OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

February 1, 2013
Volume 2 Issue 2

Valuentum Securities Inc.
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Annualized Return	Annualized Goal	Outperformance
15.0%	Mid-High-Single Digits	7.5%

Portfolio Inception Date: May 17, 2011

***Please see note below regarding performance measurement.**

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What a Month for Dividend Growth Investors!

By Brian Nelson, CFA

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= All Time High!

Not only did the Dow Jones Industrial Average (DJIA) top 14,000 for the first time since October 2007, but performance of constituents in the portfolio of our Dividend Growth Newsletter (see page 5) was even better! ConocoPhillips' spin-off Phillips 66 (PSX) hit an all-time high and has now nearly doubled since it joined our portfolio. Johnson & Johnson (JNJ) and Procter & Gamble (PG) notched all-time highs, while Altria (MO), Kinder Morgan (KMP), and Emerson Electric (EMR) also had an excellent month!

We've been more than satisfied with our performance so far this year and since inception. Our Dividend Growth portfolio has now advanced over 16% for an annualized return of 15%, roughly doubling our goal of a mid-to-high single annual return over rolling 3-5 year periods. We continue to expect constituents in the portfolio of our Dividend Growth Newsletter to deliver, and while we plan to trim our weightings in a few positions in coming weeks (as a measure of prudence), we remain laser-focused on our long-term goals for members.

Please see *Our Dividend Growth Portfolio* on page 5

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Phillips 66 Caps Off 2012 with an Outstanding Fourth Quarter

By RJ Towner

Dividend Growth Newsletter portfolio holding Phillips 66 (PSX)—annual dividend yield 1.6%—announced another fantastic quarter. The company has been one of the biggest winners in the portfolio of our Dividend Growth Newsletter. Adjusted earnings per share jumped over 240% year-over-

Please see *Phillips 66…*on page 3

***NOTE:** Our Dividend Growth portfolio's goal is to generate a mid-to-high single digit annual return over rolling 3-5 year periods. Our Best Ideas portfolio's goal is to exceed the benchmark return (SPY) each year and to generate a positive return each year regardless of broad market conditions.

The Most Important Tactic in Money Management: Don't Overreact - The Path of Republic Services

By Valuentum Analysts

Let's dig into the path of Republic Services (RSG)—annual dividend yield 3%—a holding in both the portfolio of our Best Ideas Newsletter and Dividend Growth Newsletter. The trash taker's past several months have been quite volatile due to some negative news flow, but the company has now fully recovered and is breaking out to a new 52-week high!

Though we had plans to trim our position in both of our actively-managed portfolios following its weak performance in early November of last year, we didn't move an inch as we waited for a tactical exit. In fact, in our Dividend Growth portfolio (cost basis: $27.55 per share), we still hold a full position, and we're now sitting on profits in our Best Ideas portfolio—even before considering the steady stream of growing dividends we received from the garbage hauler.

The key takeaway is that when we add a company to our actively-managed portfolios, we have conviction in our idea. When others run for the exit when news flow turns negative, we don't overreact as Mr. Market often does (at the expense of the retail investor). And in this particular example, even though we're still planning to trim our position in both of our actively-managed portfolios, patience and letting the story evolve (from Hurricane Sandy to REIT-conversion speculation) has turned a potential loss into a big winner (date referenced in picture, January 28, 2013).

Source: TradingView.com

Phillips 66... from page 1

year to $2.06, smashing consensus estimates. Earnings for the year jumped 50% to $8.46, highlighting the considerable operating leverage inherent to the refinery business. Shares are now up over 90% since being spun off from ConocoPhillips (COP) in 2012.

Cash flow generation was superb, as the firm raked in $1.3 billion in operating cash flow. $1 billion was used to reduce debt, leaving the firm with a debt/capital ratio of 25%. The firm also added $1 billion to its share repurchase program, and hiked its dividend 25% (it raised it to $1.25 per share for 2013)—though that figure represents a yield of less than 2% thanks to share appreciation during the past year. We love the firm's aggressive capital management policies, which have helped the company quickly reduce debt while providing strong returns of capital to shareholders.

Phillips 66 benefitted tremendously from crude as a percentage of the mix (67% versus 57%), and shale oil processing, where barrels per day increased 97% from the same period a year ago. Refining and marketing earnings, adjusted for a large impairment in the company's Melaka Refinery, jumped 18% year-over-year to $1.1 billion, even though utilization was 300 basis points lower at 91%. Export volumes also helped boost earnings, jumping 5% compared to the prior year. Even while crack spreads declined 33% sequentially, refinery market capture increased to 95% (was 79%).

Midstream earnings weren't as strong, falling nearly 50% to $62 million on an adjusted basis. Lower natural gas prices weighed on earnings, and with a relatively warm winter and increasing supplies, we doubt the midstream segment will see a quick turnaround in profitability. Chemical earnings surged over 150% to $246 million, as segment margins improved. Olefins and polymers volumes increased 8% year-over-year, and the company remains exposed to a favorable chemical mix.

While the company doesn't give specific financial guidance for 2013, we think the year features some strong fundamental catalysts. Phillips 66 will add additional refining export capacity, and it expects to refine 200,000 barrels per day of shale oil during 2013, well above its current run-rate of 112,000 barrels per day. We also expect the firm to file for a master limited partnership, which should hit the market in the second half of 2013.

Overall, we're feeling confident holding shares of Phillips 66, and we could not be happier with the results of this spinoff. We see modest upside valuation from current levels, and we believe the company will continue its generous capital allocation strategies. Still, we may trim our position in the coming weeks given the huge price advance (as a measure of prudence).

Weak Holiday Sales from Hasbro Are a Surprise

By Valuentum Analysts

After NPD reported solid toy sales during December, we thought the holiday season might be relatively strong for the major toymakers—including Lego, Hasbro (HAS), and Mattel (MAT). However, Hasbro announced that its fourth quarter revenue will be approximately $1.3 billion, below the consensus expectation of $1.4 billion. Earnings, net of restructuring charges, will be $2.73-$2.75 per share, well below the consensus estimate of $2.85 per share.

We won't know until the firm announces its results in February what caused the weakness, but we like the firm's decision to reduce annual operating expenses by $100 million over the next three years.

Since December seemed like a relatively strong month for the toy industry as a whole, we assume the season may have gotten off to a sluggish start. We'll be monitoring the news when the company reports final results, but we aren't too worried at this point. Excluding foreign exchange headwinds, the firm's sales were roughly flat compared to the fourth quarter of 2011, and we think the company is doing a good job of maintaining sales as it battles macroeconomic headwinds and changing industry dynamics.

At this point, we think Hasbro remains a solid dividend growth idea, so we won't be removing shares from the portfolio at this juncture. The firm maintains an annual dividend yield of 3.9% at the time of publication.

Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential
$22.00 - $32.00	HEALTHY	GOOD / 2.3	EXCELLENT

Intel Punished for Investing in the Future

By Valuentum Analysts

Semiconductor giant Intel (INTC)—4.2% annual dividend yield—reported better than expected fourth quarter results. Revenue declined 3% year-over-year to $13.5 billion, roughly in-line with consensus expectations. Earnings easily exceeded modest estimates, falling 25% year-over-year to $0.48 per share.

Due to the weak PC market and the firm's desire to clear inventories, gross margins were down significantly in the fourth quarter, falling 650 basis points year-over-year to 58%. Gross margin declines were the primary driver behind the lapse in profitability, but research & development costs increased $300 million compared to the same period of 2011 to 19.5% of sales (up 290 bps Y/Y).

On a segment basis, the PC Client Group, not surprisingly, drove the majority of revenue weakness, as Intel's largest segment experienced a 6% decline in revenue to $8.5 billion. Profitability suffered even more, falling 29% year-over-year to $2.8 billion. It goes without saying that the PC market was weak in 2012, but we think some new product introductions such as all-in-one computers could spike interest in PCs going into 2013. Windows 8 hasn't been the success Microsoft (MSFT) promised it would be, but its touch interface still has the potential to gain some market share.

Data Center Group revenue ticked up 4% year-over-year to $2.8 billion. Gross margins were about equal to the previous year, but the company has been investing heavily in increasing capacity for its cloud services. We think a 4% growth rate, while not the double digit growth we saw in 2011, is a solid figure considering the broader economic landscape. Not only was the global macro outlook choppy, but the US was dealing with the fiscal cliff fiasco that resulted in a hiring and investment freeze. Regardless, CFO Stacy Smith provided some positive commentary on the conference call heading into 2013:

> *"…we expect the data center group to return to double-digit revenue growth and diving into that, it's the cloud data center plus our participation in portions of the market like storage and some of the networking sections of the market. It's both unit and ASP based on the strength of our product line and follow-up."*

Software and Services, driven primarily by McAfee, grew 10% year-over-year to $600 million. Several "old" tech companies such as Dell (DELL) and HP (HPQ) are focusing on becoming software driven enterprises, but we do not think Intel has to follow the same path. Intel's current hardware offerings

Dividend Strength

Dividend Safety \ Dividend Growth	Very Poor	Poor	Good	Excellent
Excellent				
Good				
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Dividend Track Record — HEALTHY

Fiscal Year	Div/s/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Dec-97	NA	0.0	0.97	0.0%
Dec-98	NA	0.0	0.87	0.0%
Dec-99	NA	0.0	1.06	0.0%
Dec-00	NA	0.0	1.51	0.0%
Dec-01	NA	0.0	0.19	0.0%
Dec-02	NA	0.0	0.46	0.0%
Dec-03	0.08	0.0	0.85	9.4%
Dec-04	0.16	100.0	1.16	13.8%
Dec-05	0.32	100.0	1.40	22.9%
Dec-06	0.40	25.0	0.86	46.5%
Dec-07	0.45	12.5	1.18	38.1%
Dec-08	0.55	22.2	0.92	59.8%
Dec-09	0.56	1.8	0.77	72.7%
Dec-10	0.63	12.5	2.01	31.3%
Dec-11	0.78	23.8	2.39	32.6%
Dec-12	*0.90*	*15.4*	*2.13*	*42.2%*
Dec-13	*1.01*	*12.0*	*1.99*	*50.7%*
Dec-14	*1.11*	*10.0*	*2.09*	*53.2%*
Dec-15	*1.20*	*8.0*	*2.19*	*54.8%*
Dec-16	*1.29*	*8.0*	*2.29*	*56.4%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on Intel, please visit our website at www.valuentum.com

Please see *Intel Punished…* on page 6

Our Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
15.0%	Mid-High-Single Digits	7.5%

Portfolio Inception Date: May 17, 2011

= All Time High!

DIVIDEND GROWTH PORTFOLIO -- as of February 1, 2013 — Dividend Growth Portfolio Inception Date: January 1, 2012

Company Name	First Purchase	Avg Cost ($)	# of Shares	Total Cost ($)	Last Close	Current Value ($)	% of Portfolio	Exp. Yrly Div's ($)
Altria (MO)	12/30/2011	29.65	202	5,996.30	34.20	6,908.40	5.9%	355.52
Chevron (CVX)	12/30/2011	106.40	56	5,965.40	116.50	6,524.00	5.6%	201.60
ConocoPhillips (COP)	12/30/2011	72.87	89	6,492.43	58.82	5,234.98	4.5%	234.96
Emerson Electric (EMR)	12/30/2011	46.59	97	4,526.23	58.08	5,633.76	4.8%	159.08
Energy Transfer (ETP)	12/30/2011	45.85	142	6,517.70	47.05	6,681.10	5.7%	508.36
Hasbro (HAS)	12/30/2011	31.89	220	7,022.80	37.65	8,283.00	7.1%	316.80
Intel (INTC)	12/30/2011	24.25	289	7,015.25	21.36	6,173.04	5.3%	260.10
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	74.18	7,937.26	6.8%	261.08
Kinder Morgan (KMP)	12/30/2011	84.95	65	5,528.75	88.92	5,779.80	5.0%	335.40
Medtronic (MDT)	12/30/2011	38.25	157	6,012.25	46.92	7,366.44	6.3%	163.28
Microsoft (MSFT)	12/30/2011	25.96	308	8,002.68	27.93	8,602.44	7.4%	283.36
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	75.92	7,971.60	6.8%	236.25
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	30.37	7,228.06	6.2%	342.72
Phillips 66 (PSX)	5/1/2011	Spin Off	44	Spin Off	62.75	2,761.00	2.4%	55.00
Republic Services (RSG)	12/30/2011	27.55	236	6,508.80	31.82	7,509.52	6.5%	221.84
Superior Industries (SUP)	12/30/2011	16.54	423	7,003.42	20.85	8,819.55	7.6%	270.72
Cash				2,363.42		6,965.01	6.0%	4,206.07
Dividend Growth Portfolio				100,000.00		**116,378.96**	100.0%	**3.61%**
Benchmark: Dow Jones Select Dividend Index (DVY)				100,000.00	60.57	**116,589.18**		**3.48%******

UR = Under Review

** Upper bound of fair value range noted.

**** The yield an investor would have received if they had held the fund over the last 12 months assuming the most recent NAV.

