than 50bps. The investable universe contains 400-500 stocks over time, with a current count of 479 (left). The median stock in the investable universe currently grows its dividend 5% per year (right). The 80<sup>th</sup> percentile stock has grown its dividend 13% per year over the last 12 months, and the 20<sup>th</sup> percentile nudged it up 73bps. The range of growth has narrowed substantially since COVID.



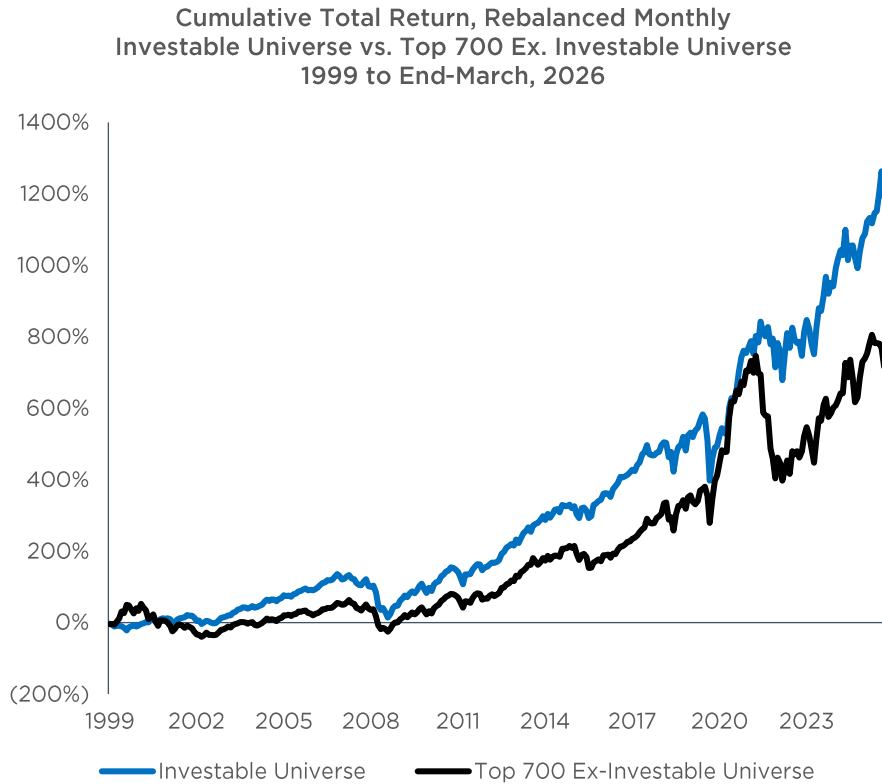
Source: Trivariate Research



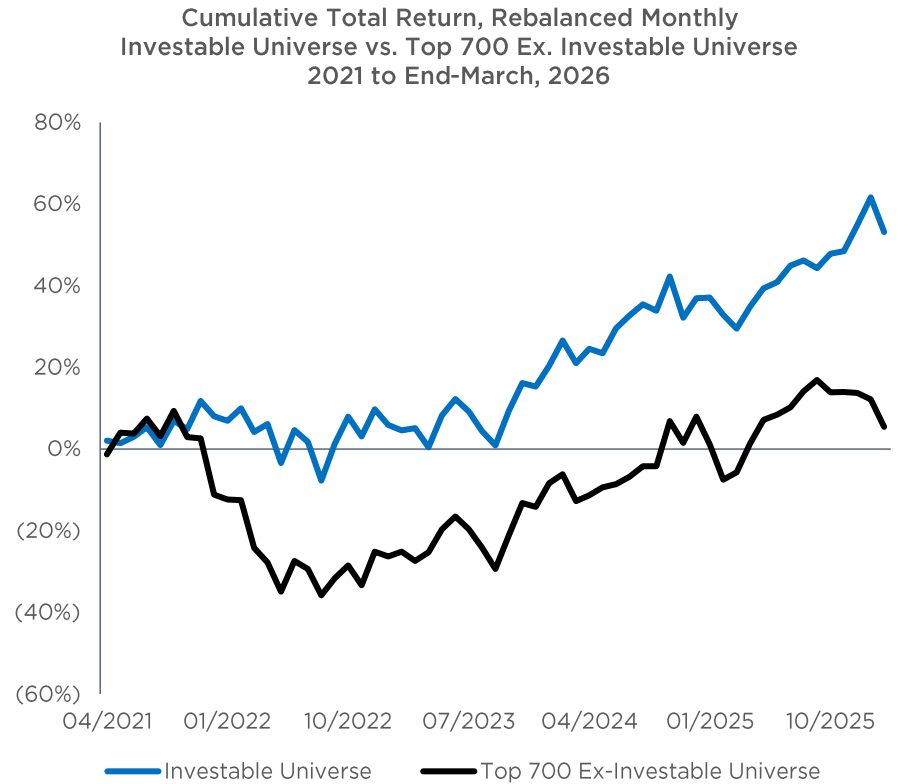
Source: Trivariate Research

# THE INVESTABLE UNIVERSE HAS OUTPERFORMED ON 25- & 5-YR VIEW

Over the last 25 years (left) and five years (right), this investable universe has outperformed the Top 700 equities excluding those that are “dividend eligible.”



