# Dividend Barometer

December 2025

octopus investments
A brighter way

# What is the Dividend Barometer?

Much of the UK equity-income conversation is focused on a narrow set of large companies. This overlooks businesses outside the FTSE 100 with strong dividend cover and a track record of growing dividend distributions. Compiled by the Quoted Companies team at Octopus Investments, the Dividend Barometer is a report that champions the lesser-known dividend credentials of small and mid-cap income-generating stocks.

**Barometer (n.) something that can show how a particular situation is developing, or how people's opinions on a particular matter are changing.**

# Headlines

The FTSE SmallCap, FTSE 250 and FTSE AIM all outperformed their FTSE 100 peers in the six months from end of March but valuations remain low.

Total cash dividend payouts have dipped this year but are currently forecast to deliver double-digit growth once again for the year to 2026.

Smaller-cap-focused indices offer greater dividend cover and less concentration than the FTSE 100.

**Past and forecast performance is not a reliable indicator of future results.**

**Investments in listed companies can fall as well as rise. You may not get back the full amount you invest.**

**The shares of small and mid-cap companies should be considered higher risk than those of larger companies listed on main markets such as the FTSE 100. Their share price can rise or fall faster than those of companies listed on a main market, and their shares may also be harder to sell.**

# Glossary of key terms

**Bid premium** – The extra money over the prevailing share price that a buyer offers to purchase a company before the approach is publicly announced.

**CAGR** – Compound annual growth rate.

**Dividend cover** – A measure of "dividend safety" which indicates whether the earnings generated by a company are sufficient to pay shareholders a sustainable dividend.

**Dividend yield** – A measure of how much a company pays out in dividends relative to the prices of its shares.

**Growth equities** – Stocks of companies anticipated to grow earnings faster than the market average.

**Price/earnings (P/E) multiple** – A key measure of value which compares a company's ability to generate earnings with the price of its shares.

**Higher P/E multiple** – Indicates high investor expectations for growth; may suggest overvaluation.

**Lower P/E multiple** – Reflects lower growth expectations; may indicate undervaluation or additional investment risk.

**FTSE 100** – An index consisting of the shares of the 100 biggest companies by market capitalisation on the London Stock Exchange (LSE).

**FTSE 250 ex-IT** – An index that comprises mid-capitalised companies not covered by the FTSE 100 and represents approximately 15% of UK market capitalisation.

**FTSE SmallCap** – An index that includes companies from the FTSE All-Share Index that are not large enough to be constituents of the FTSE 350.

**FTSE AIM** – An index comprised of companies listed on the Alternative Investment Market (AIM).

**M&A** – Mergers and Acquisitions.

**Market capitalisation** – The total value of a company's publicly traded shares: i.e. the current share price multiplied by the number of existing shares.

**Multi cap** – An approach to constructing a portfolio whereby investments are spread across stocks of various sizes (market capitalisations).

**Overall cash payments** – The total value of cash payments made by a company or companies through the distribution of dividends.

## Strong performance in turbulent times

In this edition of the Dividend Barometer, which focuses on the six-month period from the end of March to the beginning of October 2025, we're looking back over a period of dramatic events around the world, coupled with a more volatile period for global equity markets. But we're also looking forward to the prospects for income-paying equities – especially among the UK's smaller, more dynamic companies.

In April, stock markets plunged in response to Donald Trump's tariff announcements. But as trade negotiations got underway in the background, equities bounced back – perhaps surprisingly, many stock indices around the world hit record highs in the summer and autumn.

During this recovery period, UK smaller-cap stocks have outperformed their larger peers. In part, this is because smaller companies tend to be more domestically focused and less exposed to tariffs. But it could also be due to the once-in-a-cycle valuation levels at which many UK smaller companies have been trading.

Over the six months this Dividend Barometer covers, the FTSE SmallCap Index, excluding investment trusts, was up 15% on a total-return basis, and the FTSE AIM Index was up 16.6%. These gains compare favourably with the 12% rise in the FTSE 100 over the same period.

A further boost to growth stocks has come from rate cuts by the Bank of England (BoE) in May and August. These make it easier for companies to borrow to fuel their development. Also, growth equities have historically delivered sustained outperformance relative to large cap value peers during periods of lower interest rates.

While GDP growth has been below the historical average, the UK is still expected to be the second-fastest growing economy in the G7 this year, according to the IMF.

The recent outperformance of smaller-cap indices means that the valuation gap between smaller and larger UK listed companies has narrowed – but only slightly. We believe this underscores the value that's still on offer, with many smaller-cap businesses being taken private at what look like striking premiums. Yet despite these bid premiums, many are still being acquired at valuations below the levels of as recently as 2021.

The prospects for the UK's quoted smaller companies remain bright. The FTSE AIM All-Share Index – home to many exciting companies – offers the strongest forecast growth rate of the main UK indices. Both the FTSE SmallCap and the FTSE 250 (ex investment trusts) pay aggregate dividend yields that outstrip that of the FTSE 100. Similarly, the FTSE AIM's dividend yield has been growing steadily whereas the FTSE 100's yield has been slowly declining. At the same time, the smaller-cap-focused indices offer greater dividend cover and less concentration than the FTSE 100.

All of this means that the UK's smaller companies continue to provide income-minded investors with ample scope for diversification – combining robust dividend cover with compelling valuations and substantial room for future growth.