This portfolio is not a real money portfolio. Data as of February 1, 2013. Cost basis includes commissions. Results include divdends, but no interest received on cash balance.

DIVIDEND GROWTH PORTFOLIO -- as of February 1, 2013

Company Name	Yrly Div's Paid ($) / Shr	Div Yield %	Ex Div Date	Next Pay Date (cycl)	Div Cushion™	Div Safety	Div Growth	Fair Value	VBI Score	Price/Fair Value
Altria (MO)	1.76	5.15%	mid-Mar 2013	mid Apr 2013 (quart)	1.3	GOOD	EXCELLENT	$43.00	9	0.80
Chevron (CVX)	3.60	3.09%	mid-Feb 2013	early Mar 2013 (quart)	2.6	GOOD	EXCELLENT	$110.00	3	1.06
ConocoPhillips (COP)	2.64	4.49%	early-Feb 2013	late Feb 2013 (quart)	1.4	GOOD	EXCELLENT	$58.00	3	1.01
Emerson Electric (EMR)	1.64	2.82%	mid Feb 2013	early Mar 2013 (quart)	2.1	GOOD	EXCELLENT	$56.00	6	1.04
Energy Transfer (ETP)	3.58	7.61%	early Feb 2013	Feb 2013 (quart)	1.7	GOOD	GOOD	$52.00	3	0.90
Hasbro (HAS)	1.44	3.82%	late Apr 2013	mid-May 2013 (quart)	1.6	GOOD	EXCELLENT	$49.00	3	0.77
Intel (INTC)	0.90	4.21%	early Feb 2013	early Mar 2013 (quart)	2.3	GOOD	EXCELLENT	$28.00	3	0.76
Johnson & Johnson (JNJ)	2.44	3.29%	late Feb 2013	early Mar 2013 (quart)	2.6	GOOD	EXCELLENT	$90.00	9	0.82
Kinder Morgan (KMP)	5.16	5.80%	late Apr 2013	mid May 2013 (quart)	1.4	GOOD	EXCELLENT	$92.00	6	0.97
Medtronic (MDT)	1.04	2.22%	early Apr 2013	late Apr 2013 (quart)	2.7	GOOD	EXCELLENT	$49.00	6	0.96
Microsoft (MSFT)	0.92	3.29%	mid Feb 2013	mid Mar 2013 (quart)	4.1	EXCELLENT	EXCELLENT	$47.00	6	0.59
Proctor & Gamble (PG)	2.25	2.96%	late Apr 2013	mid May 2013 (quart)	1.4	GOOD	EXCELLENT	$69.00	5	1.10
PP&L (PPL)	1.44	4.74%	early Mar 2013	early Apr 2012 (quart)	-0.5	VERY POOR	VERY POOR	$34.00	6	0.89
Phillips 66 (PSX)	1.25	1.99%	early-Feb 2013	late Feb 2013 (quart)	UR	UR	UR	$67.00	5	0.94
Republic Services (RSG)	0.94	2.95%	late Mar 2013	mid Apr 2013 (quart)	1.0	POOR	VERY POOR	$32.00	6	0.99
Superior Industries (SUP)	0.64	3.07%	tba	tba	tba	EXCELLENT	GOOD	$22.00	6	0.95

Standard Disclaimer: Our Dividend Growth portfolio is for information purposes only and should not be considered a solicitation to buy or sell any security. Valuentum is not responsible for any errors or omissions or for results obtained from the use of our Dividend Growth Newsletter and accepts no liability for how readers may choose to utilize the content.

Intel Punished... from page 4

are less commoditized and are more of a value-add than the traditional PC OEMs thanks to the company's manufacturing prowess.

Speaking of manufacturing, the company recently landed a deal with Cisco (CSCO) to produce made-to-order networking chips at its foundries. Intel is lauded for its manufacturing excellence, and we like the move as a way for Intel to diversify away from the PC business. If the deal proves to be a success, Intel's foundry business could add solid incremental revenue growth.

Still, all eyes remain locked on the company's decision to elevate capital expenditures and operating expenses in 2013. The company forecasts low-single-digit revenue growth in 2013, but operating expenses will increase 4%-6%, to $18.9 billion, and capital investment is expected to come in at $13 billion. Much of the elevated level is due to investment in brick-and-mortar facilities and capacity expansion, which we believe, will not be recurring once completed. In 2013, this could pressure earnings, especially if margins remain subdued (forecasted at a flattish 60%). However, the company's decision to raise debt and likely repurchase stock should mitigate some of the earnings per share impact. Further, given departing CEO Paul Otellini's and CFO Stacy Smith's solid track record of capital allocation during their time at the helm, we have faith that management is making solid investments for the future.

We think it's important to remember how transformative building a great mobile business could be for Intel. Apple (AAPL) wants nothing more than to replace Samsung in its existing iPhone package, but it won't change suppliers until a new company makes a better chip. Over the past several decades, Intel has shown that it's more than capable of building the best chip in the industry. If Intel is able to create the pre-eminent mobile chips, we think other industry players such as RIM (RIMM) and Motorola Mobility (GOOG) would consider more extensive relationships.

Overall, we thought the fourth quarter was stronger than anticipated, and we believe guidance for 2013 is decent and conservative. Revenue in the first quarter is expected to be $12.7 billion plus or minus $500 million, with gross margins remaining relatively low at 58%. With the Street largely disappointed in the higher levels of investment, we could see shares pull back materially yet again. However, we think plenty of upside remains, with several potential catalysts in 2013 and the first half of 2014. Though price action has been disappointing, fundamentals remain solid.

P&G Delivers Fantastic Results

By Valuentum Analysts

After sputtering along for the past few years, consumer product giant Procter & Gamble (PG)—annual dividend yield 3%—has returned to solid growth, reporting strong second-quarter results for its 2013 fiscal year. Revenue rose 3% year-over-year to $22.2 billion, handily beating consensus expectations. Earnings growth was also fantastic, with core earnings per share jumping 12% compared to the year-ago period to $1.22, a stark advance from its prior lackluster growth.

The firm's gross margin in the quarter expanded 80 basis points year-over-year to 50.9% as the company benefits from relatively flat cost inflation and incremental price increases. SG&A grew about 2% year-over-year, but the cost item remained flat as a percentage of sales. Since P&G lapped a quarter in which it took a large goodwill impairment charge, the firm's operating margin increased 800 basis points year-over-year to 20.3%, helping deliver the impressive earnings growth.

On a segment basis, beauty & grooming continued to be a solid performer, with sales of beauty products growing 3% and grooming sales increasing 2%. It seems as though European consumers have continued to trade down in the razor-blade market as the EU deals with varying economic growth rates. We think this segment will return to solid GDP-like growth in Europe when economic conditions improve.

Please see *P&G Delivers Fantastic Results* on page 8

AT&T Sells Just a Couple of iPhones...8.6 Million!

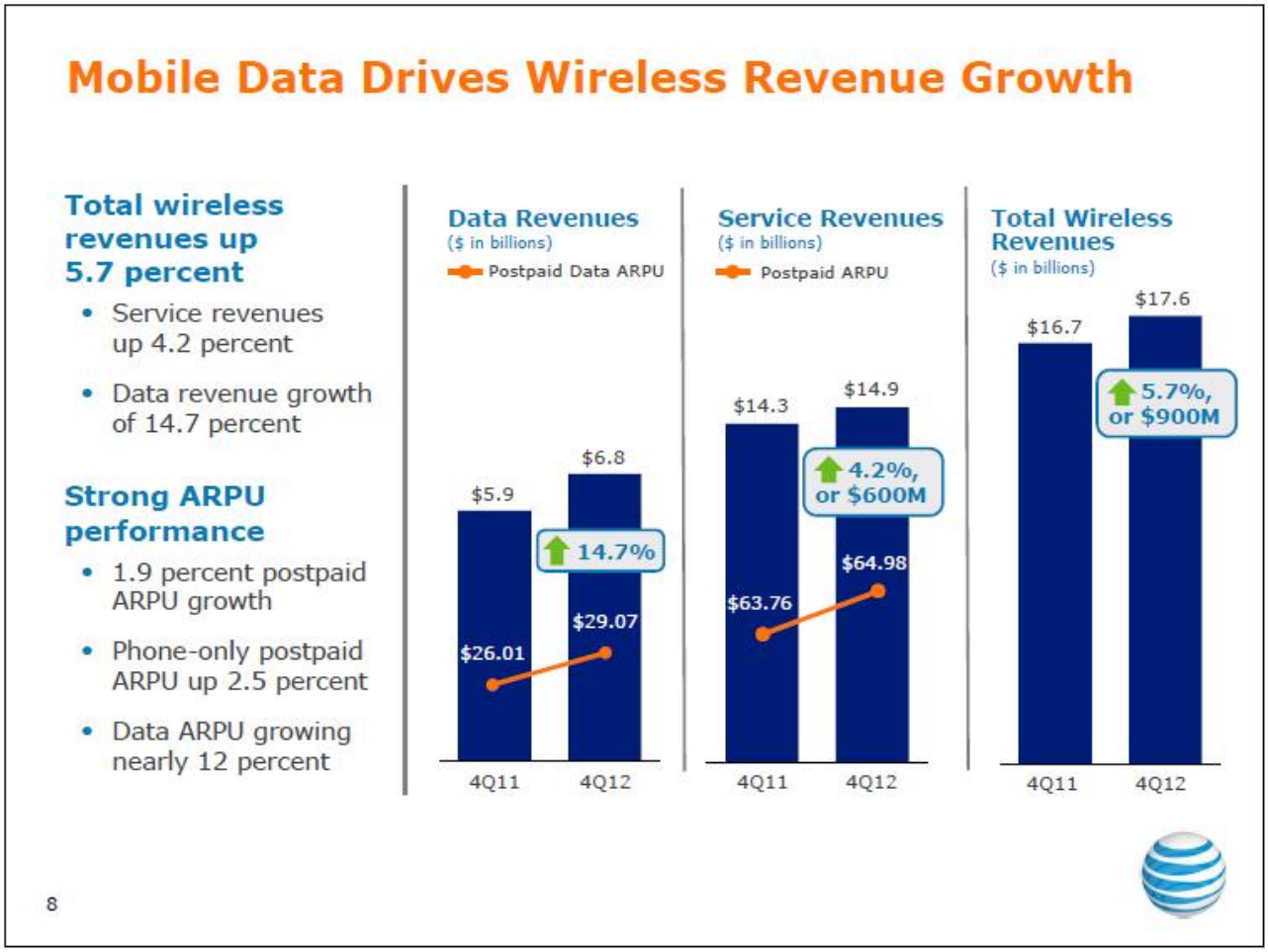
By RJ Towner

Wireless carrier and cable provider AT&T (T)—annual dividend yield 5.3%—announced satisfactory fourth-quarter results. Revenue grew just 0.2% year-over-year to $32.6 billion, which was stronger than the consensus estimates anticipated. Earnings, adjusted for significant expenses, jumped 10% year-over-year to $0.44 per share, slightly below consensus expectations.

Perhaps the most significant read-through from the quarter came from AT&T's iPhone (AAPL) activations. The company activated approximately 10.2 million smartphones during the fourth quarter. Out of those 10.2 million phones, 8.6 million were iPhones, or **84.3% of total smartphones**. The activations might suggest the iPhone is **gaining** popularity in the US. Contrary to the mainstream spin, Apple is doing quite well in the smartphone space.

Solid data growth continues to drive higher ARPUs (average revenue per user), but the company trails Verizon (VZ), which we believe is the premier wireless service in the US. AT&T also tends to have fewer heavy data users, so we believe the ARPU differential might not narrow too much. Churn also remains above that of Verizon, declining just 2 basis points to 1.19%.

Still, wireless (shown below) remains a key revenue driver for AT&T's business strategy, as it gobbles up additional spectrum and improves its network quality (Image Source: T Earnings Presentation).



Please see *AT&T Sells...* on next page

AT&T Sells... **from previous page**

AT&T's legacy wireline business keeps plugging along, though revenue growth actually accelerated compared to past periods. Without question, we expect wireless to be much more important to the firm's future, but having a solid cash generator to help grow the rest of the business is never a bad thing.

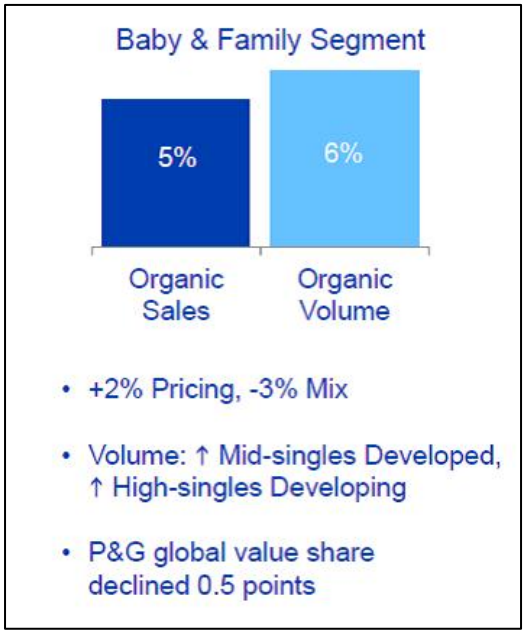
The company was a cash-flow machine in 2012, generating $19.4 billion in free cash flow during the year, though the company anticipates that number will fall in 2013. AT&T will be investing heavily in its 4G LTE network in 2013, which we think is a fantastic move for the long-term health of the business. The company also predicts wireless margin expansion, which is possible considering the continued growth in data usage as well as growth in smartphone plan mix.