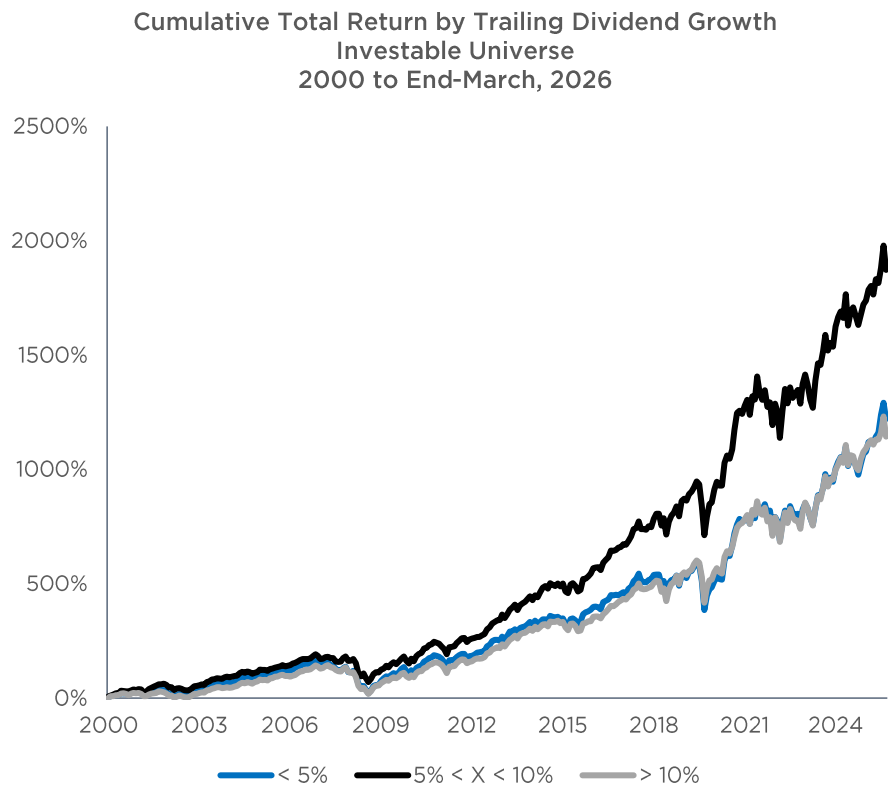
Source: Trivariate Research



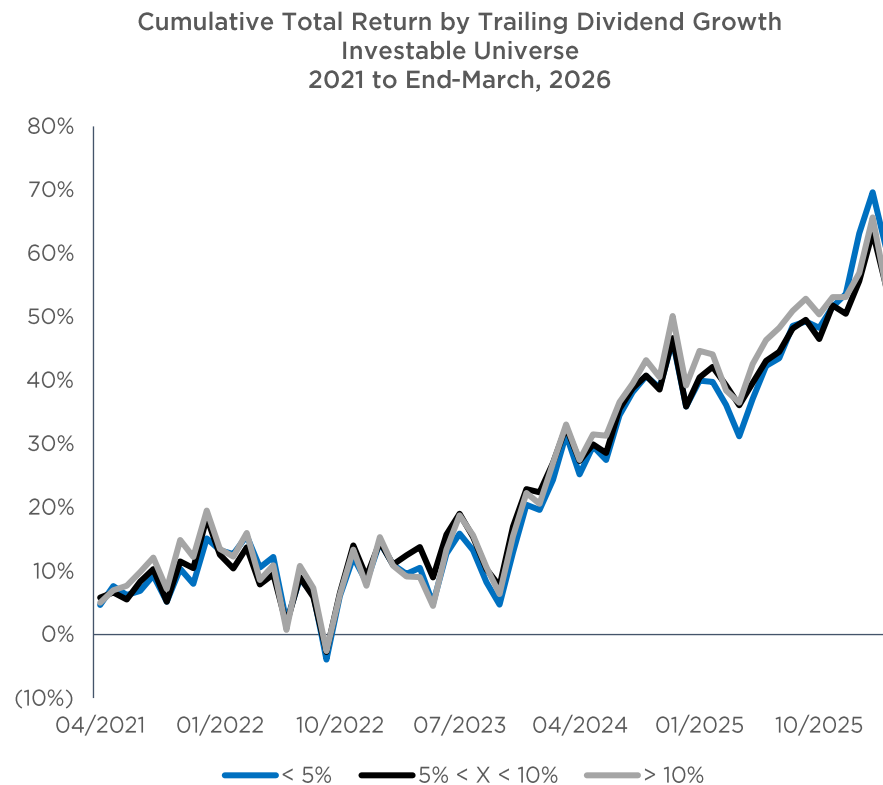
Source: Trivariate Research

## 5-10% TRAILING GROWTH WAS BEST, BUT HAS NOT MATTERED LATELY

Over the long term, there was an optimal trailing dividend growth level – between 5% and 10% per year (left). Those stocks strongly outperformed those with lower or higher dividend growth. Since 2020, however, dividend growth was NOT a factor for picking winners from losers among the investable universe (right).