### Discrete one-year performance % return to 30 September 2025

| | FTSE 100 Total Return | FTSE AIM All Share Total Return | FTSE SmallCap ex IT Total Return |
|---|---|---|---|
| **30/09/2021** | 25.36% | 30.79% | 72.45% |
| **30/09/2022** | 0.90% | -34.34% | -24.37 |
| **30/09/2023** | 14.66% | -8.28% | 12.7% |
| **30/09/2024** | 12.39% | 3.90% | 22.38% |
| **30/09/2025** | 17.53% | 7.85% | 6.36% |

Lipper, 30 September 2025.

**Past performance is not a reliable indicator of future results.**

## Despite recent outperformance, small caps are still undervalued

In recent months, UK small caps may have performed robustly, but despite this, they continue to offer exceptional value, alongside their attractive dividend prospects, and potential for strong earnings growth. For example, according to current consensus estimates, the FTSE AIM Index should deliver compounded annual earnings growth of 23.3% for the two years to December 2026.

This is a higher growth rate than that of the Nasdaq Composite Index in the US. But while the Nasdaq trades at an EV/EBITDA multiple of 17.3x, the FTSE AIM Index trades at a multiple of just 6.2x. Moreover, the FTSE Small Cap (ex Investments Trusts) trades on only 5.1x, whilst offering the prospect for mid-teens earnings growth.

Meanwhile, both the FTSE SmallCap (ex investment trusts) and the FTSE 250 continue to offer a higher dividend yield than the FTSE 100, which has declined over recent years as large-cap companies looked to rebuild dividend cover after the Covid pandemic.

### The FTSE AIM All-Share shows the strongest forecast growth at a discounted valuation

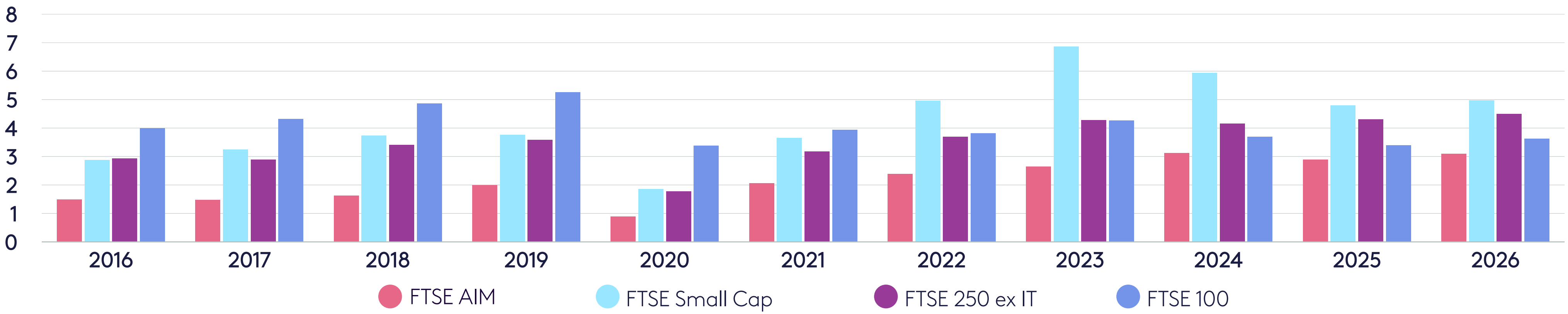
| | Two-year EPS CAGR TO 2026 | Two-year DPS CAGR to 2026 | EV/EBITDA Multiple to 2026 (x) |
|---|---|---|---|
| **Nasdaq Composite Index** | 20.84% | 5.06% | 17.28 |
| **FTSE AIM All Share** | 23.26% | 4.43% | 6.18 |
| **FTSE SmallCap ex investment trusts** | 16.23% | -5.08% | 5.12 |
| **FTSE 250 ex investment trusts** | 10.80% | 7.46% | 7.38 |
| **FTSE 100** | 5.04% | 1.90% | 8.2 |

**Forecast growth is not a reliable indicator of future results**

Source: FactSet, 30 September 2025

So the undervaluation of smaller-cap companies continues to present a compelling opportunity for investors. Although small caps' recent outperformance suggests that more investors are taking note of this, we still have a long way to go before the valuation gap is closed.

### Dividend yield by index (%)




Source: FactSet Consolidated data, 30 September 2025

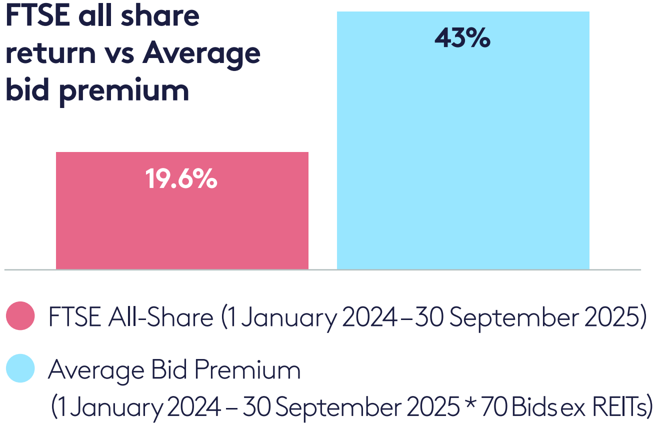
## Corporate activity underscores attractive valuations

The ongoing valuation gap is one reason for the uptick in corporate acquisitions in recent months. Over the 21 months from 1 January 2024 to 1 October 2025, over 80 bids were made for UK-listed companies which had a market cap of more than £100m.