Overall, we like the future of the wireless industry thanks to increasing consolidation and strong data consumption growth, but we think shares of AT&T look fairly valued. Although we're not predicting a cut in its dividend anytime soon, we aren't too bullish on the firm's dividend growth profile at this time (due to its heavy debt burden), so we won't be adding the name to the portfolio of our Dividend Growth Newsletter.

P&G Deliver Fantastic Results **from page 6**

Oral care is driving expansion in P&G's health care products segment, where organic sales increased 4% year-over-year. However, supply-chain investments and marketing spending weighed on profitability in the segment, which declined 5%.

The fabric & home care segment, thanks to demand for batteries and improved pricing, was the company's standout performer. After-tax earnings jumped 21% year-over-year, even though organic sales only increased 3% year-over-year. Commodity price increases were not nearly material enough to weigh on earnings, but the company did attribute some of the strength in the segment to Hurricane Sandy. This could set up a difficult comparison during fiscal year 2014, but we think the company's market share gains suggest its brands are strengthening regardless.



Baby & family care also posted fantastic results, despite losing a small amount of global market share (Image Source: P&G Earnings Presentation, right). The company's increased exposure to developing markets with strong growth rates could help the firm offset the impact of declining birth rates in developed nations. Further, birth rates may continue to decline, but because population growth has been strong, the absolute number of babies looks poised to continue growing (3 billion families having 1 baby exceeds 1 billion families having 2 babies). After-tax earnings jumped 18%, suggesting the company's brands are having little trouble resonating with consumers. We like the long-term growth profile of the segment.

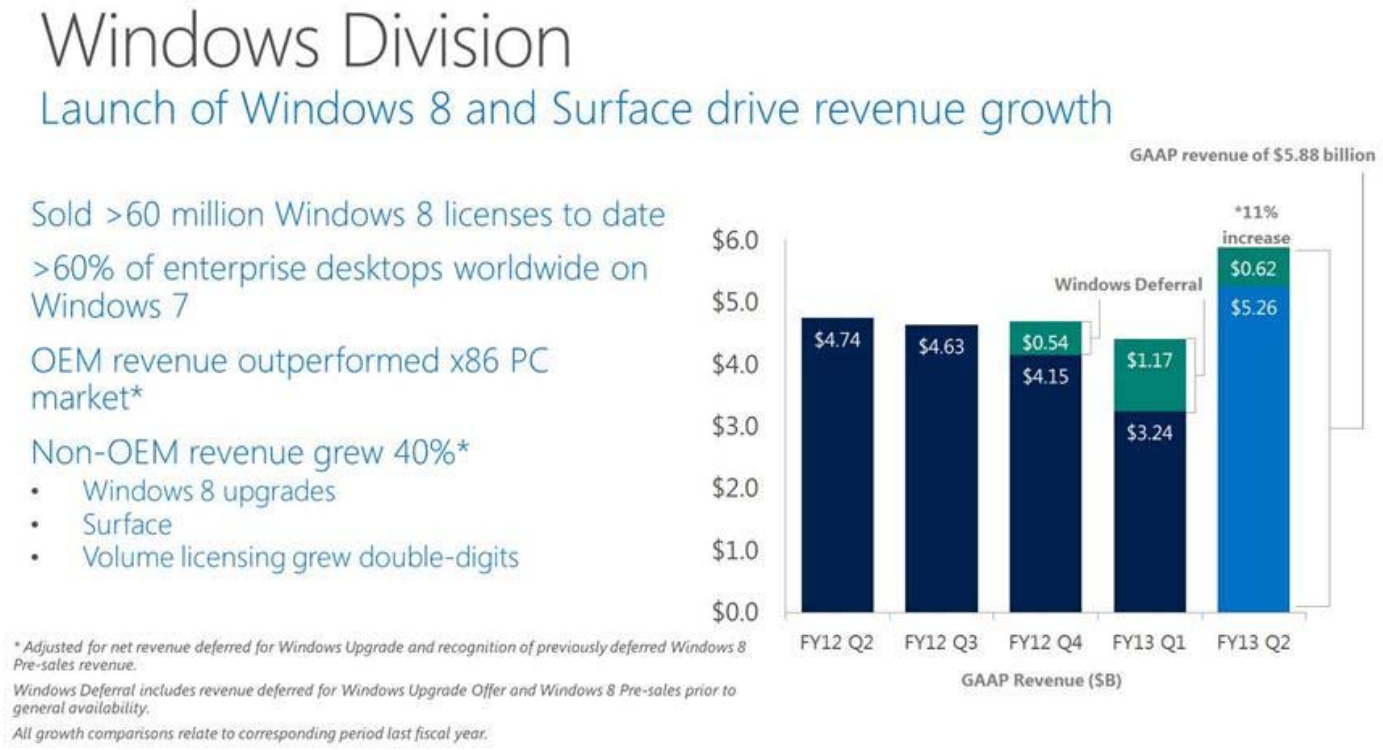
Overall, we saw fantastic profitability growth at P&G thanks to its cost-savings initiatives and solid price increases. P&G boosted its share repurchase range to $5-$6 billion (was $4-$6 billion). Reported earnings per share are expected to increase 10% to 17% year-over-year during the fiscal third quarter (ends March), while core EPS is anticipated at +/- 3%. The company's valuation continues to look attractive at current levels, and we continue to hold steady with our position in the portfolio of our Dividend Growth Newsletter.

Microsoft Remains a Terrific Company

By RJ Towner

Dividend Growth Newsletter portfolio holding Microsoft (MSFT)—3.3% annual dividend yield—reported solid second-quarter fiscal 2013 results. Revenue jumped 3% year-over-year (5% non-GAAP) to $21.5 billion, roughly in line with consensus figures. Earnings per share declined 3% year-over-year (+4% non-GAAP) to $0.76 per share, a penny better than the consensus estimate.

The performance from the Windows Division was relatively strong, in our view. 60 million Windows 8 licenses sold is a pretty solid number (as the image below shows), though we think the company (and the industry) would have liked to see the new operating system perform better (Image Source: Microsoft 2Q Earnings Presentation).



We place a lot of the blame on the OEMs such as Dell (DELL) and HP (HPQ) for largely not having ample product rollouts soon enough. We think Microsoft and Intel (INTC) are far more concerned about maintaining a strong position in the PC industry (which isn't going to 0) as the traditional OEM partners worry about transforming into software companies. This might be part of the reason why Microsoft could end up financing some of the Dell deal to go private. Microsoft would like to keep Dell fully engaged in the PC industry until Microsoft is able to build its own machines. Notice in the slide above the company broke out non-OEM revenues to show it plans on reducing its dependence on the other OEMs. However, seeing Microsoft not break out Surface sales seems a little bit suspicious, but we assume this is due to lackluster performance that put the device to shame compared to Apple's iPad (AAPL).

The firm's Servers & Tools revenue growth was strong, up 9% year-over-year, with bookings advancing 15%. This segment remains one of Microsoft's key growth drivers, as well as a division that gets little acknowledgement from the market.

Please see *Microsoft Remains a Terrific Company* on page 14

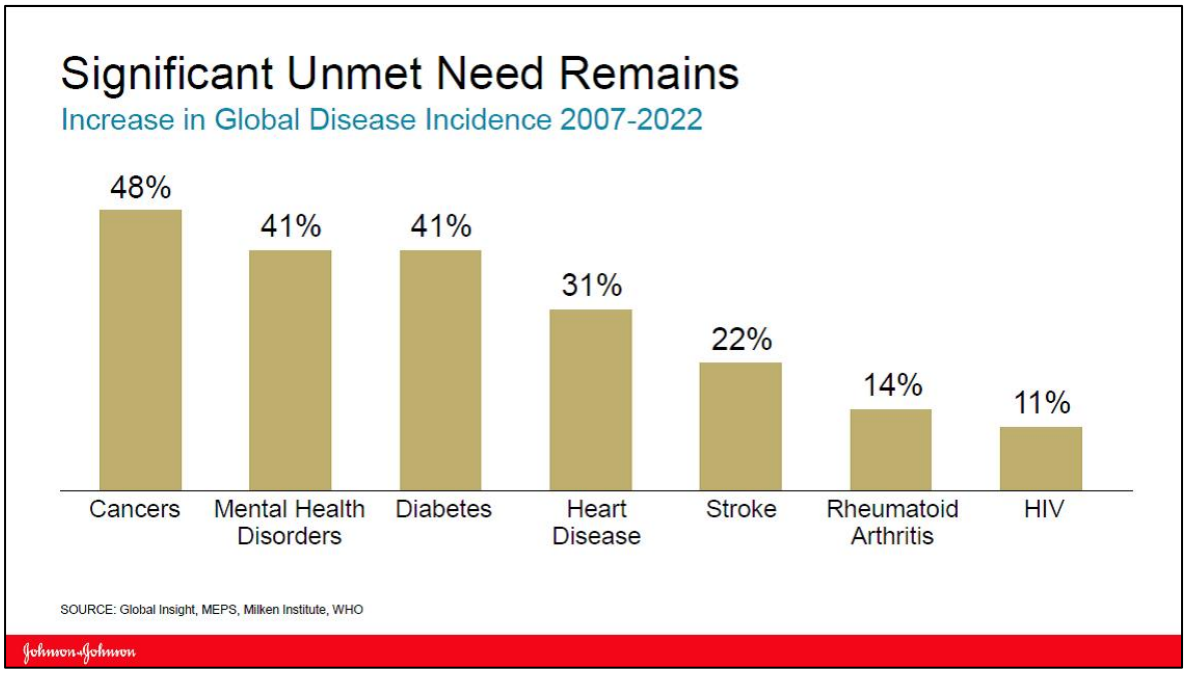
Johnson & Johnson's Long-term Tailwinds Are Intact

By Valuentum Analysts

Diversified medical and consumer products firm Johnson & Johnson (JNJ)—3.3% annual dividend yield—reported solid fourth-quarter results. Sales jumped 8% year-over-year to $17.6 billion, roughly in-line with consensus expectations. Earnings were slightly better than anticipated, growing 5.3% year-over-year to $1.19 per share—after adjusting for several special items.

Johnson & Johnson's international expansion outpaced its domestic growth, with international sales jumping 8.9% on a reported basis (11.2% excluding currency) while its domestic business grew 6.8%. The acquisition of Synthes was the big needle-mover in the period, as it was responsible for 5.6 percentage points of the total sales increase. For the year, the growth rate of the firm's Medical Devices and Diagnostics' segment exceeded that of other segments, though pharmaceutical results were also strong. Though the firm isn't a pure play on devices and diagnostics like other companies, including Dividend Growth portfolio holding Medtronic (MDT), Johnson & Johnson has become the biggest devices and diagnostics firm in the world.

Important demographic trends, including that people are living longer (and sometimes living unhealthier lifestyles), offer powerful tailwinds that we think will help propel future expansion at J&J. Although some may see the drive of the US government to lower healthcare expenditures as an impediment to the firm's growth, we think the rest of the world—primarily fast-growing countries such as China and Brazil—have a long way to go to achieve similar healthcare demands as those of the US (Image Source: JNJ Earnings Presentation).



The chart above reveals the projected increase in global disease incidence through 2022, which could help J&J's pharmaceutical business (and its consumer products business, which focuses on healthier alternatives). If such projections prove to be in the ballpark, we think J&J, as well as the entire medical space, will benefit significantly in the years to come. In particular, the company's projections for increased incidence of diabetes could mean that big returns are in store for those that cater to this need. We continue to hold shares of J&J, and we expect increasing dividends to remain the norm.

Stocks with High VBI Ratings and Strong Dividend Growth Prospects

By Valuentum Analysts

The table below showcases firms in our coverage universe that have high Valuentum Buying Index™ ratings and strong dividend growth prospects. The table represents a list of interesting dividend-paying stocks that are among the most timely investment opportunities based on our stock-selection methodology. You'll see that many of them are already holdings in our Dividend Growth portfolio (see page 5).

Though our dividend-growth portfolio is near fully-invested, we may swap in firms on this list or firms on our dividend-growth watch list (see the next page) at the right price or if our analyst team determines that a new add has more potential total return opportunity than a current holding.