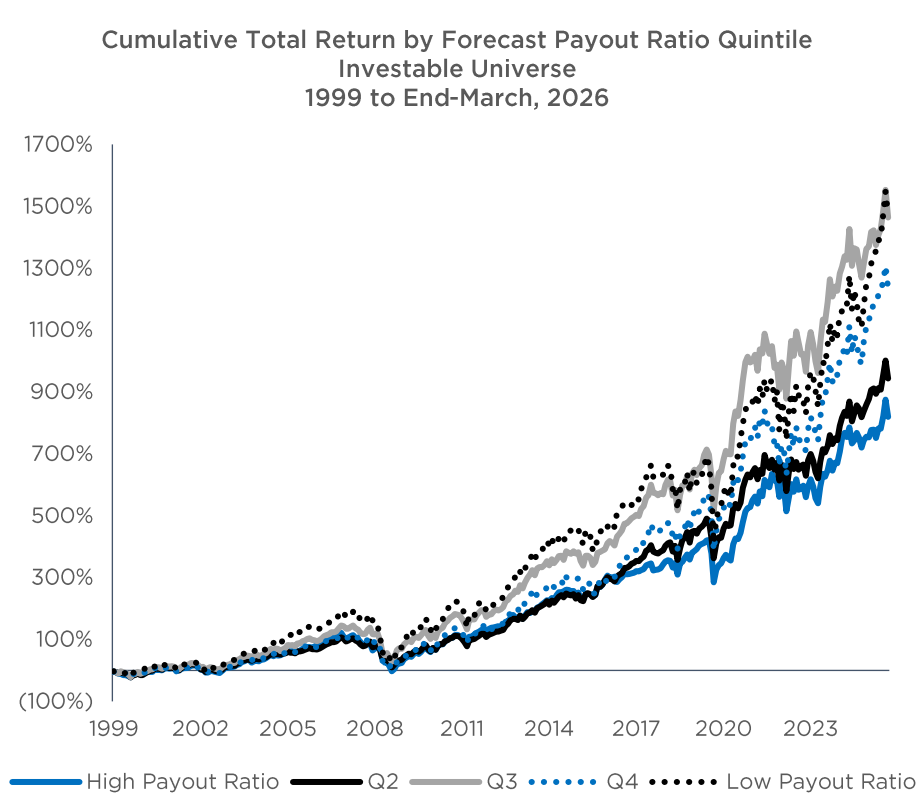
Source: Trivariate Research



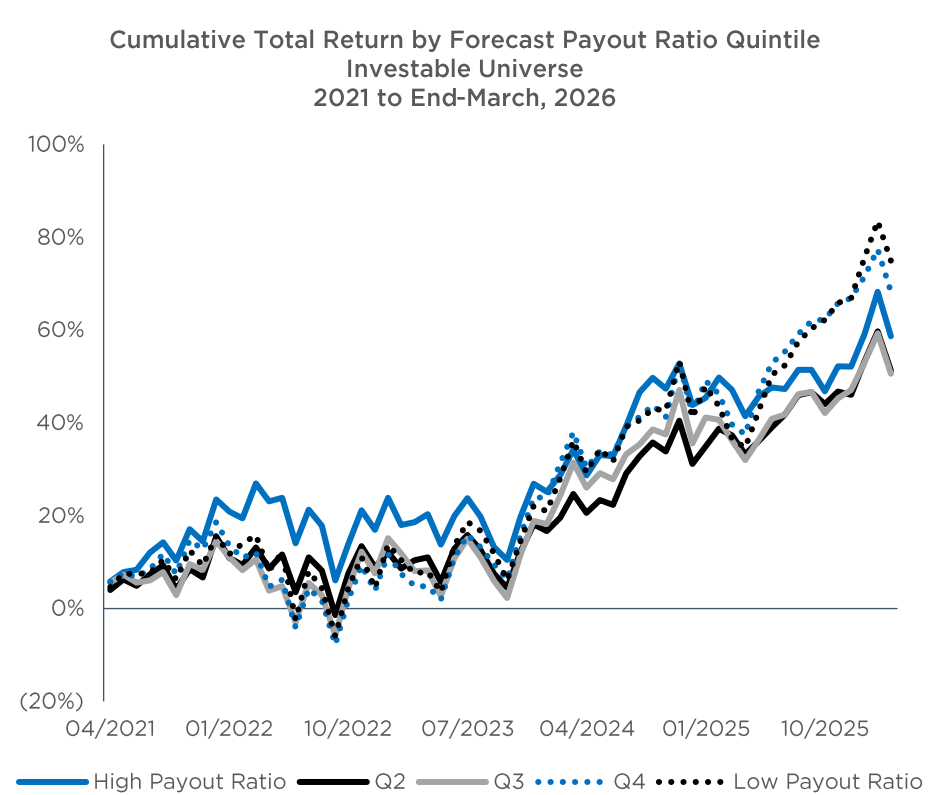
Source: Trivariate Research

# HIGHER PAYOUT RATIO HAS HISTORICALLY UNDERPERFORMED

We broke the universe into quintiles based on payout ratio (left). The middle payout ratio and the lowest cumulatively have done best, and the highest payout ratio worst over the last 25 years. Over the last five years, the two lowest payout ratio quintiles have performed best (right).