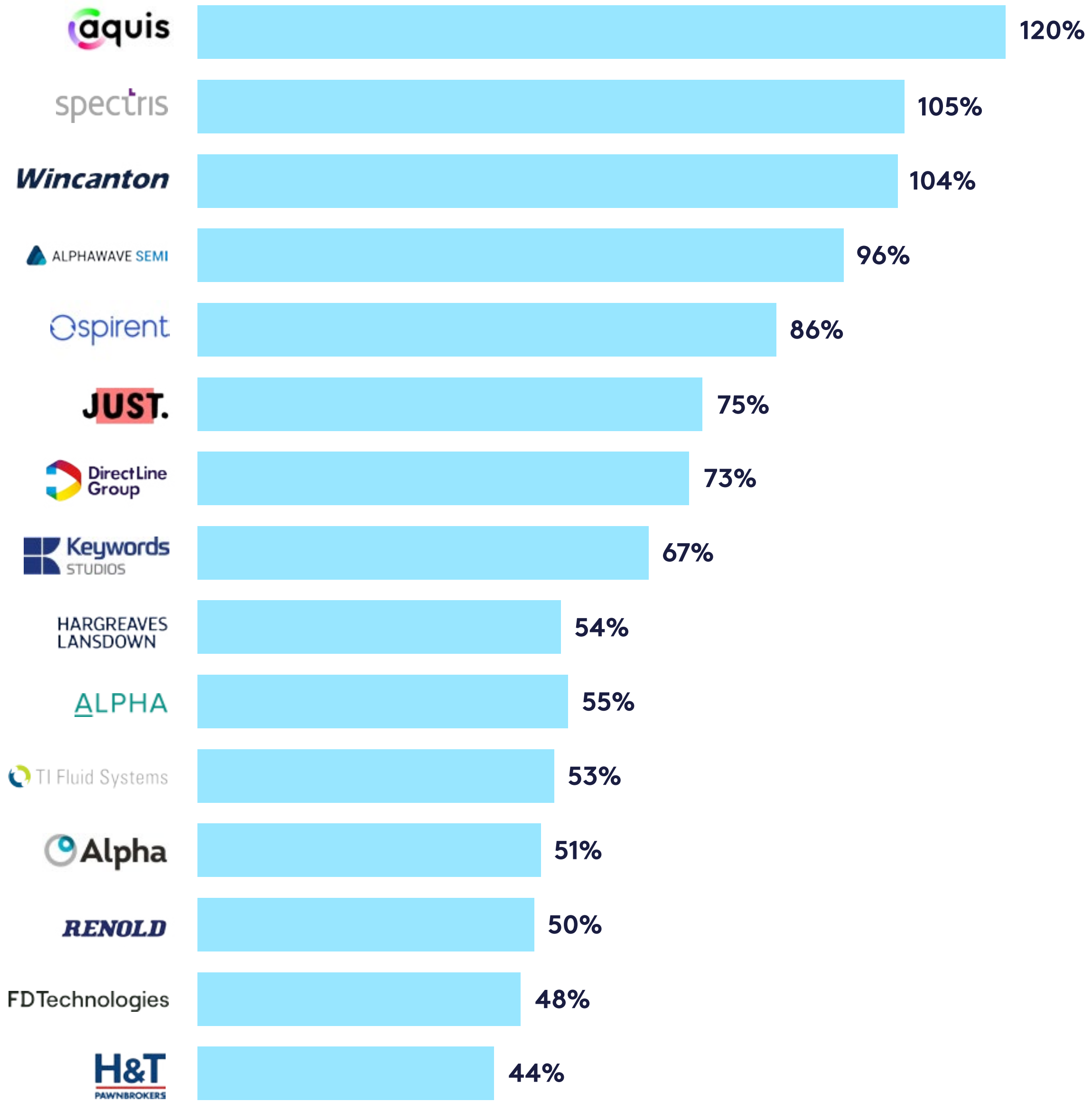
The average bid premium here was over 40% greater than the undisturbed share price – highlighting the pent-up value on offer in the small and mid-cap indices.

One side-effect of this activity is that overall UK dividend payments are expected to drop in 2025, in part because of the reduction in quoted companies. Given the solid levels of dividend growth expected across the UK quoted markets, the overall level of payouts should recover next year. This is, however, clearly predicated on the number of quoted businesses remaining unchanged for the year ahead.

### FTSE all share return vs Average bid premium




### Transactions premiums paid




**These companies are for illustrative purposes only and are not an investment recommendation.**

Source: London Stock Exchange, 1 October 2025. Factset Research Systems, 1 October 2025. LexisNexis, "Market Standards Trend Report – Trends in UK Public M&A Deals in 2024", January 2025.