Name	Symbol	Dividend Yield	VBI	Div Growth	Div Cushion
Omega Healthcare	OHI	7.7%	6	EXCELLENT	2.2
Linn Energy	LINE	7.3%	6	GOOD	2.0
Alliance Resource Partners	ARLP	6.8%	6	EXCELLENT	1.3
Atlas Pipeline	APL	6.4%	6	EXCELLENT	1.5
Kinder Morgan Partners	KMP	5.9%	6	EXCELLENT	1.4
DCP Midstream	DPM	5.8%	6	GOOD	2.3
Reynolds American	RAI	5.5%	6	GOOD	1.3
Altria Group	MO	5.3%	9	EXCELLENT	1.3
Universal Health Realty	UHT	5.1%	6	GOOD	2.0
Health Care REIT	HCN	5.0%	6	GOOD	2.8
Lockheed Martin	LMT	4.9%	6	EXCELLENT	1.3
Plains All American	PAA	4.8%	6	EXCELLENT	3.4
EV Energy	EVEP	4.8%	6	GOOD	3.6
H&R Block	HRB	4.5%	7	EXCELLENT	3.1
Meredith	MDP	4.4%	6	EXCELLENT	1.3
Garmin	GRMN	4.3%	6	EXCELLENT	2.2
Magellan Midstream	MMP	4.3%	6	EXCELLENT	3.8
Bristol-Myers Squibb	BMY	4.0%	6	GOOD	2.4
Western Gas	WES	3.9%	6	EXCELLENT	1.6
Philip Morris	PM	3.8%	6	EXCELLENT	1.3
General Electric	GE	3.6%	7	GOOD	1.6
Merck	MRK	3.6%	6	GOOD	2.1
Johnson & Johnson	JNJ	3.5%	9	EXCELLENT	2.6
Microsoft	MSFT	3.4%	6	EXCELLENT	4.1
Raytheon	RTN	3.4%	6	EXCELLENT	2.2
Mattel	MAT	3.3%	6	EXCELLENT	1.8
Campbell Soup	CPB	3.3%	7	GOOD	1.4
US Ecology	ECOL	3.2%	6	GOOD	1.6
Cisco	CSCO	3.2%	6	EXCELLENT	4.3
Emerson Electric	EMR	3.2%	6	EXCELLENT	2.1
Northrop Grumman	NOC	3.2%	6	EXCELLENT	2.4
Superior	SUP	3.1%	6	GOOD	5.5
United Parcel Service	UPS	3.1%	6	EXCELLENT	1.6
KLA-Tencor	KLAC	3.1%	7	EXCELLENT	3.2
Newmont Mining	NEM	3.0%	6	EXCELLENT	2.5
Automatic Data Processing	ADP	3.0%	6	EXCELLENT	2.2
Genuine Parts	GPC	3.0%	6	EXCELLENT	1.7
Harris Corp	HRS	3.0%	6	EXCELLENT	1.6

Our Dividend Growth Watch List

By Valuentum Analysts

Our dividend-growth watch list continues to be filled with potential ideas for your portfolio. We may replace firms held in our portfolio with companies found in the table below should their dividend growth potential (and/or total return potential) become relatively more attractive than portfolio constituents'. We continue to scour our coverage universe for firms to add to our dividend-growth watch list, which we update in every edition of our Dividend Growth Newsletter.

DIVIDEND GROWTH WATCH LIST - as of February 1, 2012

Company Name	Yrly Div's Paid ($) / Shr	Div Yield %	Div Cushion™	Div Safety	Div Growth	Fair Value	VBI Score	Price/Fair Value	Price ($)
3M (MMM)	2.36	2.32%	2.5	GOOD	GOOD	$96.00	6	1.06	101.56
ADP (ADP)	1.74	2.87%	2.2	GOOD	EXCELLENT	$53.00	6	1.14	60.65
Analog Devices (ADI)	1.20	2.69%	3.1	EXCELLENT	EXCELLENT	$43.00	6	1.04	44.67
Becton, Dickinson (BDX)	1.98	2.33%	2.5	GOOD	EXCELLENT	$79.00	6	1.08	85.15
Boeing (BA)	1.94	2.59%	2.5	GOOD	GOOD	$73.00	6	1.03	74.87
Chicago Rivet (CVR)	0.60	2.79%	3.2	EXCELLENT	EXCELLENT	$20.00	3	1.08	21.50
Clorox (CLX)	2.56	3.23%	1.2	POOR	VERY POOR	$68.00	6	1.16	79.16
Coca-Cola (KO)	1.02	2.72%	1.9	GOOD	EXCELLENT	$35.00	3	1.07	37.54
Colgate-Palmolive (CL)	2.48	2.26%	1.7	GOOD	EXCELLENT	$86.00	6	1.28	109.84
Collectors Universe (CLCT)	1.30	10.89%	UR	UR	UR	UR	UR	UR	11.94
Deere (DE)	1.84	1.94%	1.5	GOOD	EXCELLENT	$90.00	6	1.05	94.65
Dover (DOV)	1.40	1.99%	2.4	GOOD	EXCELLENT	$69.00	5	1.02	70.34
DuPont (DD)	1.72	3.58%	1.3	GOOD	GOOD	$57.00	4	0.84	47.98
Eaton (ETN)	1.52	2.64%	1.3	GOOD	EXCELLENT	$53.00	5	1.09	57.52
Eli Lilly (LLY)	1.96	3.62%	1.7	GOOD	GOOD	$50.00	5	1.08	54.20
Exxon Mobil (XOM)	2.28	2.53%	2.1	GOOD	EXCELLENT	$74.00	3	1.22	90.04
General Dynamics (GD)	2.04	3.10%	2.5	GOOD	EXCELLENT	$73.00	7	0.90	65.88
Genuine Parts (GPC)	1.98	2.87%	1.7	GOOD	EXCELLENT	$57.00	6	1.21	68.94
H&R Block (HRB)	0.80	3.50%	3.1	EXCELLENT	EXCELLENT	$21.00	7	1.09	22.86
Harris (HRS)	1.48	3.20%	1.6	GOOD	EXCELLENT	$59.00	6	0.78	46.28
HCP (HCP)	2.00	4.28%	3.8	EXCELLENT	GOOD	$43.00	3	1.09	46.69
Honeywell (HON)	1.64	2.37%	2.4	GOOD	EXCELLENT	$64.00	7	1.08	69.15
Hormel Foods (HRL)	0.68	1.92%	2.9	EXCELLENT	EXCELLENT	$26.00	6	1.36	35.42
IBM (IBM)	3.40	1.66%	3.3	EXCELLENT	EXCELLENT	$208.00	3	0.99	205.18
Illinois Tool Works (ITW)	1.52	2.42%	2.1	GOOD	EXCELLENT	$55.00	6	1.14	62.90
Kimberly-Clark (KMB)	2.96	3.29%	1.1	POOR	VERY POOR	$71.00	6	1.27	90.01
Linn Energy (LINN)	2.90	7.41%	2.0	GOOD	GOOD	$54.00	6	0.73	39.16
Lockheed Martin (LMT)	4.60	5.27%	1.3	GOOD	EXCELLENT	$83.00	6	1.05	87.22
Lorillard (LO)	2.07	5.24%	1.3	GOOD	EXCELLENT	$37.00	3	1.07	39.52
Mattel (MAT)	1.24	3.24%	1.8	GOOD	EXCELLENT	$36.00	6	1.06	38.26
McDonalds (MCD)	3.08	3.21%	1.3	GOOD	EXCELLENT	$87.00	4	1.10	95.95
Molex (MOLX)	0.88	3.21%	2.0	GOOD	EXCELLENT	$24.00	3	1.14	27.41
Merck (MRK)	1.72	4.11%	2.1	GOOD	GOOD	$37.00	6	1.13	41.83
Northrop Grumman (NOC)	2.20	3.38%	2.4	GOOD	EXCELLENT	$70.00	6	0.93	65.13
Olin Corp (OLN)	0.80	3.38%	1.5	GOOD	GOOD	$26.00	3	0.91	23.69
Owens & Minor (OMI)	0.88	2.87%	1.8	GOOD	EXCELLENT	$31.00	3	0.99	30.63
Paychex (PAYX)	1.32	4.02%	3.1	EXCELLENT	GOOD	$33.00	3	1.00	32.86
PepsiCo (PEP)	2.15	2.96%	1.1	POOR	VERY POOR	$66.00	3	1.10	72.67
Phillip Morris (PM)	3.40	3.86%	1.3	GOOD	EXCELLENT	$72.00	6	1.22	88.13
Raytheon (RTN)	2.00	3.80%	2.2	GOOD	EXCELLENT	$54.00	6	0.98	52.67
Realty Income (O)	2.17	5.00%	2.1	GOOD	GOOD	$46.00	4	0.94	43.40
St. Jude (STJ)	0.92	2.23%	2.4	GOOD	EXCELLENT	$47.00	6	0.88	41.17
Sysco (SYY)	1.12	3.49%	1.2	POOR	GOOD	$33.00	3	0.97	32.09
Texas Instr (TXN)	0.84	2.49%	1.6	GOOD	EXCELLENT	$25.00	6	1.35	33.72
United Technologies (UTX)	2.14	2.38%	2.4	GOOD	EXCELLENT	$92.00	6	0.98	89.84
UPS (UPS)	2.28	2.85%	1.6	GOOD	EXCELLENT	$74.00	6	1.08	79.97
VF Corp (VFC)	3.48	2.35%	1.8	GOOD	EXCELLENT	$138.00	4	1.07	147.87
Verizon (VZ)	2.06	4.62%	2.0	GOOD	GOOD	$45.00	3	0.99	44.56
Walgreen (WAG)	1.10	2.73%	1.6	GOOD	EXCELLENT	$41.00	7	0.98	40.31
Wal-Mart (WMT)	1.59	2.26%	1.4	GOOD	EXCELLENT	$71.00	3	0.99	70.49

UR = Under Review

Yields to Avoid

By Valuentum Analysts

As many investors know, firms can often become cheap for good reasons. That is, they are not trading cheaply because of Mr. Market's irrational behavior, but instead are trading at depressed levels due to deteriorating underlying fundamental characteristics that actually justify its current share price, even if traditional valuation techniques (read multiple analysis) suggest the firm's shares are inexpensive. On a similar note, firms that boast high dividend yields may do so because the market has little confidence in the sustainability of its dividend and believes a cut may be just around the corner.

Though we fall short of saying the following list of firms will slash their respective dividends anytime soon, our dividend-cut predictive indicator—the Valuentum Dividend Cushion™--indicates that the firms below are at significant risk for a dividend cut in coming years. We think the dividend-growth investor should steer clear of the following firms' shares:

Name	Symbol	Industry	Dividend Yield	Div Safety	Div Cushion
Cablevision	CVC	Media - CATV	4.3%	VERY POOR	-9.5
Peabody Energy	BTU	Industrial Minerals	1.3%	VERY POOR	-9.4
Hess	HES	Refiners	0.7%	VERY POOR	-8.9
Universal Health	UHS	Hospitals	0.4%	VERY POOR	-7.9
Manitowoc	MTW	Machinery - agriculture	0.6%	VERY POOR	-7.8
Royal Caribbean	RCL	Leisure	1.4%	VERY POOR	-7.3
Ryder System	R	Rental and Leasing	2.7%	VERY POOR	-7.1
Roundy's Inc	RNDY	Food Retailers	10.3%	VERY POOR	-6.6
Sealed Air	SEE	Containers & Packaging	2.9%	VERY POOR	-5.7
United States Steel	X	Metals & Mining - steel	0.8%	VERY POOR	-5.0
Chesapeake	CHK	Independent Oil & Gas	1.7%	VERY POOR	-4.8
CONSOL Energy	CNX	Industrial Minerals	1.6%	VERY POOR	-4.5
Standard Pacific	SPF	Homebuilders	2.3%	VERY POOR	-4.0
AAR Corp	AIR	A&D Suppliers	2.1%	VERY POOR	-4.0
Anadarko	APC	Independent Oil & Gas	0.5%	VERY POOR	-3.7
TAL Intl	TAL	Rental and Leasing	7.6%	VERY POOR	-3.5
OEP Resources	OEP	Energy Equipment	0.3%	VERY POOR	-2.5
Frontier Comm	FTR	Telecom Services - diversified	8.7%	VERY POOR	-2.4
Lufkin	LUFK	Energy Equipment	0.9%	VERY POOR	-2.2
Windstream	WIN	Telecom Services - diversified	11.5%	VERY POOR	-2.0
Patterson-UTI	PTEN	Energy Equipment	1.1%	VERY POOR	-2.0
Ecolab	ECL	Chemicals - broad	1.1%	VERY POOR	-1.9
SL Green	SLG	REIT - Retail	1.4%	VERY POOR	-1.7
Cedar Fair	FUN	Leisure	4.8%	VERY POOR	-1.7
Noble Corp	NE	Energy Equipment	1.5%	VERY POOR	-1.6
Time Warner Cable	TWC	Media - CATV	2.4%	VERY POOR	-1.6
Service Corp Intl	SCI	Personal Services	1.7%	VERY POOR	-1.6
Toyota	TM	Auto Manufacturers	1.8%	VERY POOR	-1.4
POSCO	PKX	Metals & Mining - steel	0.9%	VERY POOR	-1.3
Centerpoint	CNP	Utilities	3.8%	VERY POOR	-1.1
Allegheny Technologies	ATI	Aluminum	2.7%	VERY POOR	-1.0
CMS Energy	CMS	Utilities	4.0%	VERY POOR	-1.0

The Valuentum Dividend Cushion™ predicted Roundy's dividend cut – highlighted in yellow above.