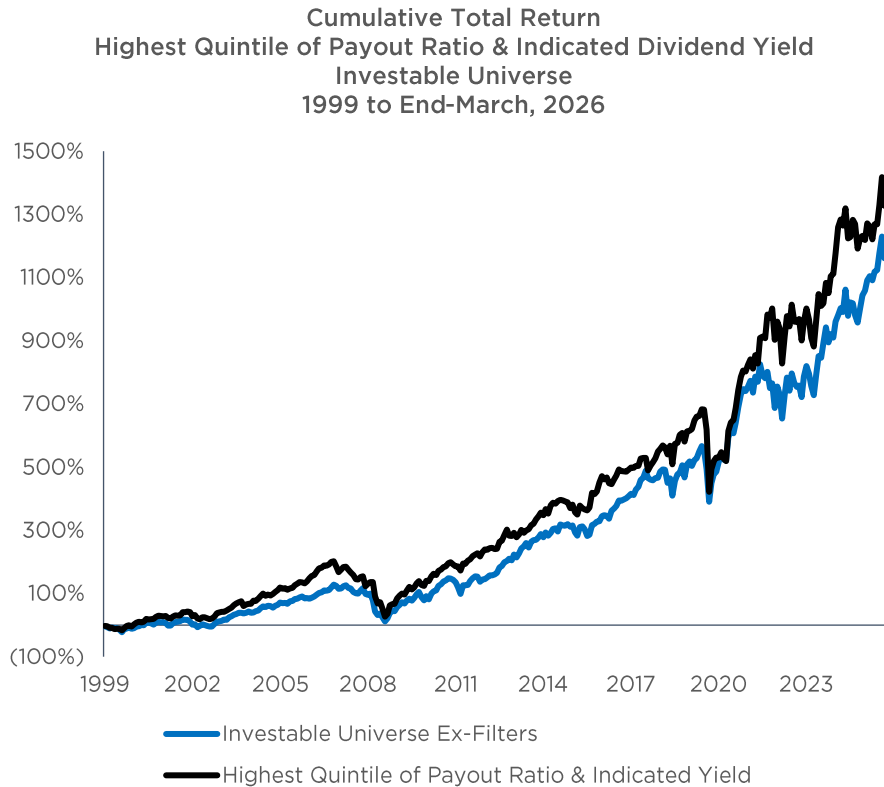
Source: Trivariate Research



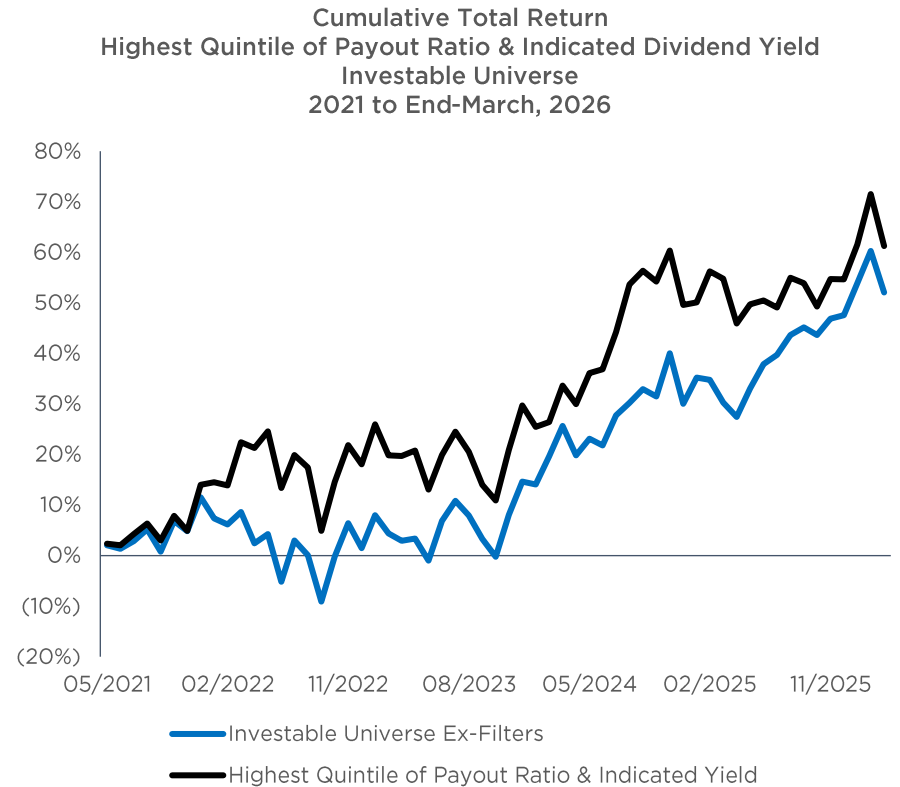
Source: Trivariate Research

# ...BUT HIGHEST PAYOUT RATIO AND HIGH YIELD HAS NOT

While there is a view that a very high payout ratio and very high dividend yield is inferior, that is NOT borne out by the data (left) over the last 25 years, where the cumulative return of the highest quintile of payout ratio and highest dividend yield modestly outperformed the investable universe. That has also been true over the last five years, though the bulk of the difference was during the 2022 growthier pullback (right).



