How Quality Dividend Growth adapts to market conditions: Adding $5 billion worth of dividend with META

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Key Takeaways

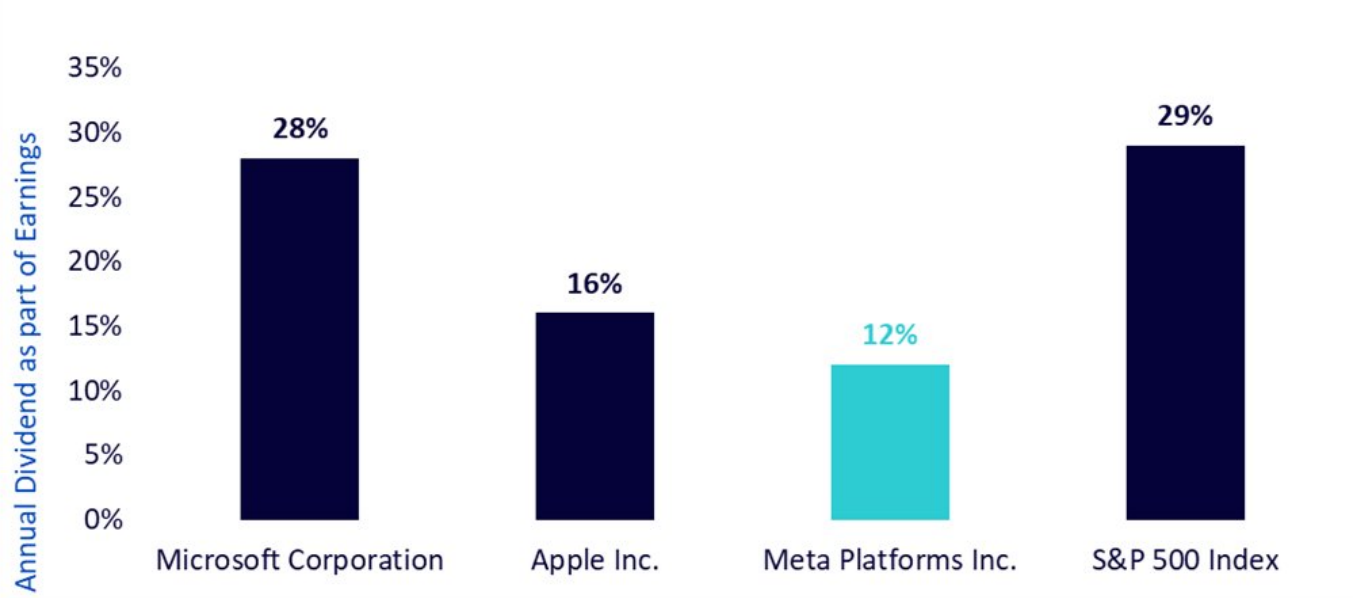
- On 1 February, Meta Platforms Inc. (Meta) declared the initiation of its quarterly dividend payment turning it instantly in one of the top 30 biggest dividend payers in the US
- While many dividend orientated strategies look backward and may take years or decades to add META to their portfolio, our Quality Dividend Growth Index added them on 15 March 2024
- META weight will reach 1.57% in WisdomTree US Quality Dividend Growth Index and 1.11% in WisdomTree Global Quality Dividend Growth Index

On 1 February, Meta Platforms Inc. (Meta) declared the initiation of its quarterly dividend payment as part of their full-year 2023 results. The company announced a $0.50 quarterly payment, representing an approximate $5bn cash outlay, putting Meta in the top 30 US dividend payers and top 50 of all dividend payers worldwide.

This is a major development for Meta as a dividend payment signals that a company's management has confidence in its business and the cash flows associated with it. It is also a major market development as Meta became the largest company (measured in market capitalisation) to initiate its dividend payment, since Apple in 2012.

For context, Meta's initial dividend payment represents about 12% of its annual earnings, which is still conservative with respect to its peers and the broader US Market. This means there is room for Meta's dividends to grow.

Figure 1: Dividend versus earnings for dividend-paying big tech stocks



Source: WisdomTree, FactSet. As of 6 February 2024. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investment may go down in value.**

WisdomTree's reaction

Given this major market development and WisdomTree's emphasis on creating best-in-class dividend-focused strategies, we announced a special rebalance that took place after the close of trading on 15 March. As part of this special rebalance, Meta will be added to the following eligible indexes and weighted according to its Dividend Stream:

- WisdomTree U.S. Quality Dividend Growth UCITS Index (WTDGNUHP)
- WisdomTree Global Developed Quality Dividend Growth Index (WTDDG)

WisdomTree creates strategies to add value for investors. While we believe in systematic strategies, we always consider market conditions and how they may require adjustments to our investment process. Meta's first dividend was significant enough to warrant an early addition to our index family.