Microsoft Remains a Terrific Company from page 9

While all eyes are on Dell and HP as both try to build successful enterprise and data businesses, Microsoft already owns a strong datacenter business that we think would garner a double-digit price-to-earnings multiple were it a separate company (we do not think Microsoft should break up, however). Although many of Microsoft's consumer products are plagued by mediocre perception, SQL and other products have a strong reputation and are known as market-leading products.

Microsoft Business Division posted modest non-GAAP revenue growth of 4% year-over-year, though it mentioned retention rates are nearing all-time highs, and its new recurring revenue stream via Office 2013 should help increase (and smooth) total revenue. Bookings were up sharply, increasing 18% during the quarter, and the firm had strong growth across both developed and emerging markets. Google's (GOOG) assault on Microsoft's document / spreadsheet / slideshow dominance is certainly real, but we think Microsoft's introduction of cloud services will help maintain market share. Nevertheless, we know Google doesn't mind lowering overall industry profits and will attempt to undercut Microsoft on pricing, so we do view it as a modest competitive threat.

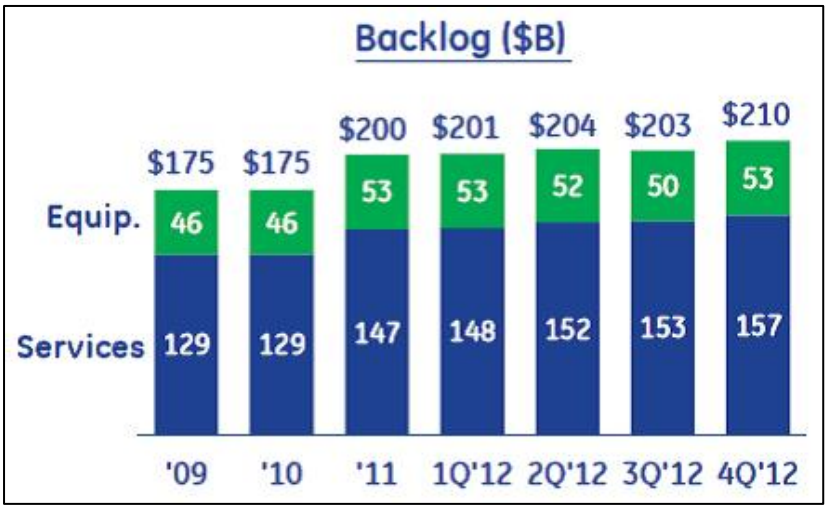
The online business continues to hemorrhage money, but its operating loss narrowed during the quarter thanks to 15% advertising revenue growth. Bing continues to take search market share, albeit at a very modest pace. Entertainment, on the other hand, posted a fairly weak quarter as the Xbox 360 ages. We're fairly excited about the opportunity for Xbox 720 to revive console gaming, but the video game market remains weak at this time. Skype consumption continues to grow, but monetization efforts are still relatively unclear, though it does now charge for some of its features.

Microsoft's outlook going into the back half of its fiscal year 2013 remains solid, but we aren't anticipating a huge beat in the second half. Cost containment looks pretty strong, and the firm maintains a jaw-dropping cash balance that we expect to see returned to shareholders via increased dividends and share repurchases.

While we believe the firm's quarter was relatively solid, Microsoft largely remains a "show-me" story in the eyes of many investors that are awaiting evidence revealing it can successfully navigate the shift in the PC landscape to a new normal. Still, the company has a dirt-cheap valuation and generates fantastic cash flow, giving us all of the confidence we need to maintain our stake in the firm in the portfolio of our Dividend Growth Newsletter. The market may continue to ignore Microsoft's excellent core businesses and favorable capital structure, but in the meantime, we'll continue to clip ever-increasing dividend coupons.

General Electric Issues Strong Fourth-Quarter Results; Posts Largest Backlog in History

By Valuentum Analysts



General Electric (GE)—3.4% annual dividend yield—reported solid fourth-quarter results across the board.

Total revenue advanced 4% as industrial organic expansion increased at a similar rate. Adjusted orders jumped 7% in the quarter, and the company's backlog swelled to $210 billion, a new record (Image Source: GE 4Q Earnings Presentation). GE's operating margins increased 120 basis points during the period, and fourth-quarter operating earnings per share expanded 13% from the same quarter a year ago. All of its industrial segments experienced earnings with five of the seven industrial segments putting up double-digit bottom-line expansion. GE Capital posted $1.8 billion in earnings during the quarter, and its Tier I common ratio came in at a healthy 10.2%. The industrial powerhouse continues to be a cash cow, as it hauled in roughly $17.8 billion in cash from operating activities during the year. GE now holds $77 billion of consolidated cash and cash equivalents, offering substantial support for share repurchases and increased dividend payments. During 2012, GE bought back roughly $5.2 billion in stock, and just last month, it raised its quarterly dividend 12%, to $0.19 per share—its fifth increase in three years.

GE is perhaps the most important indicator of the health of the industrials end market, where segment revenue advanced 9% in the quarter, excluding currency. As far as assessing the ongoing strength of the sector, the firm's all-time high backlog is quite telling. Though there was weakness in wind turbine orders during the period, the ratio of equipment orders received to orders billed (or its book-to-bill ratio) came in at a healthy 1.2. Such performance bodes well for many industrial firms, especially when viewed in conjunction with the ~1.5 book-to-bill ratio recorded during 2012 at the airframe makers, Boeing (BA) and Airbus. During the quarter, CFM International (a 50/50 joint venture between GE and Snecma) announced a commitment from Alaska Airlines (ALK) for the purchase of CFM engines to power 50 new Boeing 737 aircraft, and we're fans of GE's agreement to purchase the aviation business of Avio S.p.A. The Italy-based company will complement GE's position in aviation and other engine components, and we have no qualms with the purchase price (8.5 times EBITDA). Overall, we think GE's increasing exposure to aerospace is a distinct positive.

Looking ahead, GE indicated that it remains on track to achieve its 2013 goals: "double-digit earnings growth and solid organic revenue growth for the industrial segment [5-9% excluding wind], significant cash returned to the parent company from GE Capital, further margin expansion [70 basis points], and returning cash to shareholders [$12 billion+]." We are strongly considering the firm for addition to the portfolio of our Dividend Growth Newsletter.

Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential
$23.00 - $38.00	HEALTHY	GOOD / 2.4	GOOD

Bristol-Myers Squibb Beats Estimates

By RJ Towner

Despite facing a steep patent cliff, pharmaceutical firm Bristol-Myers Squibb (BMY)—3.8% annual dividend yield—posted decent fourth-quarter results. Revenue declined 23% year-over-year to $4.2 billion, slightly better than the consensus prediction. Operating earnings per share declined 11% year-over-year to $0.47, which was also better than consensus estimates.

2012 was expected to be a tough year for the company, as it had US patents expire on Plavix and Avapro/Avalide, and total sales fell 23% for the quarter. However, strong international growth of 6% allowed the company to achieve 12% revenue expansion, excluding the aforementioned drugs. Costs were also reduced substantially, as the firm cut advertising and product-promotion spending 26% year-over-year to $212 million and slashed SG&A spending 6% year-over-year to $1.1 billion.

There weren't too many new updates on the product pipeline. Eliquis was approved by the FDA to reduce the risk of stroke in patients with nonvalvular atrial fibrillation, and Forxiga was approved in the EU for treatment of Type-2 diabetes—one of the world's fastest growing health issues, which we highlighted in our piece on Johnson & Johnson (JNJ). The company mentioned that 30-40% of its R&D budget in 2013 will be spent on late-stage drug development and that R&D spending will grow at a low-single-digit pace in 2013. Bristol-Myers expects earnings per share of $1.78-$1.88 in 2013, roughly in line with consensus, on sales of $16.5-$17 billion, also in line with consensus.

We like the firm's juicy annual dividend yield of 3.8% at current levels, as well as its commitment to growing its payout. We also think the firm will tap its buyback program, re-affirming its desire to return cash to shareholders. We're strongly considering adding shares of the company to the portfolio of our Dividend Growth Newsletter, but we're waiting for a more attractive valuation.

Dividend Safety / Cushion — **GOOD / 2.4**

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. Bristol-Myers Squibb scores a 2.4 on our Dividend Cushion™, which is GOOD.

Dividend Growth Potential — **GOOD**

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. Bristol-Myers Squibb registers an GOOD rating on our scale, and we think the firm's annual dividend will be $1.65 per share within the next several years.

Risk of Capital Loss — **MEDIUM**

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. Bristol-Myers Squibb registers a score of MEDIUM on our scale.

Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential
$70.00 - $104.00	HEALTHY	GOOD / 1.3	EXCELLENT

McDonald's Beats Estimates

By Valuentum Analysts

Fast-food goliath McDonald's (MCD)—3.3% annual dividend yield—announced slightly better-than-expected fourth quarter results Wednesday morning. Revenue grew 2% year-over-year to $7 billion, a touch better than consensus expectations. Earnings, which have seen estimates slashed during the past several months, were a few pennies better than anticipated, growing 4% year-over-year to $1.38 per share.

We're not too fixated on the "beat," but rather the weakness we are seeing at the core business. Global same-store sales increased just 0.1% during the quarter—McDonald's worst in years! Same-store sales in the US jumped 0.3% year-over-year in the fourth quarter with flat operating income—the top-line was better than the rest of the company, but certainly is not a strong figure. McDonald's continues to focus on value offerings and has some new products coming, including the recently released Mighty Wings, the Fish McBites, and the grilled onion cheddar burger.

Unfortunately, we think McDonald's focus on value is hurting its other products and making consumers less likely to purchase higher-ticket items. While conditioning consumers to pay less for food, the company has also squeezed its own margins, as well as those of its operators, which we think could have a negative impact on the long-term operations. CEO Don Thompson certainly has his work cut out for him with the domestic business. Increased competition in the value market from competitors such as Wendy's (WEN) only makes growing the US business more difficult.

In Europe, same-store sales declined 0.6%, but operating income grew 7%, excluding currency. Obviously the European economy is softer than the US, so we're actually pleased with how well sales have held up. If negative guest counts can be reversed, we could see a decent year for McDonald's in Europe. Operating margins for the year only fell 10 basis points to 19.1%. Margins still significantly trail the US business, and this trend could continue if the firm sees its commodity basket price rise 3%-4% as it expects.

Performance in Asia-Pacific, Middle East, and Africa (APMEA) was weak during the fourth quarter, with same-store sales tumbling 1.7% year-over-year and operating income falling 1%, excluding currency. The segment continues to be dwarfed by the larger US and European segments, but China could eventually become a real profit center. However, we've yet to see the firm achieve substantial scale to boost operating margins, and performance in the broader Chinese fast-food sector has been mediocre as of late. If McDonald's hopes to hit its annual operating income growth of 6-7% with sales growth of 2-3%, it will need to experience better results in China, and Asia as a whole.

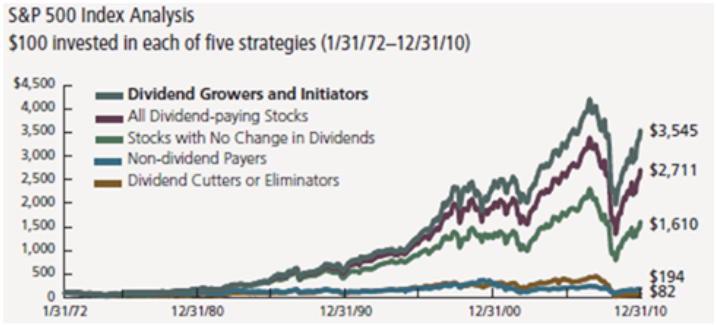
Overall, we thought McDonald's fourth-quarter performance was mediocre. While some positive product launches could help reinvigorate the brand in the US heading into 2013, the days of massive product innovations (like McCafe under previous CEO Jim Skinner) look a long ways in the future. We wouldn't go as far as to blame Thompson. Skinner may simply have left when the product pipeline was empty. We also do not believe the days of its product innovation are over, but it's clear the company has hit a bit of a rough patch in terms of innovation. We're still waiting patiently to open up a position in the company in our Dividend Growth portfolio.

About Our Valuentum Dividend Cushion™

By Valuentum Analysts

History has revealed that the best performing stocks during the previous decades have been those that shelled out ever-increasing cash to shareholders in the form of dividends. In a recent study, S&P 500 stocks that initiated dividends or grew them over time registered roughly a 9.6% annualized return since 1972 (through 2010), while stocks that did not pay out dividends or cut them performed poorly over the same time period.