## A long-term trend sustained

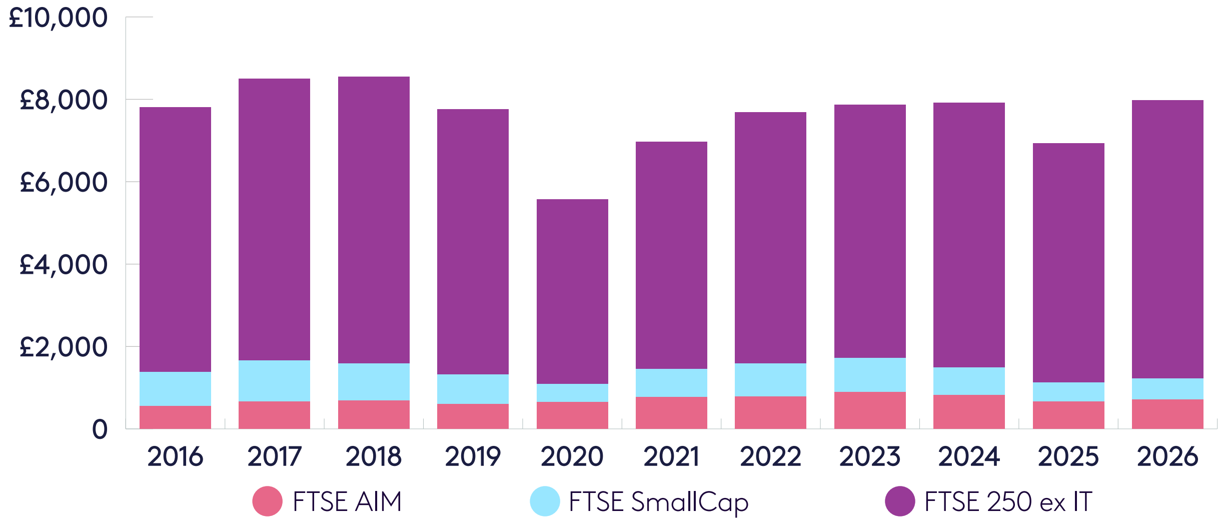
In our last edition of the Dividend Barometer, we observed that smaller companies had far outstripped FTSE 100 companies in the post-Covid recovery in dividends.

This year, in part because of the M&A activity discussed above, overall cash dividend payments have fallen back across the UK market. That said, these indices are currently forecast to deliver double-digit growth once again for the year to 2026.

Despite the year-on-year decline in 2025, smaller companies' long-term growth remains impressive. Over the past 10 years, for example, overall AIM payouts have risen by almost 30%. For the same period, payments from the FTSE 100 are up by only around 9%.

As for next year, dividends are projected to recover across all indices. According to current projections, all of the smaller-cap indices will resume their outperformance of the FTSE 100 when it comes to dividend cash payment growth.

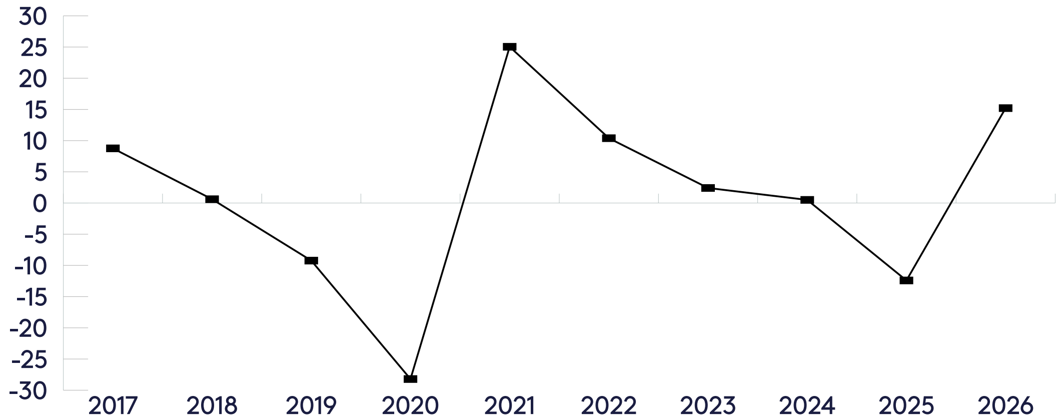
### Overall cash payments by index (£m)




**Past and forecast performance is not a reliable indicator of future results.**

Source: FactSet, 30 September 2025

### Dividends Ex FTSE 100 Year-on-Year Growth (%)

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Source: FactSet, 30 September 2025

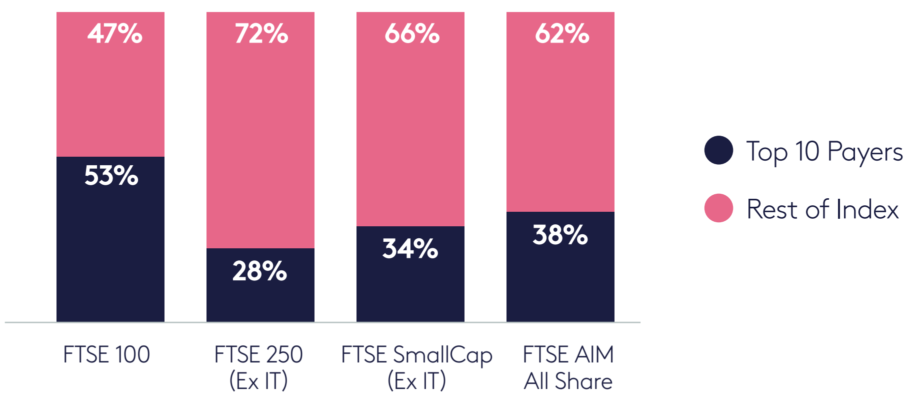
## Diversification and dividend cover: the part small caps can play in a well-balanced portfolio

One particularly compelling feature of smaller-cap indices is their lack of concentration when it comes to dividends. In the FTSE 100, the top 10 dividend payers account for more than half (53%) of the total dividend payout. By contrast, the comparable figures are 38% for the FTSE AIM and 34% for the FTSE SmallCap (ex investment trusts). The least concentrated index is the FTSE 250, where the top 10 payers account for just 28% of payouts. This means that income from smaller-cap stocks rests on more individual companies – making it less exposed to any individual dividend cut or cancellation when companies run into difficulties.