Implications for Quality Dividend Growth strategies

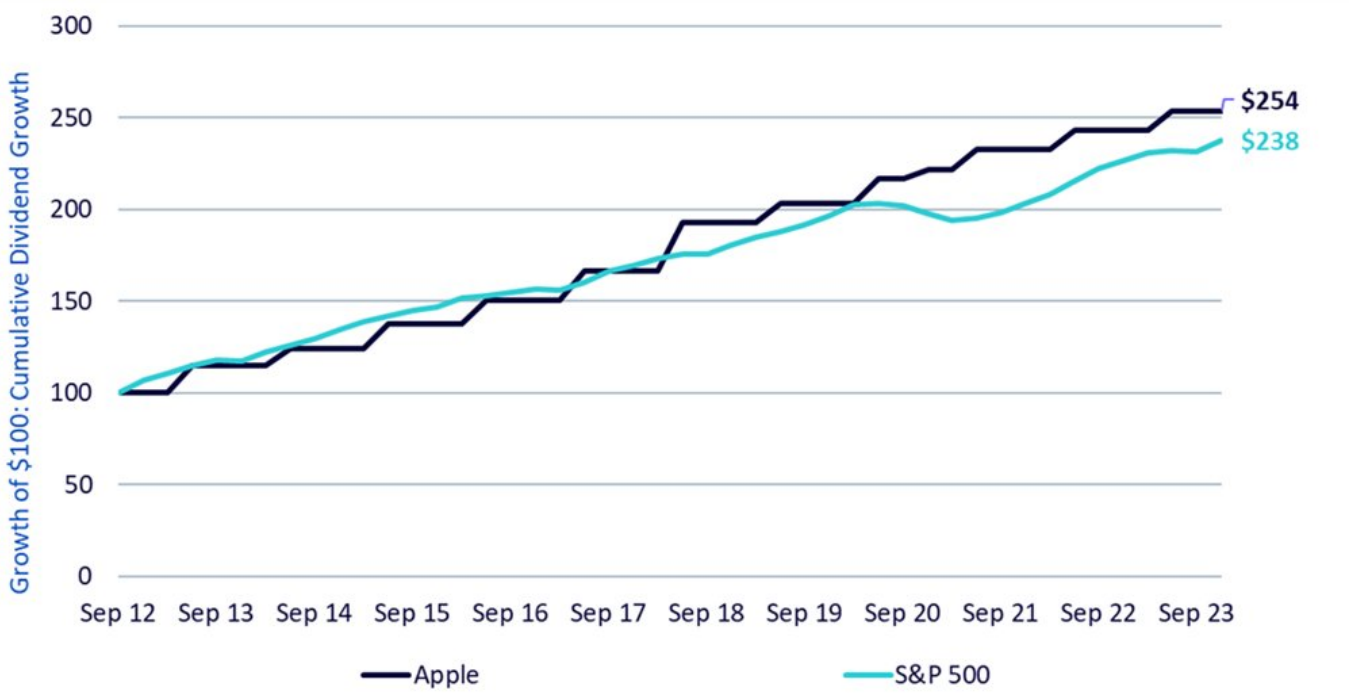
WisdomTree Quality Dividend Growth strategies aim to invest in high-quality, dividend-paying companies whose profitability and growth prospects are higher than market dividend growth.

Most competitors in the dividend growth space have backwards-looking growth screens to determine a company's eligibility. For example, Dividend Aristocrats Indexes have a 10- to 25-year dividend growth screen (depending on geographies). This means that Meta will become eligible for inclusion in 2034 or 2049, respectively, if it continues to grow dividends annually. Our Quality Dividend Growth strategies have been developed as a core equity holding and, as such, agility and flexibility are keys to adapting to market

conditions. Using forward-looking screens and being reactive to market changes are a big part of the range's success.

Interestingly, new dividend payers tend to grow their payments faster than the market. The chart below shows how Apple's dividend growth since 2012 has outpaced the broad S&P 500 by 0.6% annually. This makes the early inclusion of new dividend payers even more important.

Figure 2: Dividend Growth of Apple versus the market since its first dividend payment in 2012



Source: WisdomTree, FactSet, S&P. Data from 30 September 2012 to 31 December 2023,. Apple initiated its quarterly dividend in 2012. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investment may go down in value.**

Why Meta belongs in Quality Dividend Growth

The quality dividend growth franchise selection process focuses on highly profitable quality businesses. We often alluded to this as the 'Buffett factor' in stock selection, as Warren Buffett often talks about moving from the Ben Graham value school, which focuses on fair businesses at good value prices, towards focusing on great businesses at fair prices.