The Outperformance of Dividend Payers Over Time



Source of the chart data: Ned Davis Research, 12/31/10. Image Source: Capital Markets Perspectives, "Investing for Dividend Growth", Oppenheimer Funds. Based on an equal-weighted geometric average of total return of dividend-paying historical S&P 500 Index stocks, rebalanced annually. The chart uses actual annual dividends to identify dividend-paying stocks and changes on a calendar-year basis. Past performance does not guarantee future results.

Such analysis is difficult to ignore, and we believe investors may be well-rewarded in future periods by finding the best dividend-growth stocks out there. As such, we've developed a rigorous dividend investment methodology that uncovers firms that not only have the safest dividends but also ones that are poised to grow them long into the future.

How did we do this? Well, first of all, we scoured our stock universe for firms that have cut their dividends in the past to uncover the major drivers behind the dividend cut. This is what we found out: The major reasons why firms cut their dividend had to do with preserving cash in the midst of a secular or cyclical downturn in demand for their products/services or when faced with excessive leverage (how much debt they held on their respective balance sheets).

The Importance of Forward-Looking Dividend Analysis

Armed with this knowledge, we developed the forward-looking Valuentum Dividend Cushion™, which is a ratio that gauges the safety of a dividend over time.

Most dividend analysis that we've seen out there is backward-looking – meaning it rests on what the firm has done in the past. Although analyzing historical trends is important, we think assessing what may happen in the future is even more important. The S&P 500 Dividend Aristocrat List, or a grouping of firms that have raised their dividends for the past 25 years, is a great example of why backward-looking analysis can be painful.

In fact, one only has to look over the past few years to see the removal of such big names from the Dividend Aristocrat List like General Electric (GE) and Pfizer (PFE) to understand that backward-looking analysis is hardly worth your time. After all, you're investing for the future, so the future is all you should care about. We want to find the stocks that will increase their dividends for 25 years into the future, not use a rear-view mirror to build a portfolio of names that may already be past their prime dividend growth years.

Please see *About Our Valuentum Dividend Cushion…*on next page

About Our Valuentum Dividend Cushion… **from previous page**

The Valuentum Dividend Cushion™ measures just how safe the dividend is in the future. It considers the firm's net cash on its balance sheet and adds that to its forecasted future free cash flows and divides that sum by the firm's future expected dividend payments. At its core, it tells investors whether the firm has enough cash to pay out its dividends in the future, while considering its debt load. If a firm has a Valuentum Dividend Cushion™ above 1, it can cover its dividend, but if it falls below 1, trouble may be on the horizon.

In fact, the Valuentum Dividend Cushion™ would have caught every dividend cut made by a non-financial, operating firm that we have in our database, except for one (Marriott). But interestingly, our Valuentum Dividend Cushion™ indicated that Marriott should have never cut its dividend, and sure enough, two years after the firm did so, it raised it to levels that were higher than before the cut.

Here are the results of our study (a Valuentum Dividend Cushion™ below 1 indicates the dividend may be in trouble). The Valuentum Dividend Cushion™ score shown in the table below is the measure in the year before the firm cut its dividend, so it represents a predictive indicator:

The Valuentum Dividend Cushion Caught These Dividend Cuts in Advance

A Valuentum Dividend Cushion Score Below 1 Indicates a Firm's Dividend is At Risk in the Years Ahead

Dividend Cutter	Cut Date	Dividend Cushion (Before Cut)	Reason for Dividend Cut
Avery Dennison (AVY)	31-Jul-09	0.66	Reduced dividend to support debt-reduction efforts.
ConAgra Foods (CAG)	16-Mar-06	-0.59 (1)	Restructuring, divestitures.
Constellation (CEG)	18-Feb-09	-4.36	Refocus on core business of generating and selling power.
DR Horton (DHI)	6-May-08	-0.03	Housing turmoil.
Gannett Co. (GCI)	25-Feb-09	-0.06	Excessive debt; preserve cash amid downturn of newspaper industry.
La-Z-Boy (LZB)	17-Feb-09	0.89	Suspended dividend to preserve cash amid downturn in home furnishings.
Marriott Intl (MAR)	1-May-09	2.18 (2)	Suspended dividend in the wake of weak business travel, but dividend achieved record highs again, May 6, 2011.
Masco Corp (MAS)	11-Feb-09	-0.74	Cut dividend to ensure ability to fund operations and service debt coming due.
New York Times (NYT)	20-Nov-08	0.04	Effort to preserve cash. Downturn in newspaper industry. Loss of investment-grade credit rating.
Pfizer (PFE)	26-Jan-09	0.54	Bought Wyeth to diversify revenue base. Raised $22 billion+ in debt.
Sara Lee Corp (SLE)	8-Aug-06	0.70	Streamlining operations, business unit divestitures to raise cash.
Sunoco Inc. (SUN)	6-Oct-09	-0.85 (3)	Poor margins, overseas competition.
SuperValu (SVU)	20-Oct-09	-5.78	Rising unemployment, competition from Wal-Mart, etc.
Valero Energy (VLO)	27-Jan-10	0.15	Lower demand for gas and diesel.
Vulcan Materials (VMC)	14-Oct-11	-1.42	Free up much-needed cash amid downturn in aggregate demand.

(1) Forecast period for ConAgra, 2007 through 2011.

(2) Marriott is an instance where management prematurely cut its dividend, in our opinion. The Cushion reflected little risk at the time of cut, and sure enough Marriott restored its payout to record high

(3) Forecast adjusted to reflect Sunoco's poor free cash flow trend is by and last reported year.

Backtesting Methodology: Net balance sheet (year prior to div idend cut). Free cash flow for years beginning in year of dividend cut through reported years. If reported years do not total five, last reported year is extrapolated for remainder of forecast period. Div idends paid reflects what the div idends would be ex dividend cut.

At the very least, using the Valuentum Dividend Cushion™ can help you avoid firms that are at risk of cutting their dividends in the future. And we are the only firm out there that does this type of in-depth analysis for you. Plus, we not only provide the actual Valuentum Dividend Cushion™ number for our subscribers in our dividend reports and newsletter, but we also scale the safety of a firm's dividend in simple terms: Excellent, Good, Poor, Very Poor.

Please see *About Our Valuentum Dividend Cushion…*on next page

About Our Valuentum Dividend Cushion… from previous page

But What about the Growth of a Firm's Dividend?

It takes time to accumulate wealth through dividends, so dividend growth investing requires a long-term perspective. As a result, we assess the long-term future growth potential of a firm's dividend. And we don't just take management's word for what they will do with their dividend. Instead, we dive into the financial statements and make our own forecasts of the future to see if what they're saying is actually achievable. We use our Valuentum Dividend Cushion™ as a way to judge the capacity for management to raise its dividend – how much cushion it has – and we couple that assessment with the firm's dividend track record, or management's willingness to raise the dividend.

In many cases, we may have a different view of a firm's dividend growth potential than what may be widely held in the investment community. That's fine by us, as our dividend-growth investment horizon is often longer than others. We want to make sure that the firm has the capacity and willingness to increase the dividend years into the future and will not be weighed down by an excessive debt load or cyclical or secular problems in fundamental demand for their products/services.

Plus, we don't use fancy language for what we think of its future growth. We scale our assessment in an easily-interpreted fashion: Excellent, Good, Poor, Very Poor.

What are the Dividend Ideas We Seek to Deliver to You in Our Newsletter?

First of all, we're looking for stocks with dividend yields that are greater than the average of the S&P 500, or about 2% (but preferably north of 3%). This excludes many names, but we think such a cutoff eliminates firms whose dividend streams aren't yet large enough to generate sufficient income. Second, we're looking for firms that register an 'EXCELLENT' or 'GOOD' rating on our scale for both safety and future potential growth. And third, we're looking for firms that have a relatively lower risk of capital loss, as measured by our estimate of the company's fair value.

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 1-Feb-2013 | Data as of 25-Jan-2013

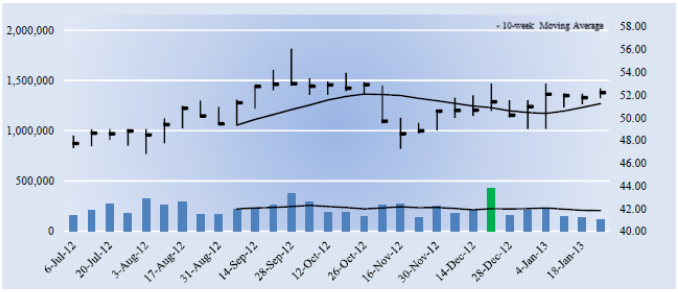
MGE Energy MGEE FAIRLY VALUED

Buying Index™ 6 Value Rating

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$52.18	$38.00 - $56.00	HEALTHY	NEUTRAL / 1	NEUTRAL	3.03%

MGE Energy has been paying dividends since 1909 and has raised its dividend in each of the past 35+ years. The board hasn't left much room for significant growth in the future though.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	3.03%
Annual Dividends per Share	$1.58
Initial Annual Div's Paid, $10k Investment	$302.80
Dividend Track Record	HEALTHY
Dividend Safety	NEUTRAL
Valuentum Dividend Cushion™	1.0
Dividend Growth Potential	NEUTRAL
Risk of Capital Loss	MEDIUM
ValueRisk™ (Equity Margin of Safety)	LOW

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Company Vitals

Market Cap (USD)	$1,206
Avg Weekly Vol (30 wks)	220
30-week Range (USD)	46.79 - 56.06
Valuentum Sector	Energy
Last Fiscal Year Revenue	546
Last Fiscal Year EPS	2.64
Last Fiscal Year EBITDA	149
Forward Revenue Growth (5-yr)	1.8%
Forward EPS Growth (5-yr)	6.0%

Dividend Vitals

Current Annual Dividend Yield %	3.0%
Annual Dividends Per Share	1.58
Forward Dividend Payout Ratio	55.5%
3-yr Historical Dividend CAGR	2.7%
15-yr Historical Dividend CAGR	NA
3-yr Hist Median Div Payout Ratio	59.6%
15-yr Hist Median Div Payout Ratio	76.8%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	1,304.50	39.50
50	2,609.00	79.00
100	5,218.00	158.00
200	10,436.00	316.00
300	15,654.00	474.00
400	20,872.00	632.00
500	26,090.00	790.00
1,000	52,180.00	1,580.00
2,000	104,360.00	3,160.00
5,000	260,900.00	7,900.00
10,000	521,800.00	15,800.00
50,000	2,609,000.00	79,000.00
100,000	5,218,000.00	158,000.00

Initial annual income is based on the firm's current forward annual dividend yield and could be subject to change.

Dividend Safety / Cushion — NEUTRAL / 1

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. MGE Energy scores a 1 on our Dividend Cushion™, which is NEUTRAL.

Dividend Growth Potential — NEUTRAL

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. MGE Energy registers an NEUTRAL rating on our scale, and we think the firm's annual dividend will be $1.71 per share within the next several years.

Risk of Capital Loss — MEDIUM

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. MGE Energy registers a score of MEDIUM on our scale.

Dividend Strength

Dividend Safety \ Dividend Growth	Very Poor	Poor	Good	Excellent
Excellent				
Good				
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Dividend Track Record — HEALTHY

Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
NA	NA	0.0	0.00	0.0%
Dec-98	1.30	0.0	1.38	94.2%
Dec-99	1.31	0.8	1.48	88.5%
Dec-00	1.32	0.8	1.67	79.0%
Dec-01	1.33	0.8	1.63	81.6%
Dec-02	1.34	0.8	1.69	79.3%
Dec-03	1.35	0.7	1.71	78.9%
Dec-04	1.36	0.7	1.77	76.8%
Dec-05	1.37	0.7	1.57	87.3%
Dec-06	1.39	1.5	2.06	67.5%
Dec-07	1.41	1.4	2.27	62.1%
Dec-08	1.43	1.4	2.38	60.1%
Dec-09	1.46	2.1	2.21	66.1%
Dec-10	1.49	2.1	2.50	59.6%
Dec-11	1.52	2.0	2.64	57.6%
Dec-12	*1.58*	*3.9*	*2.85*	*55.5%*
Dec-13	*1.61*	*2.0*	*2.93*	*55.0%*
Dec-14	*1.64*	*2.0*	*3.11*	*52.8%*
Dec-15	*1.68*	*2.0*	*3.31*	*50.6%*
Dec-16	*1.71*	*2.0*	*3.53*	*48.4%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on MGE Energy, please visit our website at www.valuentum.com

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Please select the following link to view the full 16-page report:

http://www.valuentum.com/categories/20110609

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 17-Jan-2013 | Data as of 11-Jan-2013

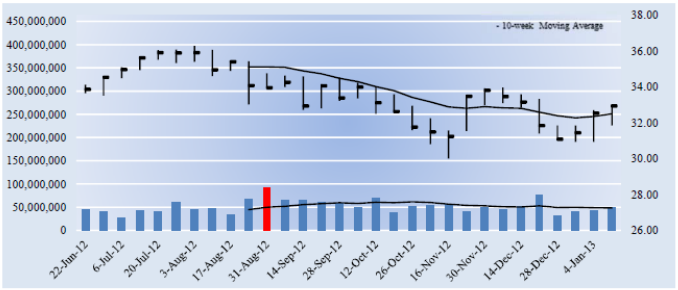
Altria Group MO UNDERVALUED 3.2%

Buying Index™ 9 Value Rating ✓

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$32.93	$34.00 - $52.00	HEALTHY	GOOD / 1.3	EXCELLENT	5.34%

We think Altria Group is a slam-dunk dividend play. The firm is undervalued, its yield is attractive, and the dividend has strong growth prospects, in our opinion.