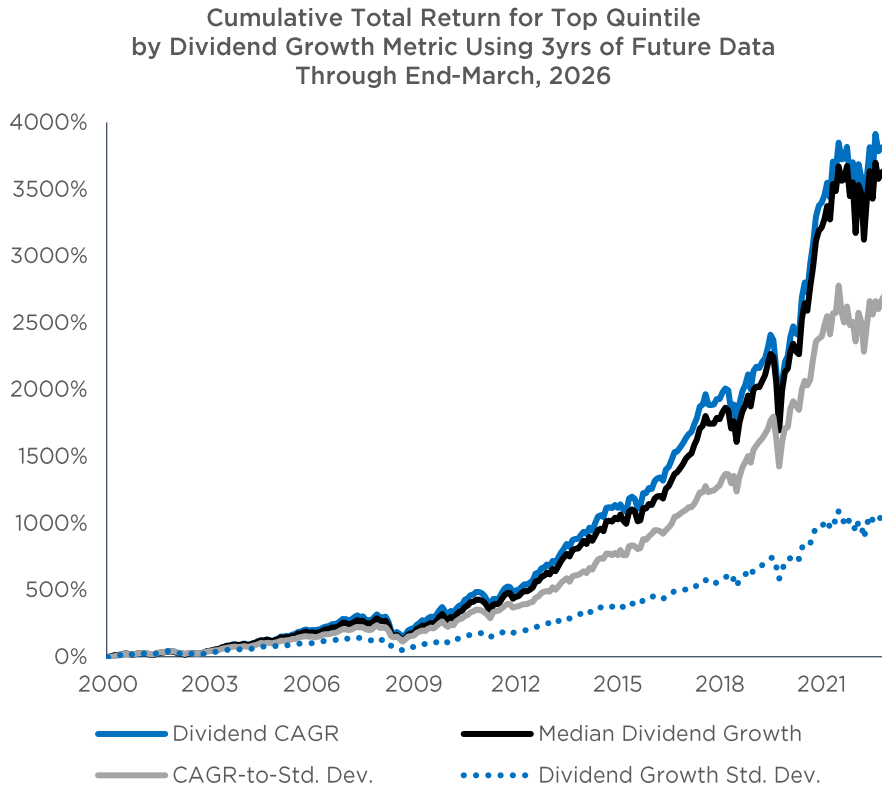
Source: Trivariate Research



Source: Trivariate Research

# DIVIDEND GROWTH LEVEL MATTERS MORE THAN CONSISTENCY

We looked at four different categories over a three-year period, the dividend CAGR (so end to end, we don't care about 10-10-10 vs. 0-30-1), the median dividend growth, the CAGR divided by the dividend growth standard deviation, and the dividend growth standard deviation. The highest dividend CAGR did best, better than the median dividend growth –meaning skipping a year but still cumulatively growing the dividend fast is fine (left). The CAGR divided by the standard deviation has the highest SHARPE and hit rate (right), but lower return.



Source: Trivariate Research

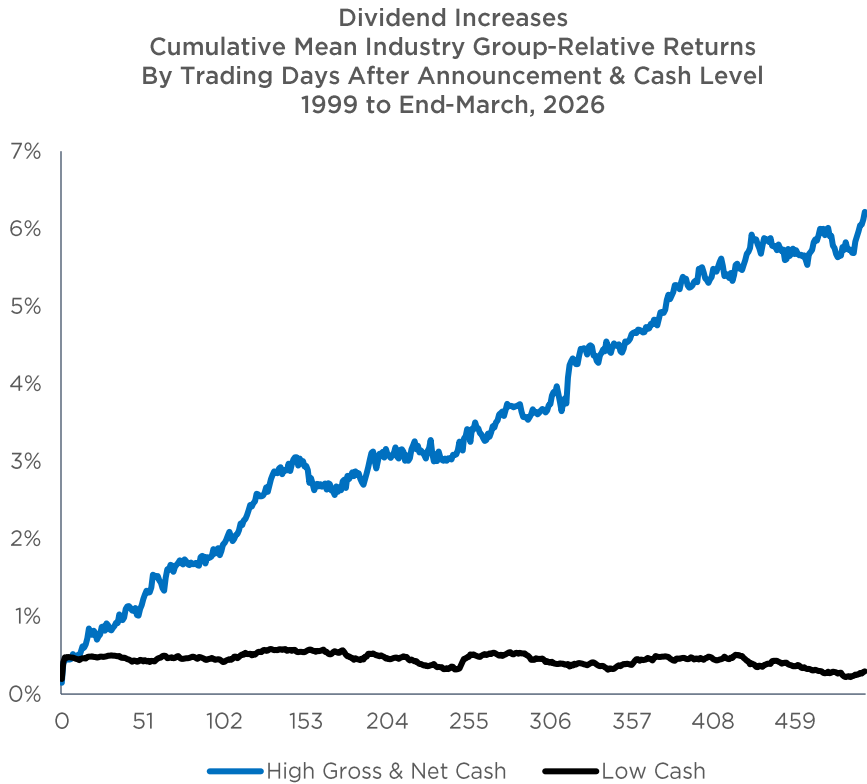
**Performance Metrics of Top Quintile by Dividend Growth Metric Using 3yrs of Future Data 2000 to End-March, 2026**

Cohort	Annualized Mean Return	Annualized Std. Dev	Sharpe Ratio	Hit Rate
Dividend CAGR	17.4%	16%	1.08	68.0%
Median Dividend Growth	17.2%	16%	1.06	66.5%
CAGR-to-Std. Dev.	15.6%	14%	1.14	68.7%
Dividend Growth Std. Dev.	11.7%	14%	0.86	66.9%