### Top ten payers by index

| FTSE AIM | FTSE SmallCap (ex investment trusts) | FTSE 250 (ex investment trusts) |
|---|---|---|
| Serica Energy PLC | Sabre Insurance Group Plc | Ithaca Energy PLC |
| Pan African Resources PLC | NewRiver REIT plc | Harbour Energy Plc |
| Polar Capital Holdings Plc | Real Estate Credit Investments Limited | Petershill Partners PLC |
| RWS Holdings plc | Reach plc | Aberdeen Group plc |
| PetroTal Corp. | Social Housing Reit PLC | Investec plc |
| James Halstead plc | Liontrust Asset Management PLC | Energean Plc |
| Jet2 PLC | Halfords Group Plc | Lancashire Holdings Limited |
| M.P. Evans Group PLC | Picton Property Income Limited | Tritax Big Box REIT PLC |
| Fevertree Drinks PLC | Card Factory Plc | Primary Health Properties PLC |
| Central Asia Metals Plc | SThree plc | ITV PLC |

### Dividend Concentration By Index 2025

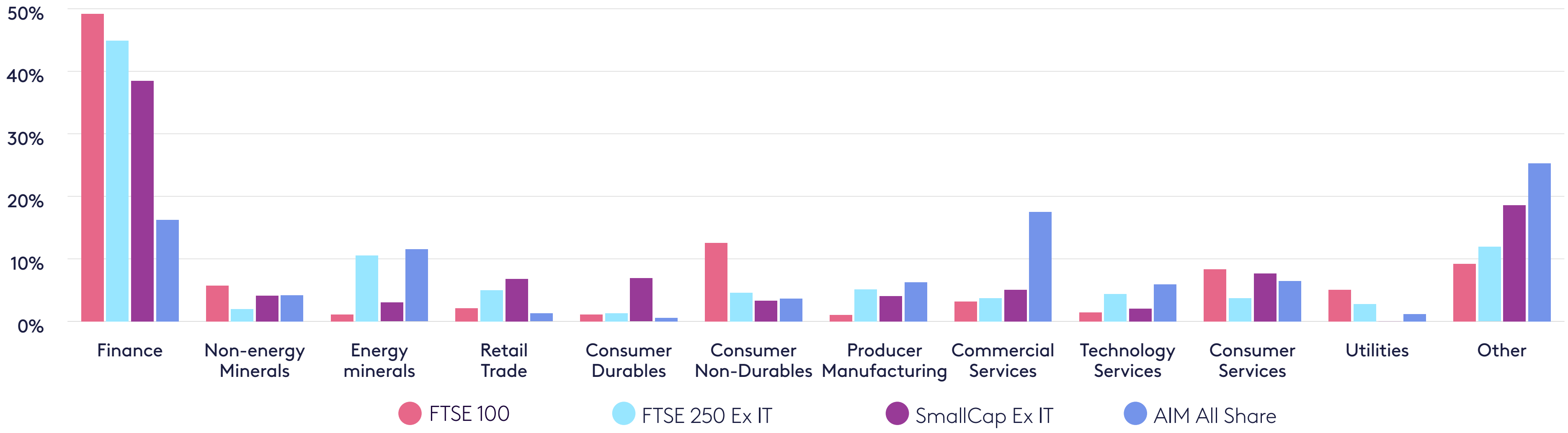



**Past and forecast performance is not a reliable indicator of future results.**

Source: FactSet, 30 September 2025

There is also scope for reduced sector concentration for investors willing to look more broadly across the markets. In most UK indices, the Finance sector accounts for the lion's share of dividends – including almost half of those paid out by FTSE 100 companies. But in the FTSE AIM, although some Energy and Resource companies offer some of the largest individual payouts, Commercial Services is the top sector for overall dividend payouts at just over 17.5%. This reminds investors that the index serves as a useful diversifier for income-focused portfolios.

## Dividends by sector in 2025




Source: FactSet, 30 September 2025

## Dividend growth by sector

When we look across the various indices, we should also highlight the expected dividend growth of the key dividend-paying sectors across the market-cap spectrum.