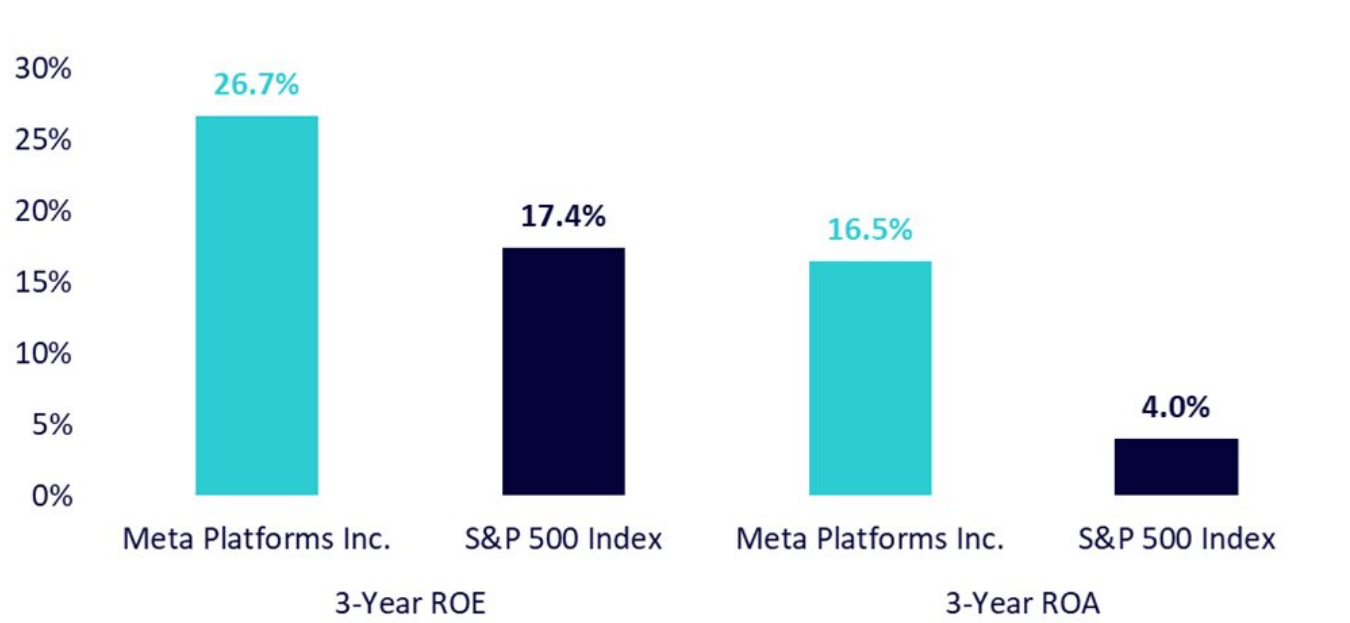
In the latest Berkshire letter, Buffett wrote a tribute to Charlie Munger in the opening pages, calling Munger the 'architect of Berkshire Hathaway's process' that convinced Buffett he should not buy cheap 'value'-like stocks but high-quality businesses. Buffett's latest letter puts Munger as the original architect of our quality investing style.

What quality and growth attributes does Meta have that exhibit it as a great business and makes us confident it should be a dividend growth leader over the coming years?

1. **Efficiency:** Meta lowered headcount by over 20% while also growing revenue by over 20% in the last 12 months – this is a sign of its scale and investments in technology paying off. Paying the first dividend is a commitment to shareholders that they will harvest their R&D investments over the years into cash flows for shareholders.

2. **Quality:** Meta's trailing three-year Return on Equity (ROE) and Return on Assets (ROA) exceed the market.

Figure 3: Meta quality metrics



Source: WisdomTree, FactSet. As of 31 January 2024. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investment may go down in value.**

As part of our investment process in the Quality Dividend Growth strategies, we rank companies based on their quality (ROE and ROA) and estimated earnings growth to rank and select securities. In the US, Meta ranks in the top 20 out of 550+ securities in scope for this measure with its solid quality number (see Figure 3) and an 18% estimated earnings growth over the next few years.

At the time of Meta's dividend announcement, its weight in broad equity benchmarks like the S&P 500, Russell 1000 and MSCI USA Indexes ranged around 2%. None of the Quality Dividend Growth strategies were invested in the stock, leading to large underweights. Upon inclusion, we expect the underweight to Meta to be significantly reduced, but still exist, given its current market capitalisation weight compared to its dividend stream weight.

*Source: WisdomTree, FactSet. Data as of 29 February 2024. *Data for WisdomTree indexes based off dividend stream calculation prior to Special Rebalance. You cannot invest directly in an index. Historical performance is not an indication of future performance and any investment may go down in value.*

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