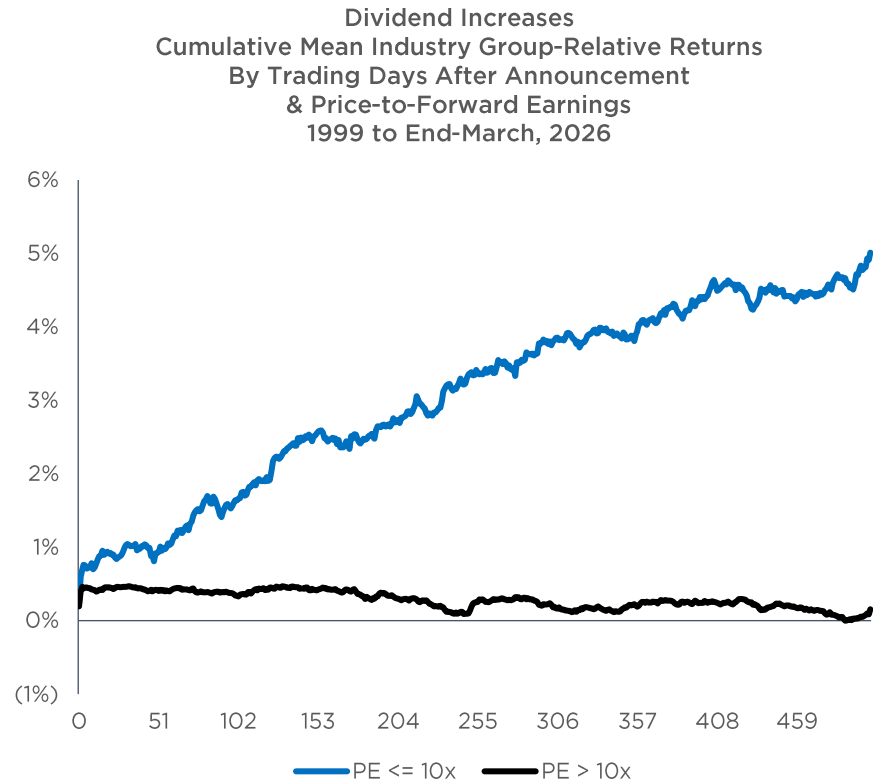
Source: Trivariate Research

# DIVIDEND INCREASES WORK FOR HIGH-CASH & CHEAP COMPANIES

Stocks with cash to market cap. above 25% and net cash to market cap. above 10% that increase their dividend massively outperform stocks that have less cash (left). Cheap stocks (less than 10x price-to-forward earnings) that increase their dividend outperform those that are more expensive and increase their dividend (right).



Source: Trivariate Research

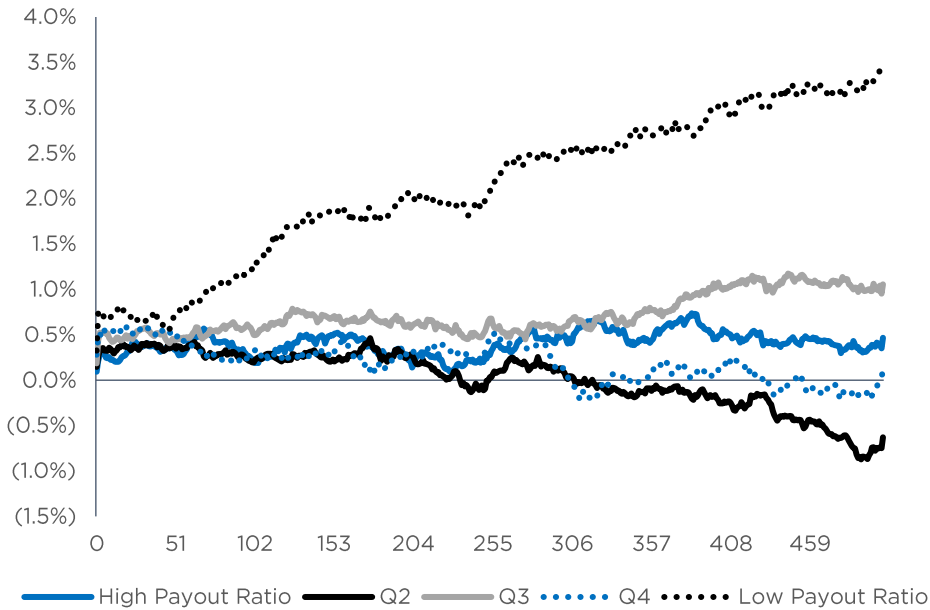


Source: Trivariate Research

# DIVIDEND INCREASES ARE BEST FOR LOW PAYOUT RATIO

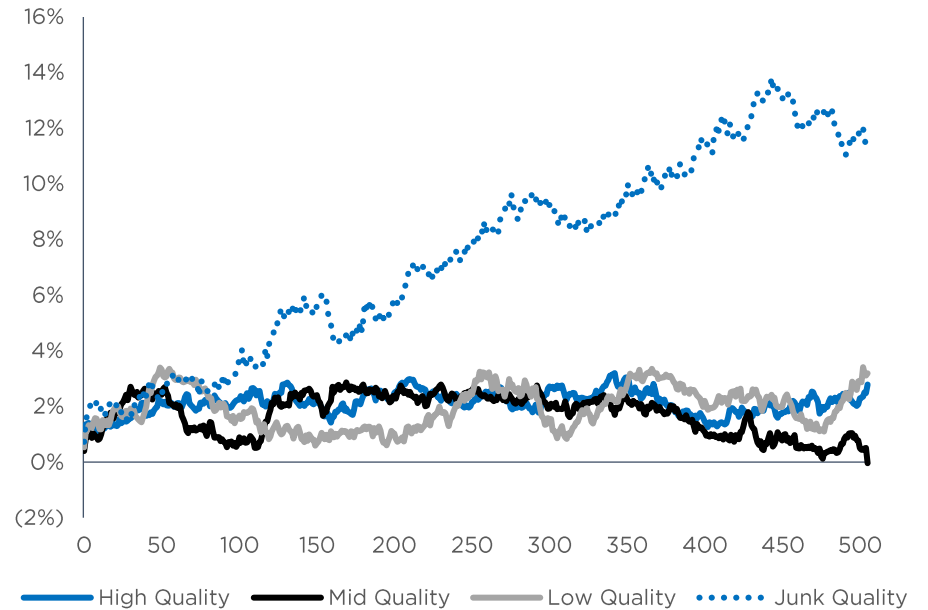
Low payout ratio companies that increase their dividends strongly outperform their industry group following the announcement (left). We looked at special dividends, and the lowest-quality companies that issue them tend to subsequently perform best (right).