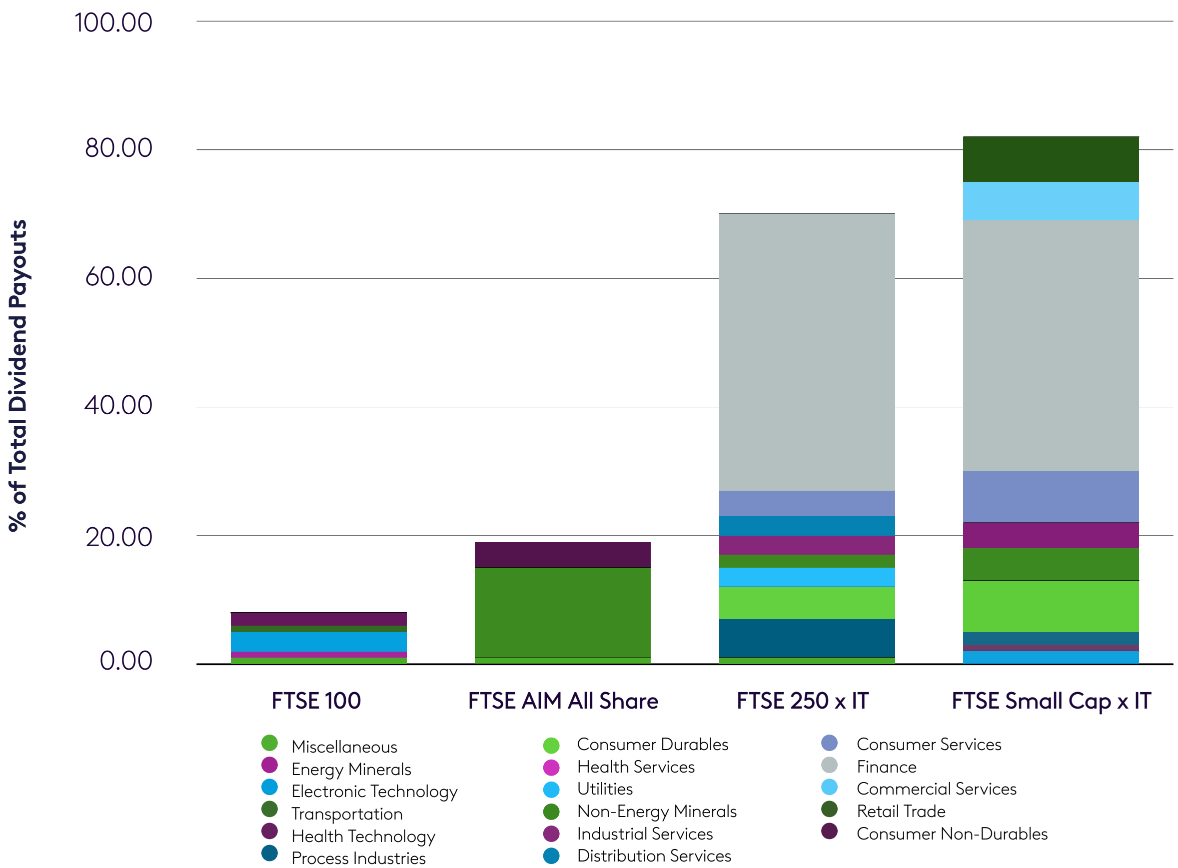
Within the FTSE 100, five sectors, accounting for only 7.1% of total dividend payouts for the year ended 2026, are expected to deliver double-digit year-on-year dividend growth. These include Energy Minerals, Electronic Technology and Transportation. However, other indices are expected to benefit from a much wider proportion of sectors that are anticipated to deliver double-digit growth in dividend payouts for the year ahead.

Across the FTSE AIM Index, sectors accounting for almost 19% of total dividend payouts are expected to achieve this double-digit dividend growth. Among these are Non-Energy Minerals, Consumer Non-Durables and Consumer Durables.

Within the FTSE 250, sectors accounting for almost 70% of total dividend payouts are expected to deliver year-on-year growth above 10%. These include Finance, Process Industries and Consumer Durables. In the FTSE SmallCap (ex investment trusts) Index, sectors accounting for an impressive 81% of total payouts are expected to grow their dividends by more than 10%. Among these are Finance, Consumer Durables and Commercial Services.

In part, this explains why dividend growth in the small and mid-cap indices is expected to continue to outpace the FTSE 100 in 2026. Once again, this should remind investors that if they are looking for both dividend growth and dividend yield, they should be taking a diversified approach and allocating capital towards smaller, higher-growth, dividend-paying companies, outside the FTSE 100.