Stock Chart (weekly)



Company Vitals

Market Cap (USD)	$67,968
Avg Weekly Vol (30 wks)	51,063
30-week Range (USD)	30.01 - 36.29
Valuentum Sector	Consumer Staples
Last Fiscal Year Revenue	16,619
Last Fiscal Year EPS	1.64
Last Fiscal Year EBITDA	6,529
Forward Revenue Growth (5-yr)	2.8%
Forward EPS Growth (5-yr)	11.0%

Dividend Vitals

Current Annual Dividend Yield %	5.3%
Annual Dividends Per Share	1.76
Forward Dividend Payout Ratio	78.8%
3-yr Historical Dividend CAGR	10.1%
15-yr Historical Dividend CAGR	NA
3-yr Hist Median Div Payout Ratio	78.1%
15-yr Hist Median Div Payout Ratio	0.0%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	823.25	44.00
50	1,646.50	88.00
100	3,293.00	176.00
200	6,586.00	352.00
300	9,879.00	528.00
400	13,172.00	704.00
500	16,465.00	880.00
1,000	32,930.00	1,760.00
2,000	65,860.00	3,520.00
5,000	164,650.00	8,800.00
10,000	329,300.00	17,600.00
50,000	1,646,500.00	88,000.00
100,000	3,293,000.00	176,000.00

Initial annual income is based on the firm's current forward annual dividend yield and could be subject to change.

Dividend Safety / Cushion — GOOD / 1.3

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. Altria Group scores a 1.3 on our Dividend Cushion™, which is GOOD.

Dividend Growth Potential — EXCELLENT

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. Altria Group registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $2.02 per share within the next several years.

Risk of Capital Loss — LOW

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. Altria Group registers a score of LOW on our scale.

Key Dividend Considerations

Current Annual Dividend Yield	5.34%
Annual Dividends per Share	$1.76
Initial Annual Div's Paid, $10k Investment	$534.47
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	1.3
Dividend Growth Potential	EXCELLENT
Risk of Capital Loss	LOW
ValueRisk™ (Equity Margin of Safety)	LOW

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Dividend Strength

Dividend Safety \ Dividend Growth	Very Poor	Poor	Good	Excellent
Excellent				
Good				■
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Dividend Track Record — HEALTHY

Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Dec-97	NA	0.0	2.58	0.0%
Dec-98	NA	0.0	2.20	0.0%
Dec-99	NA	0.0	3.19	0.0%
Dec-00	NA	0.0	3.75	0.0%
Dec-01	NA	0.0	3.88	0.0%
Dec-02	NA	0.0	5.21	0.0%
Dec-03	NA	0.0	4.52	0.0%
Dec-04	NA	0.0	4.57	0.0%
Dec-05	NA	0.0	5.10	0.0%
Dec-06	NA	0.0	5.71	0.0%
Dec-07	NA	0.0	4.33	0.0%
Dec-08	1.32	0.0	1.48	0.0%
Dec-09	1.32	0.0	1.54	0.0%
Dec-10	1.46	10.6	1.87	78.1%
Dec-11	1.58	8.2	1.64	96.3%
Dec-12	***1.76***	***11.4***	***2.23***	***78.8%***
Dec-13	*1.83*	*4.0*	*2.40*	*76.1%*
Dec-14	*1.90*	*4.0*	*2.52*	*75.6%*
Dec-15	*1.96*	*3.0*	*2.64*	*74.3%*
Dec-16	*2.02*	*3.0*	*2.77*	*72.9%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on Altria Group, please visit our website at www.valuentum.com

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Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 31-Jan-2013 | Data as of 25-Jan-2013

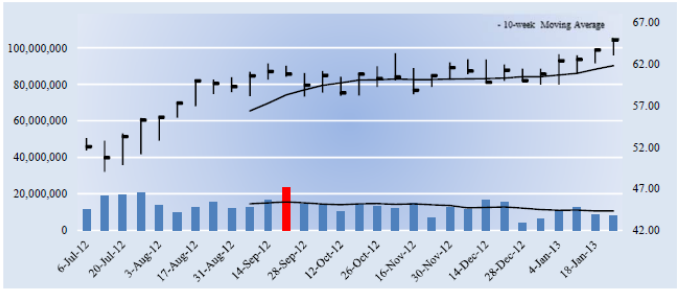
Illinois Tool Works ITW FAIRLY VALUED

Buying Index™ 6 Value Rating

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$64.99	$41.00 - $69.00	HEALTHY	GOOD / 2.1	EXCELLENT	2.34%

We like the potential growth and safety of Illinois Tool Works' dividend, but the yield is a bit low to get us excited. We'd wait for a dividend increase or a pullback in the shares to consider it a nice income play.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	2.34%
Annual Dividends per Share	$1.52
Initial Annual Div's Paid, $10k Investment	$233.88
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	2.1
Dividend Growth Potential	EXCELLENT
Risk of Capital Loss	MEDIUM
ValueRisk™ (Equity Margin of Safety)	MEDIUM

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Company Vitals

Market Cap (USD)	$32,147
Avg Weekly Vol (30 wks)	13,080
30-week Range (USD)	49.07 - 65.22
Valuentum Sector	Industrials
Last Fiscal Year Revenue	17,787
Last Fiscal Year EPS	4.08
Last Fiscal Year EBITDA	3,325
Forward Revenue Growth (5-yr)	3.3%
Forward EPS Growth (5-yr)	5.4%

Dividend Vitals

Current Annual Dividend Yield %	2.3%
Annual Dividends Per Share	1.52
Forward Dividend Payout Ratio	37.4%
3-yr Historical Dividend CAGR	7.0%
15-yr Historical Dividend CAGR	13.8%
3-yr Hist Median Div Payout Ratio	42.9%
15-yr Hist Median Div Payout Ratio	27.7%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	1,624.75	38.00
50	3,249.50	76.00
100	6,499.00	152.00
200	12,998.00	304.00
300	19,497.00	456.00
400	25,996.00	608.00
500	32,495.00	760.00
1,000	64,990.00	1,520.00
2,000	129,980.00	3,040.00
5,000	324,950.00	7,600.00
10,000	649,900.00	15,200.00
50,000	3,249,500.00	76,000.00
100,000	6,499,000.00	152,000.00

Initial annual income is based on the firm's current forward annual dividend yield and could be subject to change.

Dividend Safety / Cushion — GOOD / 2.1

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. Illinois Tool Works scores a 2.1 on our Dividend Cushion™, which is GOOD.

Dividend Growth Potential — EXCELLENT

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. Illinois Tool Works registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $1.99 per share within the next several years.

Risk of Capital Loss — MEDIUM

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. Illinois Tool Works registers a score of MEDIUM on our scale.

Dividend Strength

Dividend Growth

Dividend Safety	Very Poor	Poor	Good	Excellent
Excellent				
Good				
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Dividend Track Record — HEALTHY

Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Dec-97	0.22	0.0	1.17	18.8%
Dec-98	0.26	18.2	1.34	19.4%
Dec-99	0.32	23.1	1.38	23.2%
Dec-00	0.37	15.6	1.58	23.4%
Dec-01	0.41	10.8	1.31	31.3%
Dec-02	0.45	9.8	1.51	29.8%
Dec-03	0.47	4.4	1.69	27.8%
Dec-04	0.50	6.4	2.20	22.7%
Dec-05	0.59	18.0	2.60	22.7%
Dec-06	0.71	20.3	3.01	23.6%
Dec-07	0.91	28.2	3.28	27.7%
Dec-08	1.15	26.4	3.04	37.8%
Dec-09	1.24	7.8	1.93	64.2%
Dec-10	1.30	4.8	3.03	42.9%
Dec-11	1.40	7.7	4.08	34.3%
Dec-12	*1.52*	*8.6*	*4.06*	*37.4%*
Dec-13	*1.63*	*7.0*	*4.38*	*37.1%*
Dec-14	*1.74*	*7.0*	*4.71*	*37.0%*
Dec-15	*1.86*	*7.0*	*5.01*	*37.1%*
Dec-16	*1.99*	*7.0*	*5.31*	*37.5%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on Illinois Tool Works, please visit our website at www.valuentum.com

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Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 31-Jan-2013 | Data as of 25-Jan-2013

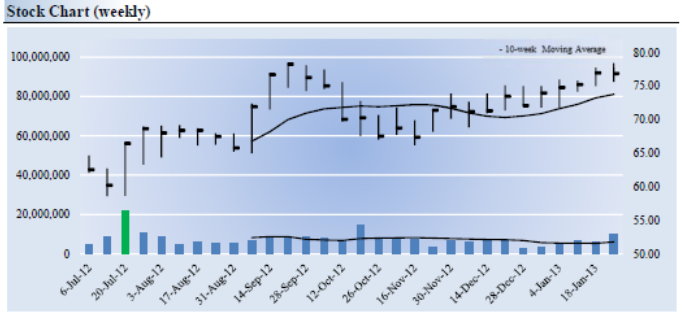
Stanley SWK FAIRLY VALUED

Buying Index™ 7 Value Rating

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$76.87	$51.00 - $103.00	HEALTHY	GOOD / 1.5	EXCELLENT	2.55%

The growth potential and safety of Stanley's dividend are attractive, and the size of its yield makes the firm worth considering as a potential income play. However, we'd be really excited if its shares were undervalued, too.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	2.55%
Annual Dividends per Share	$1.96
Initial Annual Div's Paid, $10k Investment	$254.98
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	1.5
Dividend Growth Potential	EXCELLENT
Risk of Capital Loss	MEDIUM
ValueRisk™ (Equity Margin of Safety)	HIGH

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Dividend Strength

Dividend Safety \ Dividend Growth	Very Poor	Poor	Good	Excellent
Excellent				
Good				
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Company Vitals

Market Cap (USD)	$13,076
Avg Weekly Vol (30 wks)	7,396
30-week Range (USD)	58.59 - 78.47
Valuentum Sector	Industrials
Last Fiscal Year Revenue	10,376
Last Fiscal Year EPS	4.06
Last Fiscal Year EBITDA	1,653
Forward Revenue Growth (5-yr)	4.2%
Forward EPS Growth (5-yr)	9.4%

Dividend Vitals

Current Annual Dividend Yield %	2.5%
Annual Dividends Per Share	1.96
Forward Dividend Payout Ratio	42.0%
3-yr Historical Dividend CAGR	14.7%
15-yr Historical Dividend CAGR	6.4%
3-yr Hist Median Div Payout Ratio	46.1%
15-yr Hist Median Div Payout Ratio	44.7%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	1,921.75	49.00
50	3,843.50	98.00
100	7,687.00	196.00
200	15,374.00	392.00
300	23,061.00	588.00
400	30,748.00	784.00
500	38,435.00	980.00
1,000	76,870.00	1,960.00
2,000	153,740.00	3,920.00
5,000	384,350.00	9,800.00
10,000	768,700.00	19,600.00
50,000	3,843,500.00	98,000.00
100,000	7,687,000.00	196,000.00

Initial annual income is based on the firm's current forward annual dividend yield and could be subject to change.

Dividend Safety / Cushion — GOOD / 1.5

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. Stanley scores a 1.5 on our Dividend Cushion™, which is GOOD.

Dividend Growth Potential — EXCELLENT

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. Stanley registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $2.82 per share within the next several years.

Risk of Capital Loss — MEDIUM

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. Stanley registers a score of MEDIUM on our scale.

Dividend Track Record — HEALTHY

Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Dec-97	0.77	0.0	-0.47	-163.8%
Dec-98	0.83	7.8	1.53	54.2%
Dec-99	0.87	4.8	1.67	52.1%
Dec-00	0.90	3.4	2.22	40.5%
Dec-01	0.94	4.4	1.81	51.9%
Dec-02	0.99	5.3	2.10	47.1%
Dec-03	1.03	4.0	1.14	90.4%
Dec-04	1.08	4.9	2.85	37.9%
Dec-05	1.14	5.6	3.18	35.8%
Dec-06	1.18	3.5	3.47	34.0%
Dec-07	1.22	3.4	4.00	30.5%
Dec-08	1.26	3.3	2.82	44.7%
Dec-09	1.30	3.2	2.82	46.1%
Dec-10	1.34	3.1	1.32	101.5%
Dec-11	1.64	22.4	4.06	40.4%
Dec-12	*1.96*	*19.5*	*4.67*	*42.0%*
Dec-13	*2.20*	*12.0*	*5.60*	*39.2%*
Dec-14	*2.41*	*10.0*	*5.96*	*40.5%*
Dec-15	*2.61*	*8.0*	*6.22*	*41.9%*
Dec-16	*2.82*	*8.0*	*6.37*	*44.2%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on Stanley, please visit our website at www.valuentum.com

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Our Methodology – The Valuentum Buying Index

By Valuentum Analysts

But how, you will ask, does one decide what [stocks are] "attractive"? Most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and "growth,"...We view that as fuzzy thinking...Growth is always a component of value [and] the very term "value investing" is redundant.