**Dividend Increases**  
Cumulative Mean Industry Group-Relative Returns  
By Trading Days After Announcement  
& Payout Ratio Quintile  
1999 to End-March, 2026



Source: Trivariate Research

**Special Dividend Announced**  
Cumulative Mean Industry Group-Relative Returns  
By Trading Days After Announcement & Substance  
1999 to End-March, 2026



Source: Trivariate Research

# DIVIDEND INCREASERS IN THE BOTTOM QUINTILE OF PAYOUT RATIO

Stock ideas for dividend increases in the lowest quintile of payout ratio include SYF, IBKR, TRV, and MU over the last few months.

Dividend Increases in Bottom Quintile of Payout Ratio  
End-March, 2026

Ticker	Company	Industry	Market Cap. (US\$ Bil.)	Announcement Date
SYF	Synchrony Financial	Consumer Finance	23.64	4/21/2026
IBKR	Interactive Brokers Group, Inc.	Capital Markets	29.89	4/21/2026
TRV	The Travelers Companies, Inc.	Insurance	63.07	4/16/2026
MU	Micron Technology, Inc.	Semiconductors & Semiconductor Equipment	380.99	3/18/2026
TOL	Toll Brothers, Inc.	Household Durables	12.93	3/11/2026
RRC	Range Resources Corporation	Oil, Gas & Consumable Fuels	10.64	2/27/2026
WCC	WESCO International, Inc.	Trading Companies & Distributors	13.31	2/26/2026
CB	Chubb Limited	Insurance	126.91	2/26/2026
TMO	Thermo Fisher Scientific Inc.	Life Sciences Tools & Services	182.60	2/25/2026
DHR	Danaher Corporation	Life Sciences Tools & Services	134.18	2/24/2026
RRC	Range Resources Corporation	Oil, Gas & Consumable Fuels	10.64	2/24/2026
CEG	Constellation Energy Corporation	Electric Utilities	101.17	2/24/2026
STLD	Steel Dynamics, Inc.	Metals & Mining	26.05	2/20/2026
NEM	Newmont Corporation	Metals & Mining	116.90	2/19/2026
VST	Vistra Corp.	Independent Power & Renewable Electricity Producers	50.89	2/19/2026
FIX	Comfort Systems USA, Inc.	Construction & Engineering	48.43	2/19/2026
BKNG	Booking Holdings Inc.	Hotels, Restaurants & Leisure	133.35	2/16/2026
AEM	Agnico Eagle Mines Limited	Metals & Mining	101.69	2/12/2026
EXPE	Expedia Group, Inc.	Hotels, Restaurants & Leisure	28.29	2/12/2026
AME	AMETEK, Inc.	Electrical Equipment	49.10	2/12/2026

Source: Trivariate Research

## RECENTLY ANNOUNCED SPECIAL DIVIDENDS

There haven't been any special dividends among the investable universe since early February, when insurer CNA made an announcement.

### Recently Announced Special Dividends End-March, 2026

Ticker	Company	Industry	Quality	Market Cap. (US\$ Bil.)	Announcement Date
CNA	CNA Financial Corporation	Insurance	High	12.43	2/9/2026
LAMR	Lamar Advertising Company	Specialized REITs	Mid	12.83	12/11/2025
HST	Host Hotels & Resorts, Inc.	Hotel & Resort REITs	Low	13.18	12/11/2025
WRB	W. R. Berkley Corporation	Insurance	High	24.82	12/5/2025
AFG	American Financial Group, Inc.	Insurance	High	10.64	11/4/2025
DD	DuPont de Nemours, Inc.	Chemicals	Junk	18.73	10/15/2025
TDG	TransDigm Group Incorporated	Aerospace & Defense	High	65.45	8/20/2025
TIGO	Millicom International Cellular	Wireless Telecommunication Services	Mid	12.56	6/13/2025
WRB	W. R. Berkley Corporation	Insurance	High	24.82	6/11/2025
TIGO	Millicom International Cellular	Wireless Telecommunication Services	Mid	12.56	5/21/2025
SUI	Sun Communities, Inc.	Residential REITs	High	15.52	4/30/2025
AFG	American Financial Group, Inc.	Insurance	High	10.64	2/28/2025
F	Ford Motor Company	Automobiles	Junk	46.29	2/27/2025
CNA	CNA Financial Corporation	Insurance	High	12.43	2/10/2025
HST	Host Hotels & Resorts, Inc.	Hotel & Resort REITs	Low	13.18	12/11/2024
LAMR	Lamar Advertising Company	Specialized REITs	Mid	12.83	12/6/2024
WRB	W. R. Berkley Corporation	Insurance	High	24.82	12/6/2024
AMKR	Amkor Technology, Inc.	Semiconductors & Semi. Equipment	Junk	11.14	11/13/2024

Source: Trivariate Research

## BEST-PERFORMING SIGNALS IN THE INVESTABLE UNIVERSE SINCE 2020

We looked at our factor library to see what signals are efficacious for distinguishing winners from losers among the investable universe. Since 2020, R&D intensity and momentum worked; leverage, days of inventory, and profit margin failed.