**Sectors growing +10% Year-on-Year as a % of total 2026 payouts**




Source: FactSet, 30 September 2025

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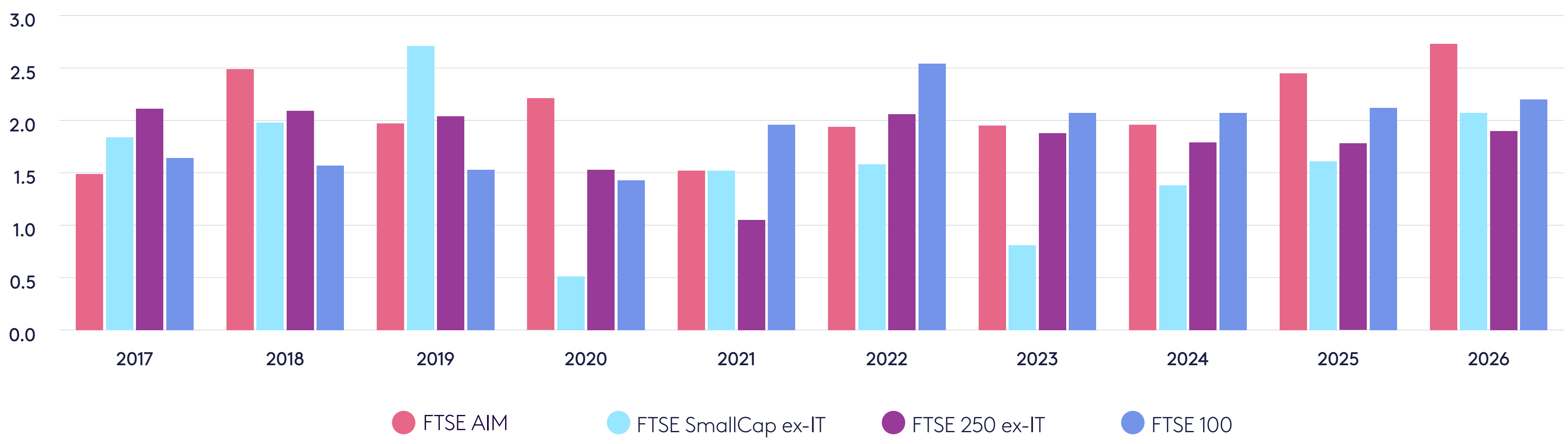
## Dividend cover by index

If we look to dividend cover, we can see it is in relatively good shape across the market-cap spectrum, with only the FTSE 250 (ex investment trusts) set to be below 2x in 2026 – and then only just. That said, the FTSE AIM still stands out. It offers the greatest dividend cover of the main UK indices, on a healthy 2.45x for 2025 and 2.73x for 2026.

### Dividends cover by index (x)

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Source: FactSet, 30 September 2025

## Dividend diamonds

We believe the two companies detailed below and currently held within our portfolios are examples of potential 'dividend diamonds'. Both UK-listed stocks have compelling long-term growth dynamics and have been rewarding investors with an attractive and growing dividend stream.

Investors should remember that investing in smaller companies is higher risk and that their share price can rise and fall more quickly than larger companies. Investing in these companies will not be suitable for everyone, so we always recommend seeking professional financial advice.

**XPS**

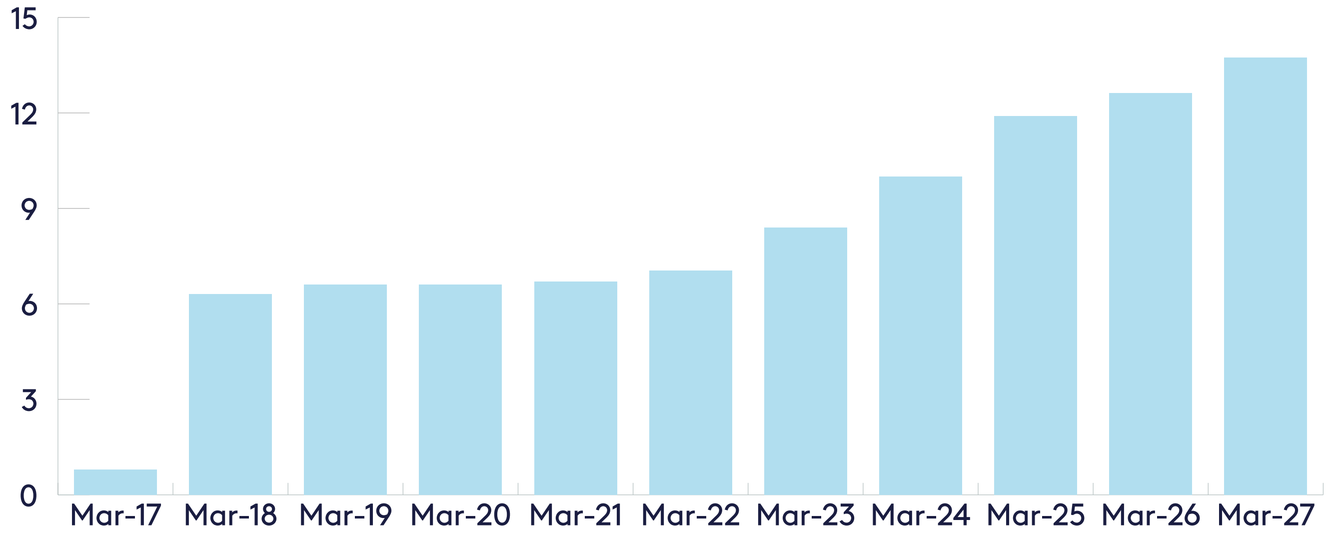
**A leading pension consulting and administration business.**

**Sector:** Finance

**Index:** FTSE 250

Since listing in 2017 the business has grown both organically, and through seven earnings-enhancing acquisitions, delivering a highly-credible 14% five-year revenue CAGR. The business helps members of defined benefit and defined contribution pension schemes to receive better outcomes and security in retirement. The business benefits from c90% repeat recurring revenues, and has been rewarding investors with an attractive and growing dividend yield of c4% currently.