-- Warren Buffett, Berkshire Hathaway annual report, 1993

At Valuentum, we take Buffett's thoughts one step further. We think the best opportunities arise from a complete understanding of all investing disciplines in order to identify the most attractive stocks at any given time. Valuentum therefore analyzes each stock across a wide spectrum of philosophies, from deep value through momentum investing. We think companies that are attractive from a number of investment perspectives--whether it be growth, value, income, momentum, etc.--have the greatest probability of capital appreciation and relative outperformance. The more deep-pocketed institutional investors that are interested in the stock for reasons based on their respective investment mandates, the more likely it will be bought and the more likely the price will move higher to reflect its true intrinsic value (buying a stock pushes its price higher). On the other hand, we think the worst stocks will be shunned by most investment disciplines and display expensive valuations, poor technicals and deteriorating momentum indicators.

As such, the Valuentum Buying Index (VBI) combines rigorous financial and valuation analysis with an evaluation of a firm's technicals and momentum indicators to derive a score between 1 and 10 for each company (10=best). The VBI places considerable emphasis on a firm's DCF valuation, its relative valuation versus peers (both forward PE and PEG ratios), as well as its technicals in order to help investors pick the best entry and exit points on the most interesting stocks. We believe our methodology helps identify the most attractive stocks at the best time to buy, helping to avoid value traps and lagging performance due to the opportunity cost of holding a stock with great potential but at an inopportune time.

A Rigorous, Discounted Cash Flow Valuation Assessment

Our methodology starts with in-depth financial statement analysis, where we derive our ValueCreation, ValueRisk, and ValueTrend ratings, which together provide a quantitative assessment of the strength of a firm's competitive advantages. After evaluating historical trends, we then make full annual forecasts for each item on a company's income statement and balance sheet to arrive at a firm's future free cash flows. We derive a company-specific cost of equity (using a fundamental beta based on the expected uncertainty of key valuation drivers) and a cost of debt (considering the firm's capital structure and synthetic credit spread over the risk-free rate), culminating in our estimate of a company's weighted average cost of capital (WACC). We don't use a market price-derived beta, as we embrace market volatility, which provides investors with opportunities to buy attractive stocks at bargain-basement levels.

We assess each company within our complete three-stage free cash flow to the firm (enterprise cash flow) valuation model, which generates an estimate of a company's equity value per share based on its discounted future free cash flows and the company's net balance sheet impact, including other adjustments to equity value (namely pension and OPEB adjustments). Our ValueRisk rating, which considers the underlying uncertainty of the capacity of the firm to continue to generate value for shareholders, sets the margin of safety bands around this fair value estimate. For firms that are trading below the lower bound of our margin of safety band, we consider these companies undervalued based on our DCF process. For firms that are trading above the higher bound of our margin of safety band, we consider these companies overvalued based on our DCF process.

Our Methodology – The Valuentum Buying Index **continued on next page**

Our Methodology – The Valuentum Buying Index (cont.)

A Forward-Looking Relative Value Assessment

Our discounted cash-flow process allows us to arrive at an absolute view of the firm's intrinsic value. However, we also understand the critical importance of assessing firms on a relative value basis, versus both their industry and peers. Many institutional money-managers--those that drive stock prices—pay attention to a company's price-to-earnings (PE) ratio and price-earning-to-growth (PEG) ratio in making buy/sell decisions. With this in mind, we have included a forward-looking relative value assessment in our process to further augment our rigorous discounted cash-flow process. If a company is undervalued on both a price-to-earnings ratio and a price-earnings-to-growth (PEG) ratio versus industry peers, we would consider the firm to be attractive from a relative value standpoint.

Avoiding Value Traps and Opportunity Cost

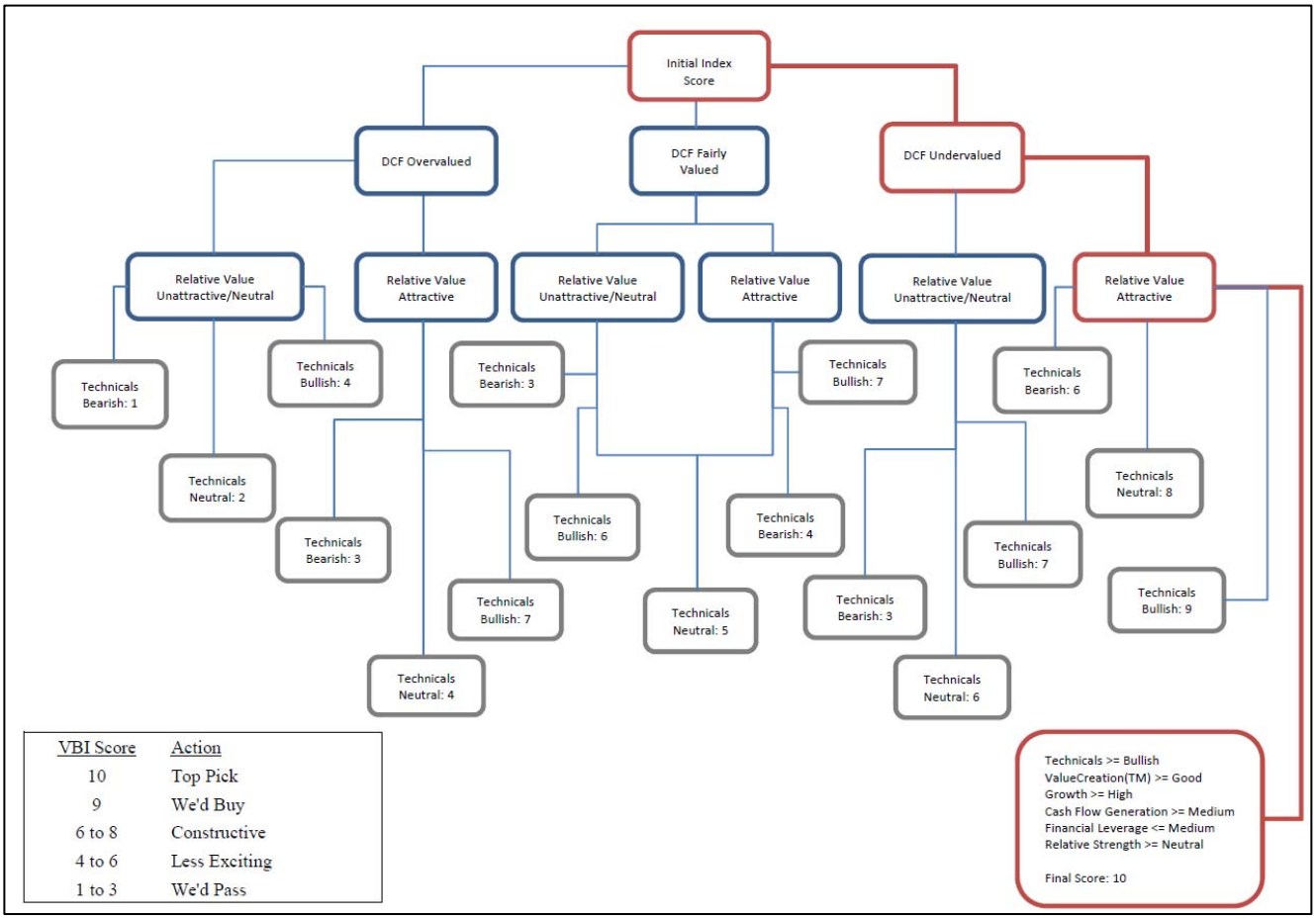
Once we have estimated a firm's intrinsic value on the basis of our discounted cash-flow process, determined if it is undervalued according to its firm-specific margin of safety bands, and assessed whether it has relative value versus industry peers, we then evaluate the company's technical and momentum indicators to pin-point the best entry and exit points on the stock (but only after it meets our stringent valuation criteria). Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster returns. An evaluation of a stock's moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we look at with respect to our technical and momentum assessment of a company's stock. We embrace the idea that the future is inherently unpredictable and that not all fundamental factors can be included in a valuation model. By extension, we use technical and momentum analysis to help safeguard us against value traps, falling knives, and the opportunity cost of holding an undervalued equity for years before it converges to fair value. Other research firms do not consider opportunity cost as a legitimate expense for investors.

Putting It All Together - the Valuentum Buying Index

Let's follow the red line on the flow chart on the next page to see how a firm can score a 10, the best mark on our index (a "Top Pick"). First, the company would need to be 'UNDERVALUED' on a DCF basis and 'ATTRACTIVE' on a relative value basis. The stock would also have to be exhibiting 'BULLISH' technicals. The firm would need a ValueCreation rating of 'GOOD' or 'EXCELLENT', exhibit 'HIGH' or 'AGGRESSIVE' growth prospects, and generate at least a 'MEDIUM' or 'NEUTRAL' assessment for cash flow generation, financial leverage, and relative price strength.

This is a tall order for any company, but we're looking to deliver the very best of ideas to our clients and subscribers. Firms that don't make the cut for a 10 are ranked accordingly, with the least attractive stocks garnering a score of 1 ("We'd sell"). Most of our coverage universe falls between 3 and 7, but at any given time there could be large number of companies garnering either high or low scores, especially at market lows or tops, respectively.

Our Methodology – The Valuentum Buying Index (cont.)



Valuentum Dividend Growth Newsletter: Volume 2, Issue 2

Valuentum's Dividend Growth Newsletter is published monthly. To receive this newletter on a monthly basis, please subscribe to Valuentum by visiting our website at http://www.valuentum.com. Or contact us at info@valuentum.com.

Fair Value Range. The fair value range represents an upper bound and lower bound, between which we would consider the firm to be fairly valued. The range considers our estimate of the firm's fair value and the margin of safety suggested by the volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow (the determinants behind our ValueRisk™ rating).

ValueRisk™. This is a proprietary Valuentum measure. ValueRisk™ indicates the historical volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow. The standard deviation of each measure is calculated and scaled against last year's measure to arrive at a percentage deviation for each item. These percentage deviations are weighted equally to arrive at the corresponding fair value range for each stock, measured in percentage terms. The firm's performance is measured along the scale of LOW, MEDIUM, HIGH, and VERY HIGH. The ValueRisk™ rating for each firm also determines the fundamental beta of each firm along the following scale: LOW (0.85), MEDIUM (1), HIGH (1.15), VERY HIGH (1.3).

Dividend Track Record. We assess each firm's dividend track record based on whether the fundamentals of the firm have ever forced it to cut its dividend. If the firm has ever cut its dividend (within the last 10 years), we view its track record as RISKY. If the firm has maintained and/or raised its dividend each year (over the past 10 years), we view its track record as HEALTHY.

Dividend Safety. We measure the safety of a firm's dividend by adding its net cash to our forecast of its future cash flows and divide that sum by our forecast of its future dividend payments. This process results in a ratio called the Dividend Cushion™. Scale: Above 2.75 = EXCELLENT; Between 1.25 and 2.75 = GOOD; Between 0.5 and 1.25 = POOR; Below 0.5 = VERY POOR.

Valuentum Dividend Cushion™. This is a proprietary Valuentum measure that drives our assessment of the firm's Dividend Safety rating. The forward-looking measure assesses dividend coverage via the cash characteristics of the business.

Dividend Growth Potential. We blend our analysis of a firm's Dividend Safety with its historical Track Record, while also considering historical dividend growth trends. We believe such a combination captures a firm's capacity (cash flow) and willingness (track record) to raise its dividend in the future. Scale: EXCELLENT, GOOD, POOR, VERY POOR.

Risk of Capital Loss. We think capital preservation is key for the dividend investor. As such, we evalute the risk of capital loss by assessing the intrinsic value of each firm based on our discounted cash-flow process. If a firm is significantly OVERVALUED, we think the risk of capital loss is HIGH. If a firm is FAIRLY VALUED, we think the risk of capital loss is MEDIUM, and if a firm is UNDERVALUED, we think the risk of capital loss is LOW.

Dividend Strength. Our assessment of the firm's dividend strength is expressed in a matrix. If the safety of a firm's dividend is EXCELLENT and its growth prospects are also EXCELLENT, it scores high on our matrix (top right). If the firm's dividend safety and the potential future growth are VERY POOR, it scores lower on our scale (bottom left).

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