Best and Worst Performing Signals in Investable Universe Since 2020  
Top 700 US Equities, Indicated Yield >50bps or >10bps & Increased Over Last 12m  
As of End-March, 2026

Signal	Annualized Mean Return	Annualized Std. Dev of Returns	Sharpe Ratio	Hit Rate
R&D-to-Sales	8.9%	12%	0.71	55%
EV-to-Forecast Sales	5.3%	10%	0.53	57%
12-Month Momentum	5.2%	16%	0.33	55%
Buyback Yield	4.7%	9%	0.54	57%
Indicated Dividend Coverage Ratio	4.7%	7%	0.70	52%
1-Month % Change in Fwd EPS	4.6%	8%	0.54	64%
Price-to-Forward Earnings	4.5%	15%	0.31	49%
Free Cash Flow Yield	4.4%	8%	0.52	51%
Total Yield (Buyback + Indicated Dividend)	3.4%	11%	0.31	53%
Net Debt to Market Cap	3.4%	11%	0.32	53%
Indicated Dividend Growth	(0.3%)	7%	(0.05)	48%
Capital Expenditure-to-Sales	(1.0%)	9%	(0.12)	52%
EPS Growth	(1.3%)	8%	(0.16)	60%
Avg. Incremental Gross Margin (Trailing 12Q)	(1.6%)	6%	(0.25)	43%
Net Margin	(2.0%)	6%	(0.33)	48%
Operating Margin	(2.1%)	6%	(0.32)	45%
Forecast Gross Margin	(2.5%)	13%	(0.20)	40%
Gross Margin	(3.3%)	8%	(0.42)	44%
Inventory-to-Sales	(4.9%)	10%	(0.48)	45%
Distance to Default	(5.5%)	18%	(0.31)	48%

Source: Trivariate Research

## SIGNALS THAT HAVE WORKED SINCE 2020 ARE DIFFERENT

We sorted the signals that have worked since 2020 by the biggest differential versus what worked from 1999-present. R&D intensity and momentum work far better recently than previously. Price-to-earnings has failed the last five years, after working well from 1999 to 2020.

Signals with Largest Delta Between Since 2020 Mean Return and Since 1999 Mean Return  
Top 700 US Equities, Indicated Yield >50bps or >10bps & Increased Over Last 12ms  
As of End-March, 2026

Signal	Since 2020 Sharpe Ratio	Since 1999 Sharpe Ratio	Difference In Sharpe Ratio	Since 2020 Annualized Mean Return	Since 1999 Annualized Mean Return	Difference In Mean Return
R&D-to-Sales	0.71	0.16	0.56	8.9%	1.7%	7.2%
12-Month Momentum	0.33	(0.08)	0.41	5.2%	(1.3%)	6.5%
3-Month Momentum	0.11	(0.21)	0.33	1.7%	(3.1%)	4.8%
1-Month % Change in Fwd EPS	0.54	0.05	0.50	4.6%	0.4%	4.2%
Forecast Revenue Growth	0.09	(0.40)	0.50	0.7%	(3.2%)	3.8%
Forecast Net Margin Expansion	0.40	(0.00)	0.41	2.7%	(0.0%)	2.7%
Net Debt to Market Cap	0.32	0.08	0.24	3.4%	0.8%	2.5%
Dividend Coverage Ratio	0.70	0.30	0.40	4.7%	2.2%	2.4%
Quick Ratio Growth	0.55	0.02	0.52	2.4%	0.1%	2.3%
Dividend Growth (Trailing)	0.29	(0.11)	0.40	1.6%	(0.6%)	2.3%
EPS Growth (Trailing 12Q)	0.11	0.21	(0.11)	0.8%	1.9%	(1.2%)
EV-to-Forecast Sales	0.53	0.71	(0.18)	5.3%	6.8%	(1.5%)
Gross Margin	(0.42)	(0.20)	(0.22)	(3.3%)	(1.7%)	(1.6%)
Net Margin	(0.33)	(0.05)	(0.28)	(2.0%)	(0.4%)	(1.6%)
EPS Growth (Trailing 12Q)	(0.16)	0.08	(0.24)	(1.3%)	0.6%	(1.9%)
Capital Expenditure-to-Sales	(0.12)	0.14	(0.26)	(1.0%)	1.2%	(2.2%)
Inventory-to-Sales	(0.48)	(0.28)	(0.20)	(4.9%)	(2.5%)	(2.5%)
Distance to Default	(0.31)	(0.19)	(0.12)	(5.5%)	(2.8%)	(2.6%)
Forecast Gross Margin	(0.20)	0.03	(0.23)	(2.5%)	0.4%	(2.9%)
Price-to-Earnings	(0.01)	0.51	(0.52)	(0.1%)	4.6%	(4.7%)

Source: Trivariate Research

# DISCLOSURES

---

## Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, “Trivariate”).

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute “forward-looking statements” that can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “forecasted,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are “forward-looking statements” and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words “include,” “includes,” “including” and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak (“COVID” or “COVID-19”). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

*All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.*