**Total Dividend Paid (p/share)**




**Discrete 1-year performance % return to 30 September 2025**

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| **XPS** | 5.93% | -10.49% | 52.34% | 48.21% | 17.30% |

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Source: FactSet Research Systems 30/09/2025

### Young & Co's Brewery

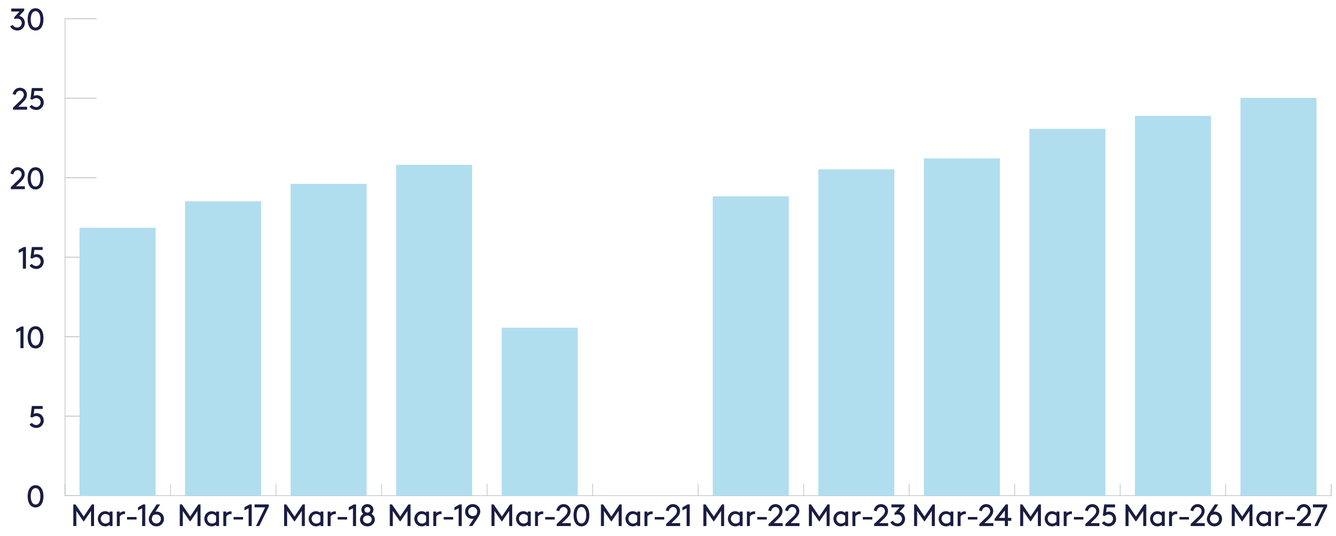
**A leading owner and operator of pubs and hotels, predominantly in London and the South East of England.**

**Sector:** Consumer Services

**Index:** FTSE AIM

Tracing its roots back to 1831, the group now comprises of almost 280 pubs, and over 1000 hotel rooms within a high-quality, well invested estate valued at c£1bn. This comprises of predominantly freehold assets, delivering best-in-class operating margins. The group has a proud history of revenue, profit and dividend growth, which despite being interrupted during Covid, was reinstated shortly afterwards and has continued to progress. The business is expected to deliver shareholders a yield in excess of 3% for the current year.

### Total Dividend Paid (p/share)




### Discrete 1-year performance % return to 30 September 2025

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| **Young's** | 81.18% | -39.29% | 14.44% | -14.95% | -12.09% |

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Source: FactSet Research Systems 30/09/2025

## Looking ahead

The last six months have seen steady performance for many smaller-cap stocks. Although overall cash dividend payments may have been dented this year, in part by M&A, the yields on both the FTSE 250 and the FTSE SmallCap (ex investment trusts) indices remain above the FTSE 100. Yet these companies are still flying under the radar for many traditional income investors. There is some debate over the near-term trajectory of UK interest rates, but the Bank of England (BoE) is expected to reduce rates further in the coming months. Smaller-cap companies, which tend to have a more domestic focus, should be particularly well placed to benefit.

In the meantime, UK smaller-cap stocks continue to offer investors a compelling opportunity in terms of both absolute and relative value, as well as income. Their recent robust performance hasn't changed their long-term undervaluation compared with their larger-cap and global peers. But that valuation gap should close over time. For income-focused investors, it presents an opportunity for what we believe is a rare valuation anomaly, alongside the prospect of attractive and growing dividend streams.

### Discrete 1-year performance % return to 30 September 2025

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| **FTSE 100 Total Return** | 25.36% | 0.90% | 14.66% | 12.39% | 17.53% |
| **FTSE 250 Total Return** | 35.69% | -23.50% | 10.00% | 19.11% | 8.18% |
| **FTSE 250 ex IT Total Return** | 40.85% | -26.79% | 13.62% | 21.41% | 6.69% |
| **FTSE Small Cap Total Return** | 51.74% | -18.70% | 7.48% | 18.21% | 8.91% |
| **FTSE Small Cap ex IT Total Return** | 72.45% | -24.37% | 12.72% | 22.38% | 6.36% |
| **FTSE AIM Total Return** | 30.79% | -34.34% | -8.28% | 3.90% | 7.85% |
| **DNSC ex IT Total Return** | 45.93% | -25.12% | 11.83% | 20.01% | 8.89% |
| **NASDAQ Total Return** | 24.90% | -10.93% | 15.34% | 26.16% | 24.96% |

**Past performance is not a reliable indicator of future results.**

Source: Lipper 30/09/2025. Returns are based on published dealing prices, single price mid to mid with net income reinvested, net of fees, in sterling.

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